2014
Annual Report & Accounts

Leek United
BUILDING SOCIETY
The friendlier face of finance

Contents
/2014

"Despite widespread, ongoing, change across the industry and continued economic uncertainty, our clarity of purpose has enabled the Society to combine resilience and flexibility, and deliver a strong performance for the past twelve months."

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Chairman

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Leek United BUILDING SOCIETY

2014 Key Financial Highlights

- Profit before tax up £0.6m to £4.9m
- Net interest margin 1.25% (2013: 1.23%)
- Gross mortgage advances of £109m (2013: £139m)
- Total Asset growth of 6.1% to £905m (2013: £853m)
- Deposit balances up £49m to £845m (2013: £796m)
- Liquidity ratio 26.8% of share and deposit liabilities (2013: 22.0%)
- Mortgages in arrears by more than 2.5% of the outstanding balance 0.14% (2013: 0.15%)
- Core tier 1 capital ratio 17.8% (2013: 19.2%)

An explanation of some of the terms used here can be found on pages 11 to 13

Five Year Highlights

	2010 £000's	2011 £000's	2012 £000's	2013 £000's	2014 £000's
Net interest income	8,397	8,772	8,466	10,257	11,030
Other income	1,795	1,390	1,467	1,435	1,370
Administrative expenses	(5,652)	(6,092)	(6,260)	(6,699)	(7,212)
Other expenses and charges	(467)	(472)	(490)	(621)	(348)
Provisions*	(452)	(118)	(42)	(108)	15
Profit before tax	**3,621**	**3,480**	**3,141**	**4,264**	**4,855**
Liquid assets	193,454	189,161	184,876	175,318	226,591
Loans and advances	566,834	590,529	620,026	674,266	675,165
Other assets	3,508	3,686	3,473	3,784	3,494
Total assets	**763,796**	**783,376**	**808,375**	**853,368**	**905,250**
Shares and deposits	709,878	727,726	751,242	796,265	844,858
Other liabilities	3,226	4,010	3,441	2,403	4,586
Reserves	50,692	51,640	53,692	54,700	55,806
Total liabilities	**763,796**	**783,376**	**808,375**	**853,368**	**905,250**

* Includes net finance credit on pension scheme.

Total assets

£905m

Directors' Profiles

Non Executive Directors

01 Peter Kerns, Chairman (age 61)
Peter worked as a solicitor for over 30 years, principally in the areas of commercial, corporate and regulatory law. Following a period in private practice he worked for mutual financial services businesses including a building society and an insurance company. Latterly, he was the director of legal and regulatory services at a mutually owned banking group.

Peter became Chairman of the Society in April 2013 and was re-elected to this role following the 2014 AGM. During 2014, he has served as Chair of the Nominations Committee and served on its Remuneration Committee.

02 Rachel Court, Non Executive Director (age 48)
Rachel worked as a Senior Executive of Yorkshire Building Society for almost 23 years. During her career at the Yorkshire, she fulfilled a broad range of roles, including responsibility at various times for intermediary mortgage sales, mortgage product development, HR, operations and customer service. Rachel acquired substantial Board level experience and worked closely with the Remuneration Committee as well as serving as a member of the Board Risk Committee, also chairing the Board of Yorkshire Guernsey Limited. Rachel is also the independent Chair of the NHS Pension Board, and Chair of a voluntary organisation, PRISM, which offers alternative educational provision to young people excluded from mainstream education. She also serves as a magistrate.

Rachel was co-opted onto the Board in November 2014 and is a member of the Board Risk Committee and the Remuneration Committee.

03 Richard Goddard, Non Executive Director (age 57)
Richard is a Chartered Accountant with more than 30 years experience in financial services. Richard worked at KPMG as a senior audit manager. In 1993, he joined the Co-operative Bank where he developed a strong financial control department and led the finance team through two significant mergers. During his career at the Co-operative Bank, Richard was an Executive Director and also served as a Non Executive Director at its joint venture, Unity Trust Bank. Richard also provides finance and risk advice to small and medium sized financial organisations outside the building society sector through his company RCG Business Consultancy Ltd.

Richard was co-opted onto the Board during 2011 and during 2014, he has served as a member of the Board Risk Committee (and acted as Chair of the Board Risk Committee) and is also Chair of the Audit Committee and Pension Trustees Committee.

04 Derek Lyons, Non Executive Director (age 71)
Derek has wide experience of the City and the financial services market, with expertise in treasury management. He was a former managing director of Union Discount Company of London Limited and retired from an independent consultancy providing specialist advice on treasury management to local authorities and housing associations. Derek is also a member of the Chartered Institute for Securities & Investment.

Derek joined Leek United as a Non Executive Director in 2002. During 2014, he served as a member of the Nominations and Remuneration Committees and also acted as Senior Independent Director. Having served over 12 years as a Non Executive Director, Derek will be retiring from the Board at the 2015 AGM.

01
Peter Kerns

02
Rachel Court
JP, BA

03
Richard Goddard
MA, FCA

04
Derek Lyons
MCISI

05
Jim Washington
ACIB

Chairman
Peter Kerns

Chief Executive
Kevin Wilson

Finance Director
Paul Wilson

Operations Director
Tony Hubbard

Internal Auditor
Ian Boston

Bankers
HSBC
Santander

Independent Auditors
PricewaterhouseCoopers LLP
Chartered Accountants
and Statutory Auditors
101 Barbirolli Square
Lower Mosley Street
Manchester M2 3PW

05 Jim Washington, Non Executive Director (age 64)
Jim is an Associate of the Chartered Institute of Bankers and during a career of over 40 years in the financial services sector, he has held a variety of roles including human resources, retail distribution, specialised mortgage lending and risk management. He is a past member of the CML Social Housing Panel and Mortgage Practitioners Panel.

Jim joined the board as a Non Executive Director in November 2005. He is the Society's Vice Chairman, Chair of the Remuneration Committee and is a member of the Audit, Board Risk and Nomination Committees. Jim will also act as Senior Independent Director following the 2015 AGM. Having served as a Non Executive Director for over 9 years, Jim offers himself for re-election at the 2014 AGM.

Executive Directors

06 Kevin Wilson, Chief Executive (age 56)
Kevin has significant experience in the financial services sector. After a successful career in sales management in the banking and financial services sector, he joined Leek United Building Society in 1994. His initial responsibilities at Leek United included the development of the highly successful financial advice service before joining the Board, in 1998, as Sales Director with responsibility for the financial advice service, marketing, general insurance as well as our branch network.

Kevin was appointed to the role of Chief Executive in 2005 and has led the Society through a period of unprecedented change in the financial services industry. During 2014, he has served as a member of the Nominations Committee, Management Risk Committee and Asset and Liability Committee and also attends the Board Risk Committee, Audit Committee and Remuneration Committee.

07 Tony Hubbard, Operations Director (age 46)
Tony has over 25 years experience in financial services and has significant experience in Treasury and Risk focusing on balance sheet management and operational controls. He has served on Operational Committees, Product Governance Committees and various Risk Committees during his career.

After joining the Society in 2013 as Head of Risk, in November 2013, Tony was promoted to Operations Director and co-opted to the Board as an Executive Director. His specific responsibilities within the Society include IT, products and marketing, the branch and agency network, mortgage operations, savings facilities and Leek United Financial Services. He is a member of the Management Risk Committee and Asset and Liability Committee and also attends the Board Risk Committee.

08 Paul Wilson, Finance Director (age 44)
Paul qualified as a Chartered Accountant in 1996. After initially working within accountancy practices, including KPMG, he moved into Financial Services in 1998 with the Co-operative Bank. His financial services experience has been wide-ranging, including balance sheet management (including interest rate risk), statutory and regulatory reporting and a potential significant transaction to purchase a large scale branch portfolio before moving onto a recapitalisation plan and Liability Management Exercise.

Paul joined the Board as Finance Director in July 2014, he is a member of the Management Risk Committee and Asset and Liability Committee and also attends the Board Risk Committee, Audit Committee and Remuneration Committee.

06
Kevin Wilson

07
Tony Hubbard

08
Paul Wilson
ACA

Chairman's Statement

Peter Kerns,
Chairman

"Our traditional building society principles are founded on trust, ethical behaviour, service excellence and customer focus, and have a direct contemporary relevance with our growing membership base."

2014 has been another successful year for Leek United Building Society. Despite widespread, ongoing, change across the industry and continued economic uncertainty, our clarity of purpose has enabled the Society to combine resilience and flexibility, and deliver a strong performance for the past twelve months. Our traditional building society principles are founded on trust, ethical behaviour, service excellence and customer focus and have a direct contemporary relevance with our growing membership base.

The UK economic picture remains mixed. Despite strong growth in GDP during the year, low levels of inflation and falling unemployment, the wider economic backdrop remains downbeat, with negative monetary and business conditions in the Eurozone and numerous global geo-political risks. Base rates are not expected to increase before the imminent general election and may stay at current levels for some time afterwards, but the impact of eventual rate rises on household finances and, consequently, arrears and affordability are difficult to predict after such a protracted period of low rates.

Within this uncertain economic context, your Society has once again produced a strong set of financial results, with 6.1% growth in total assets resulting in our balance sheet exceeding £0.9bn for the first time. This was coupled with a strong level of post tax profits, essential because this is the only means by which our robust capital position can be maintained. We have generated this profit whilst remaining mindful of our members needs, in particular the difficulties faced by our savers suffering continued low interest rates and have sought, wherever possible, to maintain these rates at equitable but sustainable levels.

For our mortgage borrowers, whilst gross lending levels are below those of 2013, we have extended £109m of new mortgage lending to our customers during 2014. Our mortgage book remains extremely high quality, owing to our prudent lending policy and thorough underwriting standards, and we have undertaken a restructuring and transformation of our mortgage operations function during the year.

The strong growth in savings balances experienced by the Society in 2013 continued in 2014, with significant inflows of deposits resulting in growth of 6.1% to a record level of £0.8bn. This is testament to the loyalty of our customer base, to our high standards of customer service (with the Society being seen as a trusted alternative to banks), and to the comprehensive and competitive range of products offered by the Society. With our exciting new partnership with Stoke City Football Club, I look forward to welcoming significant numbers of additional members to the Society and to the increase in profile that this will give us, both locally and nationally.

Whilst the financial performance for 2014 has been strong, we are by no means complacent and constantly strive to ensure that we remain well placed to continue this success in future years. Regulatory challenges are increasing which have a major impact on smaller building societies. Additionally, the Society is currently making a significant investment, both in people and technology, intended to improve and strengthen our risk management capability, and also to enhance our technology infrastructure and we expect this to continue into 2015. This programme of investment will develop our already strong levels of customer service and enhance our relationship with our members.

As noted in previous years, the impact of the Financial Services Compensation Scheme on building societies such as ours is punitive and disproportionate. The share borne by Leek United rose again in the year from £0.5m in 2013 to £0.8m in 2014.

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Judo Club Tournament, Hanley Branch, Dan Berrisford

02
Hospital Donation in lieu of Christmas Cards (Macclesfield Royal Infirmary)

2014 has seen changes to the Board for both Non Executive and Executive Directors with Ann O'Connell and Keith Griffiths leaving the Board and Rachel Court, Paul Wilson and Tony Hubbard joining.

Derek Lyons is retiring following the Annual General Meeting after serving as a Non Executive Director for twelve years, including acting as Vice Chairman and the Society's Senior Independent Director. Ann O'Connell resigned from the Board in May, having served the Society since December 2012 as a Non Executive Director and as Chair of the Board Risk Committee. Keith Griffiths retired as Finance Director at our Annual General Meeting in April 2014. I am sure that everyone will join me in thanking them for their service to the Society and in wishing them all the very best for the future.

Rachel Court was co-opted as a new Non Executive Director to the Board in November 2014. Rachel is highly experienced in project management and cultural development, and has an abundance of building society experience in developing and delivering both customer and people strategies. Paul Wilson and Tony Hubbard joined the board as Executive Directors in 2014; Paul as Finance Director in July and Tony as Operations Director in November, both bringing with them a wealth of financial services experience. I am delighted to welcome them all to the Board.

Finally, I would like to pay tribute to all my colleagues throughout the Society, through whose commitment and high standards these excellent financial results have been delivered, and by whose efforts our members' interests continue to be protected. I also thank the members for their continued loyalty and faith in Leek United and for continuing to support the Society.

Peter Kerns

Chairman

25 February 2015

Growth in total assets

6.1%

Chief Executive's Business Review

	2014
Group profit before tax	£4.9m
Group reserves	£55.8m
Group assets	£905.3m
Core tier 1 ratio	17.8%
Management expense ratio	0.85%

Kevin Wilson,
Chief Executive

Overview

I am pleased to report that the Society has delivered a strong performance during the past twelve months, and ends the financial year in a robust position.

Total assets grew by 6.1% during the year, largely fuelled by significant additional savings deposits from our existing and new members, leading to a healthy liquidity position at the end of the year. Whilst mortgage lending during the year was lower than in 2013, mortgage balances remained stable.

We continue to maintain a robust capital position, via an appropriate level of profit; profit before tax was £4.9m in 2014 (£4.3m in 2013), delivered through a combination of our wide range of competitive products combined with our excellent levels of customer service. As a result of our strong performance, reserves grew to £55.8m, while the core tier 1 ratio was 17.8% (2013: 19.2%). The 2014 capital position has been impacted by new capital rules and the year end pension valuation, which is affected by market conditions and can be volatile . The capital position remains strong and ensures that the Society has a solid foundation for future growth and success, and is well prepared to meet the challenges arising from the uncertain economic outlook and continuous regulatory change.

Our other key financial ratios including liquidity, gross capital and free capital complete a strong financial performance; further details are included within the strategic report on page 10.

Group profit before tax

£4.9m

Mortgage Lending

Competition in the mortgage market has intensified over the last year with the return to the market of the major banks following a period of consolidation and recapitalisation. In addition, the introduction of new rules under the Mortgage Market Review (MMR) has had a significant impact on many of our competitors and on the Society. Mortgage balances remain steady, at £675.2m (2013: £674.3m). We have always had a cautious approach to lending and consideration of our members and affordability tests have always been at the heart of our lending policy. However, MMR has significantly increased the time taken to advise customers on a suitable product, placing increased pressure on resources and impacting our ability to deliver previous mortgage volumes. This is reflected in gross lending of £109m in 2014, reduced from the elevated levels experienced in 2013 (£139m).

There has been considerable work undertaken to improve our mortgage processing and servicing capability during the year. Our commitment to supporting our members through the provision of a comprehensive range of fixed, variable and discounted rate mortgage products, together with our investment in the business to launch a project to offer complete online access, starting with online mortgage applications, for both direct and broker-originated channels will enable us to deliver sustainable, organic growth in lending over the medium term.

Our cautious approach to lending and consideration of our members is evident in our extremely low level of arrears, which is considerably below the industry average. Two properties were taken into possession during the year (2013: one property). We recognise that household incomes remain under pressure and will continue to adopt forbearance strategies where appropriate to support borrowers facing difficulties, utilising repossession only as the last resort.

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150th Anniversary charities donation

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Leek Customer Adviser, Jeanette Mountford (third from left), climbing Mount Toubka for Christie Hospital at Salford Royal and Wythenshawe Hospital

Savings

The extremely challenging conditions faced by savers show no signs of abating in the near term. A rise in base rates may now be delayed until early 2016.

Despite this difficult environment, and following significant growth in 2013, I am delighted to report that the past twelve months saw another considerable increase in savings balances, up by 6.1% from £796.3m to £844.9m. Our members continue to demonstrate their loyalty and trust in the Society and appreciation of the attractive range of savings products on offer, as well as the high quality of our customer service.

I recognise the concerns of savers and am keenly conscious of the need to provide a rate of interest that is both fair and sustainable. Due to the extremely low interest rate environment, together with the actions of some of our competitors in reducing savings rates, the Society has been compelled to implement some careful and limited rate reductions during the year on certain products. These decisions have not been taken lightly, and have been given very careful consideration. We have continued to protect the interests of existing members by providing a range of attractively-priced loyalty savings products.

Our savings range was further enhanced during the year through our partnership with Stoke City Football Club, through which we have been granted exclusive rights to provide a 'Save and Support' Affinity Savings Account. This is a fantastic opportunity for our Society, providing access to a very large new customer base in our local heartland, in addition to significant national exposure via the Premier League. It brings together two local businesses of key strategic importance in the local communities that we serve and represents a huge step forward on our journey to be recognised as the best regional building society in the UK.

Our staff and members

The strong performance for 2014 is to the credit of our staff, who continue to provide an outstanding service to our members and I would like to record my gratitude for their considerable passion, flexibility and dedication. Customer satisfaction remains a fundamental objective for the Society, reflected in our values and in our internal monitoring of the number of upheld complaints and the very high customer satisfaction ratio. I am extremely proud of all our colleagues in delivering a consistently excellent quality of customer service. Leek United's branch network is a core element of our strategy, in line with our face-to-face advice centred approach, and a vital component in continuing to provide the excellent service for which we are well known.

As a mutual, we remain committed to supporting our local regions through a wide range of sponsorship activities. Perhaps the single best example of this was the Leek & District Show. The Society has strengthened its long standing links with the show and is committed to being the main sponsor for at least three years. The show was highly successful bringing families and businesses together in our heartland. A range of activities and special mortgage offers were provided for the community, which encapsulates perfectly the community ethos that is at the heart of everything we do at Leek United. Similarly, we are developing our links with local schools and colleges, providing work experience placements for students and attending careers events to highlight opportunities for the years to come.

2014 saw another year of active fundraising across the Society with some of the highlights being; the purchase of specialist dementia friendly equipment for Leek Moorlands Hospital and sponsorship of the Leek CSOB junior football teams. Back in the summer a 'mountain' of cash was raised for charity by intrepid Leek United staff making it to the peak of Snowdon in memory of our friend and colleague Alan Embury, who sadly passed away in 2014 raising £2,840 for Wythenshawe hospital's Cardiac Unit.

Outlook

Despite the prevailing economic uncertainty and significant global political and financial disorder, the outlook for the Society is bright. I am proud of our continued success, of our people and members and the benefits and achievements delivered over the past twelve months.

We remain as committed as ever to the traditional values of a mutual organisation and the tried and tested building society model. This is fundamental to our success, and has proved extremely resilient over our long history as well as during more recent times, when trust in the banking sector has fallen considerably. Central to these values is the determination to deliver the right outcomes for our customers based on their needs, which we remain mindful of at all times.

This clear strategic focus ensures that we are well placed to meet future regulatory challenges and respond to the changing economic environment. The Society continues to go from strength to strength, and I look forward to 2015 and beyond with optimism.

Kevin Wilson
Chief Executive
25 February 2015

Strategic Report

Strategy

The strategy for the Society is outlined below.

Vision

- To be recognised as the best regional independent building society in the UK.
- We aim to be the local society of choice for new and existing members - respected, trusted and renowned for our exceptional customer service.
- Our member proposition will contain the values and traditional business ethos of a member owned society combined with the enthusiasm and resolve of a dynamic contemporary forward thinking society fit for the future.
- Leek United will be widely acknowledged as a great place to work where all staff are encouraged to achieve their maximum potential.
- We are committed to the benefits of mutuality and will seek to maximise these for our members.

Mission statement

It is our mission to excel in meeting the financial needs of our members by providing high quality, competitive products and outstanding customer service.

Our values

The Society believes that a clear and succinct statement of beliefs and values is a vital part of defining the corporate culture of our organisation. This cultural message is seen as the foundation upon which policy, staff attitude, management approach and most importantly good customer outcomes rest.

Core values and beliefs

- We are honest, straightforward and easy to do business with.
- Our customers are people, not numbers.

Our customers deserve and get

- Simple, straightforward and well designed products.
- Clear information at all times.
- Professional advice based upon what they need.
- The very best personal service.
- Help: when we get it wrong, we will put it right.

We must earn and retain our customers' trust and demonstrate our integrity.

Key Strategic Objectives

The Society's primary objectives are the provision of mortgage finance for the purchase and improvement of residential property alongside the funding of this through the Society's range of personal savings accounts.

In addition, through a number of business partners, the Society provides an extensive range of services such as general insurance, life insurance and long term investments.

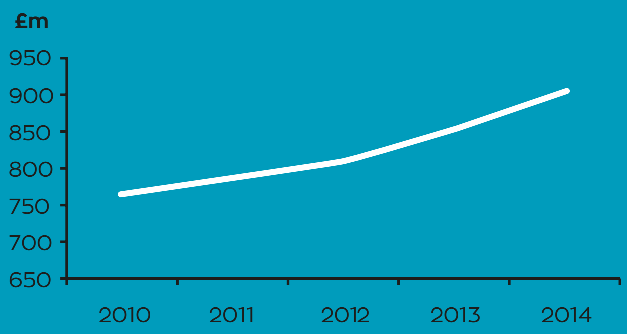
These activities are undertaken via twelve branches across four counties, together with three agencies.

As a building society and a mutual, Leek United does not seek to maximise profits at the expense of members, but rather to deliver a level of profitability sufficient to balance member value with the need to protect our capital position and so ensure that member confidence remains high.

Key Performance Indicators

The Society has delivered a strong financial performance in 2014, and ends the financial year in a robust position. The Society uses key performance indicators to monitor its progress; a number of key indicators are included within the review of the business as follows:

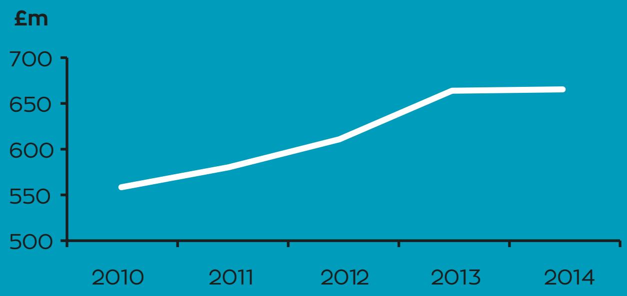
Total assets (£'m)



Total assets: The value of all the assets in the group balance sheet.

A considerable increase in customer savings balances has driven the growth of the Society's liquidity. Total assets have increased by 6.1% from £853m at the end of 2013, up to £906m at the end of 2014.

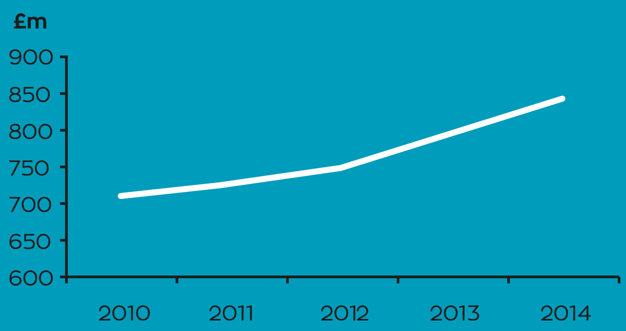
Mortgage balances (£'m)



Mortgage balances: the total amount owed to the Society for mortgages by customers. Gross lending (the total value of all mortgage advances) during the year was £109m, lower than the £139m of lending in 2013.

Mortgage redemptions for the year were £77m, an increase of 40% on 2013. However, the introduction of new and LTV tiered products during 2014, has driven a reduction in redemption levels later in 2014. Mortgage balances have remained stable with a slight increase of £1m in the year to £675m at the end of 2014 (2013: £674m).

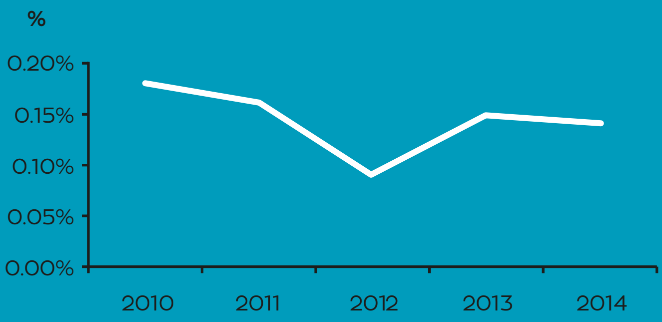
Shares and deposits (£'m)



Shares and deposits: the total amount owed by the Society to shareholding members and depositors in respect of their account balances.

Despite the continued difficult environment for savers during 2014 and following significant growth in 2013, there has been a considerable increase in savings balances, 6.1% up from £796m in 2013 to £845m in 2014.

Mortgage arrears > 2.5% of balances



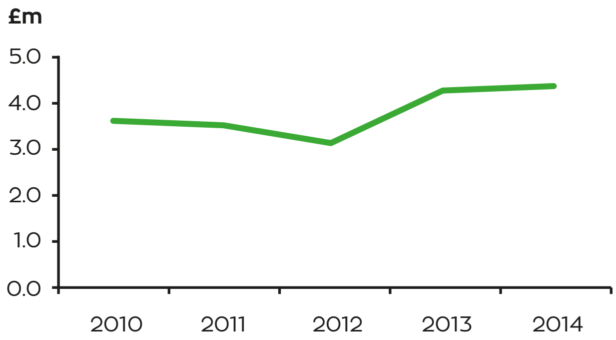
Mortgage Arrears: The number of mortgage accounts on which there is an amount of arrears which exceeds 2.5% of the mortgage balance. This number is expressed as a percentage of total mortgage accounts.

The mortgage lending noted above was achieved without any relaxation of our prudent approach, such that our levels of arrears remain extremely low. At 31 December 2014 there were 18 (2013: 24) mortgage accounts which were three months or more in arrears. The total amount of these arrears was £38,840 (2013: £37,150). The total number of accounts in arrears by 1 month or more at the end of 2014 was 115 (2013: 113).

Strategic Report

(continued)

Profit before tax (£'m)

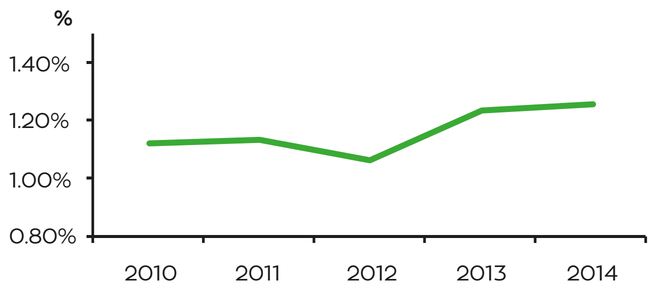


Profit before tax: The surplus before tax, achieved from trading activity during the financial period.

Leek United does not seek to maximise profits at the expense of members, but rather to deliver a level of profitability sufficient to balance member value whilst maintaining our capital resilience. Pre-tax profits for 2014 of £4.9m compared to £4.3m in 2013.

The growth in balance sheet whilst maintaining margin levels has delivered more income. The Society has maintained the management expense ratio (see below). However, the FSCS levy continues to reflect an additional cost burden on the Society, with an increase in the charge of £0.3m, from £0.5m in 2013 to £0.8m in 2014. The income statement also benefitted from a £0.7m gain (2013: £0.2m) relating to pension fund returns on the closed defined benefit scheme. The gain represents the difference between the expected return on the scheme's assets and the interest cost on the scheme's liabilities.

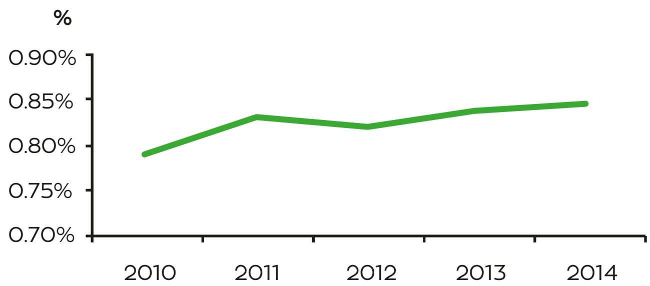
Net interest margin (%)



Net interest margin: The net interest receivable by the Society as a percentage of the average total assets in the year.

The net interest margin % was 1.25% in 2014 (2013: 1.23%). The growth in income for the Society has been driven by the growth in balance sheet size, with interest margins being maintained.

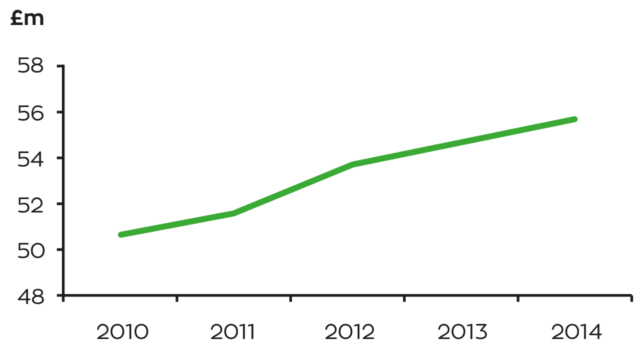
Management expense ratio (%)



Management expense ratio: The aggregate of administrative expenses and depreciation as a percentage of the average total assets in the year.

We remain committed to ensuring our Society operates in the most efficient manner possible, in order to protect members interest. The management expense ratio has increased very slightly to 0.85% (2013: 0.84%). Notwithdstanding the increasing cost of regulatory requirements, the significant investment in expertise and the incremental expense required in further developing our risk management capability.

Gross capital (£'m)



Gross capital: The sum of the general reserve, and the revaluation reserve, as shown in the balance sheet.

As the result of the consistent and appropriate level of profits generated in 2014 the capital position for the Society remained strong. The 2014 capital position has been impacted by our year end pension valuation, which can fluctuate. Gross Tier 1 capital continued the steady upward trend reported in previous years, and reached £55.8m at 31 December 2014 (2013: £54.7m). The ratio of gross capital as a percentage of total shares and borrowings was 6.6% at 31 December 2014 (2013: 6.9%) and the ratio of free capital as a percentage of total shares and borrowings was 6.4% (2013: 6.7%). Free capital is the general reserve, revaluation reserve and general loss provisions less fixed assets. The core tier 1 ratio stood at 17.8% (2013: 19.2%) including changes introduced by CRDIV with effect from 1 January 2014. The restated 2013 ratio would be 18.1% on a comparable basis.

Donation to Leek CSOB Football Club

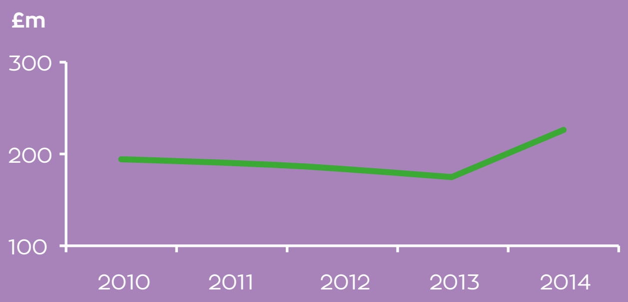
The capital resources of the Society are calculated in accordance with the requirements of the Prudential Regulatory Authority, consisting of:

- General Reserves accumulated profits and Revaluation Reserves, representing Tier 1 Capital
- General Mortgage Provision, representing Tier 2 Capital

The Society also assesses its capital requirements in line with Capital Requirements Directive (CRD). This framework governs the amount of capital required to be held to provide security for members and depositors. The Society seeks to ensure that it protects members savings by holding sufficient capital at all times. The minimum amount of capital the Society is required to hold is set by European and national regulators. The capital requirement is set with reference to the amount of risk weighted assets the Society holds for credit risk, market risk and operational risk.

	2014	2013 (restated for CRDIV)
Tier 1 Capital	£55.8m	£54.7m
Tier 2 Capital	£0.8m	£0.9m
Capital Resources	£56.6m	£55.6m
Risk Weighted Assets	£313.6m	£303.0m
Core Tier 1 Ratio	17.8%	18.1%

Liquid assets (£'m)



Liquid Assets: The total cash in hand, loans and advances to credit institutions and debt securities.

Continued growth in our customer deposit balances has further strengthened our robust liquidity position. Liquid assets totalled £227m (2013: £175m). The amount of liquidity repayable on demand is £121m (2013: £109m).

Strategic Report

(continued)

Trends and Factors Likely to Affect Future Development, Performance and Position

Although the UK economic outlook has improved during the past twelve months, with falling unemployment and growth in GDP of 2.6% in 2014, recent months have seen an increasing level of uncertainty. The global outlook has weakened while geo-political risks have increased, and the relationship between the UK and the EU is coming under ever increasing scrutiny and strain in the run-up to the general election, with the potential to damage business confidence and levels of exports.

While the strong growth in House Price Inflation earlier in the year boosted demand for mortgages, the housing market is now showing signs of cooling and concerns regarding a market bubble have abated. Since inflation remains well below the 2% threshold and given the level of economic uncertainty noted above, expectations regarding the timing of the first base rate increase have moved significantly over the past twelve months with the first rise now looking less likely during 2015, with possibility of an increase being delayed until early 2016. Given the unprecedented interest rate conditions, both in terms of minimal base rates and the duration for which these have prevailed, the impact of gradual base rate increases is difficult to predict. The uncertain outlook is further exacerbated by the ending of the 'Help to Buy' and 'Funding for Lending' schemes, both of which have had a significant impact on the industry in recent years.

The keen competition within the mortgage market is expected to continue for the foreseeable future, as is the trend towards greater innovation and technological change, particularly in respect of online banking. We will continue to monitor this trend to ensure we meet the needs of our members. We have recently announced the launch of our online mortgage application system through QTS which will allow the Society to offer complete online access for both direct and broker originated channels, starting with online mortgage applications. In addition to this, the project will also include full online account administration and enquiry capabilities. The Society will be the first UK building society to use QTS's new Tranche Management system designed to mitigate the financial and operational risk associated with launching highly competitive products in a 24:7 environment. The stringent and growing regulatory requirements faced by the sector are now an established feature of the industry, but the Society remains well placed to meet these challenges through its enhanced risk management capability and strong capital and liquidity position.

The savings market is also seeing continued change , with challenger banks and new entrants to the market and the launch of the highly competitive NS&I pensioner bond in January 2015. The Society continues to monitor these developments closely.

The Society is very mindful that each of these areas of risk and uncertainty can, in extreme circumstances, damage the financial strength of the Society. These risks are monitored as part of the Society's Risk Management Framework. Additionally, the Society performs regular stress testing as part of its Internal Capital Adequacy Assessment Process (ICAAP) and Individual Liquidity Systems Assessment (ILSA) regulatory assessments and also it's forward looking Corporate Plan. Through these processes, the Society performs a range of severe stresses across the Society's key risks including credit quality, net interest margin and cost pressures and operational events to ensure that the Society's currently robust levels of capital and liquidity remain adequate and can withstand such headwinds.

Principal Risks and Uncertainties

The Board is committed to the traditional values of a mutual organisation; central to these values are the requirements to deliver the right outcomes for our customers based on their needs. These core values also determine the Society's low risk approach to its business and its markets.

The principal business of the Society is the production and distribution of financial products and, in particular, mortgages and deposit-based savings accounts. Regulated investment products are supplied by the Society's subsidiary, Leek United Financial Services Limited acting as agent for the Society. The group uses wholesale financial instruments in the management of its balance sheet, investing funds held as liquidity and is able to raise wholesale funding if necessary. We also use derivative financial instruments to manage our interest rate risk . The derivatives are used solely for this purpose and are not used for trading activity or for speculative purposes.

The Society has implemented a new Risk Management Framework as part of our strategy to proactively manage our risks in accordance with our neutral risk appetite stance, being a preference for safe options that have a low risk and may only have a limited potential for reward. The eight principal risks and the Board's appetite statements are set out as follows:

Principle Risk & Definition	Description	Risk Appetite
Credit Risk: The risk of losses arising from a debtor's failure to meet their legal obligations.	Potentially arising from mortgage customers falling into arrears, insufficient security value or the write off of Treasury exposures. Our prudent lending policy means our mortgage book is almost exclusively secured on residential property with low loan to book values and an extremely low level of arrears. However, economic factors such as interest rates, unemployment and house prices will impact the credit risk of the Society. There is potential risk from the failure of a counterparty, however our Treasury policies also mean that we set tight criteria over where we will, and where we won't place excess funds. The criteria include both long-term and short-term ratings published by external credit rating agencies, which are an indication of a company's credit worthiness.	We will adopt a prudent lending approach to our mortgage customers and treasury counterparties which will ensure that our default rates are low and do not impact on earnings or capital.
Strategic Risk: The risk of losses as a result of strategic / management decisions or business choices.	Factors such as competition and regulatory change could impact the Society should it fail to keep up with the pace of change. As a result there could be significant loss or insufficient capital to meet operational and regulatory demands.	We will ensure that the strategic direction delivers a sufficient return that enables us to deliver capital which provides long term growth as well as financial stability for our members.
Market Risk: The risk of losses arising from changes in market rates or prices.	The main exposure for the Society is interest rates, there is a risk that changes in interest rates will result in changes to income due to the difference between interest rates charged for mortgages compared to those paid for funding over different re-pricing time periods. To mitigate this, the Society offsets assets and liabilities with similar interest profiles or takes out interest rate swaps with counterparties therefore reducing the Society's exposure.	We will manage our interest rate and basis risk positions to ensure that losses due to adverse movements in market rates do not impact significantly over and above our forecasted market expectations.
Liquidity Risk: The risk that the Society is unable to meet its financial obligations as they become due and, as a consequence, being unable to support normal business activity and failure to meet liquidity regulatory requirements.	We continue to hold very strong levels of liquidity. There is potential risk to this from an extreme scenario of depositors withdrawing their funds. However, we aim to provide rates that are both fair and sustainable and monitor them closely.	We will maintain sufficient liquid resources, over and above the financial minimum, that gives our members confidence that we have the ability to meet our financial obligations as they fall due.
Reputation and Conduct Risk: The risk that the perception of the Society is damaged in the eyes of key stakeholders (e.g. customers, colleagues, regulators).	In the case of customers this is the risk that we are unable to demonstrate that we are putting the customer interest at the very heart of the business.	We will strive to deliver positive outcomes to our customers and members at all times, maintaining a high degree of customer and public confidence, to be achieved primarily through focusing on our core mission statement.
Regulatory and Legal Risk: The risk of fines, public censure, limitation on business, or restitution costs arising from failing to understand, interpret, implement and comply with EU regulatory requirements.	It is essential for the Society to comply with all applicable regulatory requirements. The Society operates a 'three lines of defence' governance model to ensure appropriate responsibility is allocated to the management, reporting and escalation of risks.	We will maintain a robust process to ensure that regulatory requirements are met within agreed timeframes.
Pension Risk: The risk of financial deficit in the Society's defined benefit scheme.	The possibility that the Society will have to pay more than expected into its employees' pension schemes which could be impacted by factors such as mortality rates, asset values and yield prices; albeit the risk is mitigated as the scheme is closed to further accrual. The pension risk is managed on a long-term basis, in line with the underlying liabilities. The accounting valuation as set out on page 43, is subject to short term volatility arising from year end asset values and year end corporate bond yields, affecting discount rates for the liabilities.	We will ensure that we can meet our contractual and regulatory requirements so that we can meet our existing and future liabilities.
Operational Risk: This is the risk of a loss arising from inadequate or failed internal processes or systems, human error, key supplier failure or external events.	The Society manages these risks as an integral part of its operations, utilising controls and the Risk Register. The Society has business continuity plans in place to mitigate the impact of loss or damage to buildings, systems or staff caused by natural disaster or other event.	We will maintain efficient operational processes and controls to ensure that we can optimise our resources and reduce the impact of operational risks on the Society's performance.

The Board continues to review the activities of the Society on an ongoing basis to ensure they are in accordance with our risk appetite.

Peter Kerns

Chairman

25 February 2015

Directors' Report

The directors have pleasure in presenting their 152nd Annual Report and Accounts for the year ended 31 December 2014.

Business Review

A full review of business performance can be found included within the Chief Executive's Business Review and the Strategic Report.

Directors

Rachel Court (Non Executive Director – appointed 26/11/2014)

Richard Goddard (Non Executive Director)

Keith Griffiths (Finance Director – resigned 30/04/2014)

Tony Hubbard (Operations Director – appointed 03/11/2014)

Peter Kerns (Non Executive Director and Chairman)

Derek Lyons (Non Executive Director and Senior Independent Director)

Ann O'Connell (Non Executive Director – resigned 12/05/2014)

Jim Washington (Non Executive Director and Vice-Chairman)

Kevin Wilson (Chief Executive)

Paul Wilson (Finance Director – appointed 07/07/2014)

No director had any beneficial interest in the shares or debentures of any of the subsidiary undertakings.

The directors would like to express their sincere thanks to all staff for their role in delivering continued success during 2014. Their passion and dedication to achieving our objective of exceptional customer service will support the continued success of the Society in the years ahead and protect the interests of our members. Information is provided to employees through meetings, team briefings, circulars, newsletters and the Society's intranet to ensure employees are aware of the Society's performance and objectives and the business environment in which it operates.

The Society has a commitment to provide 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, religion or belief. Should employees become disabled, it is the Society's policy to continue their employment where possible with appropriate training and, if appropriate, redeployment.

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

Interest Rates

The Society's standard variable mortgage rate was 5.19% throughout the year.

Treating Customers Fairly

The Society has always had a core focus on ensuring the fair treatment of its customers in every way and, as part of its continuing commitment to that principle, has completed an extensive exercise in promoting and developing a cultural model which will continue to support that aim. This involves continually reviewing procedures, measuring performance and listening to customers concerns and complaints, and then taking action to put things right quickly if we fall below our high standards.

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 they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Society's auditors are aware of that information.

Independent 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.

Peter Kerns

Chairman

25 February 2015

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.

2014 has seen changes to the Non Executive Directors with Ann O'Connell resigning from the Board in May, having served the Society since December 2012 and Rachel Court being co-opted as a new Non Executive Director to the Board in November 2014. At the end of 2014 the Board consisted of five Non Executive and three Executive Directors.

The Board focuses not only on members' interests as customers for the Society's products and services but also their interests as members of a mutual enterprise. The Board take account of the guidance contained in the revised UK Corporate Governance Code 2012, which is addressed to plcs. The Prudential Regulation Authority also state that building societies should have regard to the Code when establishing and reviewing their own corporate governance requirements. The Board is pleased to confirm that it has had regard to the Code in all matters pertaining to their corporate governance requirements.

A formal system of board appraisals 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 Senior Independent Director 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. This evaluation encompasses the balance of skills, experience, independence and knowledge of the Society's Board, together with its diversity and gender balance, how the board works together as a unit and other factors relevant to its effectiveness.

In a fast changing, highly regulated business environment, all directors participate in a programme of training and professional development designed to keep their knowledge and skills up to date. They are also 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 Non Executive Directors are independent and carry out their duties with complete objectivity. The Board has considered the individual performance of any Non Executive Director whose service exceeds nine years. This constitutes two members of the Board; Jim Washington and Derek Lyons and is satisfied that their independence is not impaired as they are considered to be independent in character and judgement and free of any relationship or circumstances which could materially interfere with the exercise of their judgement. Non Executive Directors with over nine years service offer themselves for re-election on an annual basis, therefore Jim Washington offers himself for re-election and Derek Lyons will be retiring from the Board. 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 governed by the Financial Conduct Authority and pass the "fit and proper" test specified in the PRA Handbook.

The 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 Senior Independent Director in 2014 was Derek Lyons and, following his retirement at the AGM will be Jim Washington, who is pleased to act as an alternative contact point for members.

Board Committees

The Society uses the Risk Management Framework as part of our strategy to proactively manage our risks in accordance with our neutral risk appetite stance. The structure as at 31st December 2014 is shown below:

Corporate Governance Report

(continued)

As at 31st December 2014, the Society's Principal Risks were managed through the following Committees:

Board	Board Risk Committee	
	Management Risk Committee	Asset & Liability Committee
Pension Risk	Operational Risk	Market Risk
	Reputational & Conduct Risk	Liquidity Risk
	Legal and Regulatory Risk	Strategic Risk
	Credit Risk	

The Board own and approve the risk appetite for the Society including the Risk Management Framework. The Framework identifies the revised process, ownership, responsibilities and the risk oversight required to support effective implementation across the Society.

The Society operates a 'three lines of defence' governance model to ensure appropriate responsibility is allocated to the management, reporting and escalation of risks. The business areas provide the first line of defence which includes ensuring the Society complies with policies, risk appetite and limits, stress testing, self assessment and development of risk registers. The Risk and Compliance functions comprise the second line of defence, developing the Risk Framework and undertaking risk monitoring, challenge and oversight. Internal Audit act as the third line of defence, providing an independent challenge to the overall management of the Framework and also providing assurance to both the Board Audit Committee and Executive on the adequacy of both the first and second lines.

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.

Board Risk Committee

The role of the Board Risk Committee (BRC), a sub-committee of the Board assists the Board in carrying out its responsibilities relating to Risk and Compliance in the Society:

- to provide assurance to the Board of the independence and quality of the risk and compliance functions;
- to advise the Board on the Risk Management Framework and oversee the design, quality and effectiveness of the framework;
- to provide specialist advice to the Board and other committees in assessing Prudential and Conduct risks arising;
- to ensure the Society has adequate stress testing in place and to review, challenge and approve this framework;
- to ensure that the risks are being managed in accordance with policy and within the limits of the Board's stated risk appetite;
- to provide assurance to the Board that the Society is adhering to regulatory risk requirements and best practice in risk management methodologies and risk management practice;
- to monitor the identified risk control failings and weaknesses and actions taken to resolve them, in co-operation with the Board Audit Committee.

As at 31st December 2014, the BRC comprised Richard Goddard (Chair), Rachel Court and Jim Washington.

The BRC is supported by the Management Risk Committee (MRC) and the Asset and Liability Committee (ALCO).

The Management Risk Committee's main responsibility is to assess the management of operational, credit, reputational and conduct together with legal and regulatory risk across the group. Responsibilities of the MRC also include ensuring the detailed application of the framework and the development of key risk policies and indicators.

The ALCO supervises the Group's treasury and financial risk management activities and advises and supports the Finance Director in carrying out his responsibilities, including the identification, management and control of the balance sheet risks and the overview and monitoring of relevant risk control frameworks. Responsibility of market, liquidity and strategic risk has been delegated to the Asset and Liability Committee.

Board Audit Committee

The Board Audit Committee (BAC), a sub-committee of the Board assists the Board in carrying out its responsibilities relating to:

- effective operation of the Society's lines of defence internal controls and risk management systems;
- reviewing the adequacy and effectiveness of the Society's fraud prevention systems and controls;
- appointment or removal of the Head of Internal Audit, and monitoring of the effectiveness of the Internal Audit function;
- monitoring the integrity of the financial statements of the Society, reviewing any significant financial reporting judgments contained therein;

01

02

01
AGM cheque presentation to Donna Louise Trust

02
'Children In Need' Ice Bucket Challenge

- the engagement, performance and effectiveness of the external auditor, ensuring that the provision of non-audit services and associated fees do not impair the independence and objectivity of the external audit and that recommendations have been acted upon by the Society.

The key judgmental items considered by the BAC in relation to the financial statements for 2014 included:

- the provision required for both specific and general mortgage provisions, assessed based on the level of arrears, concessions and any other potential impairment indicators on customer mortgage accounts. The key sensitivities are the levels of current and estimated potential future arrears as well as expected levels of loan exposure compared to expected level of security value including mortgage indemnity insurance where relevant;
- the assumptions utilised in the valuation of the defined benefit pension scheme under FRS 17. This is particularly sensitive to asset valuations as well as expectations of long term corporate bond yields, inflation and mortality;
- the provision relating to the FSCS levy. This estimate is based on publically available information at the time, in respect of the levy for 2014 and future years. It is affected by the Society's market share of protected deposits as well as the interest and capital requirements of the FSCS scheme.

The BAC reviewed and challenged the assumptions, estimates, risks and sensitivities for each accounting estimate and was satisfied that the provisions were towards the prudent end of the range of sensitivities and they were appropriately dealt with in the accounts. Management involved the use of external specialists in the valuation of the defined benefit scheme which included advice on the assumptions to the use and the sensitivities of those assumptions. The BAC were satisfied that the pension assumptions were within an appropriate range by reviewing the sensitivities and benchmarking with external data and with other organisations.

The external auditor, PricewaterhouseCoopers LLP, has been engaged by the Society since the audit of the 1998 financial statements. During 2014, the BAC considered whether a tender should be undertaken in 2015 regarding the reappointment of the external auditor and decided to defer an audit tender until 2016 at the earliest. The BAC considered transitional regulatory requirements, the tenure of the current auditors and the current business priorities in reaching this decision.

The BAC assessed the effectiveness of the external audit process through a combination of feedback from committee members and Society management, completion of standard questionnaires and other external independent information where available. The BAC assesses all requests to use the external auditor for non-audit work and receives explanations from management and the external auditor to satisfy each member that the objectivity and independence of the external auditor is safeguarded. At 31 December 2014 the committee comprised Richard Goddard (Chair) and Jim Washington.

Remuneration Committee

The Remuneration Committee sets appropriate levels of pay and conditions for Board and executive management posts. The committee makes an annual report to members – this can be found on page 21. The committee is composed entirely of Non Executive Directors and committee membership at 31 December 2014 was Jim Washington (Chair), Rachel Court, Peter Kerns and Derek Lyons.

Nominations Committee

The Nominations Committee is responsible for regularly reviewing the structure, size, composition and the balance of skills, knowledge and experience of the Board, and making recommendations to the Board with regard to any necessary changes and in particular to ensure that membership is refreshed. All Non Executive Board vacancies are advertised in the press/media with a regional or national scope as appropriate. At 31 December 2014 the committee comprised Peter Kerns (Chair), Derek Lyons, Jim Washington and Kevin Wilson.

Careful consideration is given to the combined skills and experience of the existing Board members and diversity in making new appointments to the Board. The Society believes that diversity amongst Board members is of value and this is considered alongside the key requirements of relevant knowledge, skill and expertise to perform effectively as a member of the Board. It is the Society's policy to make appointments to the Board without regard to age, ethnic origin, creed, gender, marital status, disability, sexual orientation and religion or belief.

In 2014 the Society used two independent executive search and selection firms, Warren Partners and Adderley Featherstone, to support the recruitment of Non Executive Directors. The only connection with these firms is for recruitment and selection.

Corporate Governance Report

(continued)

Attendance at Board and Board sub-committee meetings – 2014

Name	Board	Audit	Risk	Nominations	Remuneration
Rachel Court (from 26/11/14)	2 (2)	-	-	-	1 (1)
Richard Goddard	12 (12)	4 (4)	8 (8)	-	-
Keith Griffiths (to 30/04/14)	0 (4)	-	-	-	-
Tony Hubbard (from 03/11/14)	2 (2)	-	-	-	-
Peter Kerns	12 (12)	-	-	6 (6)	5 (5)
Derek Lyons	12 (12)	-	-	6 (6)	5 (5)
Ann O'Connell (to 12/05/14)	4 (4)	1 (1)	4 (4)	-	-
Jim Washington	12 (12)	4 (4)	8 (8)	6 (6)	5 (5)
Kevin Wilson	11 (12)	-	-	6 (6)	-
Paul Wilson (from 07/07/14)	6 (6)	-	-	-	-

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

Relations with members

The views of new and existing members are sought by individual questionnaires during the year. Member Forums are held each year when the Chief Executive supported by the Chairman as well as other Executive Directors, gives a presentation on the main business developments and members present have the opportunity to raise questions to the directors and senior management.

Constructive use of the Annual General Meeting (AGM)

The Society sends details of the AGM to all members who are eligible to vote. Members are encouraged to vote or appoint a proxy to vote if they cannot or choose not to attend the AGM. A donation to charity is made for each vote cast.

All members of the Board are present at the AGM (unless their absence is unavoidable). The Chair of each of the committees, are therefore available to answer questions raised by members.

On behalf of the Board of Directors

Peter Kerns

Chairman

25 February 2015

Directors' Remuneration Report

The Society's Remuneration Committee is composed solely of Non Executive Directors. Jim Washington, Derek Lyons, Peter Kerns and Rachel Court served on the committee during 2014.

The committee's principal responsibility is to determine the level of remuneration for Executive Directors and the level of fees payable to Non Executive Directors. In making its determinations the committee has regard to the UK Corporate Governance Code 2012 and the FCA Remuneration Code. The principles of the Remuneration Code are that:

- levels of remuneration should be sufficient to attract, retain and motivate directors of the quality required to run the company successfully, but a company should avoid paying more than is necessary for this purpose. A significant proportion of Executive Directors' remuneration should be structured so as to link rewards to corporate and individual performance.
- there should be a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual directors. No director should be involved in deciding his or her own remuneration.

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.

The Chief Executive is a member of the Leek United Building Society Pension and Assurance Scheme, which closed for future accrual on 24 April 2013. The Chief Executive, Finance Director and Operations Director are members of the defined contribution stakeholder pension scheme.

The Corporate Governance Code recommends that an Executive Director's service contract period should be set at 12 months or less and the contractual notice period for all Executive Director appointments conforms to this limit.

Non Executive Directors

Non Executive Directors receive fees for the provision of their services, including additional fees for Chairmanship of Committees where relevant. They do not have service contracts and do not receive any other benefits, bonus or pension entitlement. They are subject to tri-annual re-election by the members at an Annual General Meeting and those who continue beyond a third three year term are subject to annual re-election thereafter.

Directors' Remuneration

The table in note 5 to the Annual Report and Accounts summarises directors' pay and benefits for the year ended 31 December 2014.

Member Consultation

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

Jim Washington

Chair of the Remuneration Committee

25 February 2015

AGM cheque presentation to Douglas Macmillan

Directors' Responsibilities

Directors' Responsibilities for Preparing the Annual Report and Accounts

The following statement, which should be read in conjunction with Independent Auditors' Report on page 23, is made by the directors to explain their responsibilities in relation to the preparation of the Annual Report and Accounts, Annual Business Statement, Strategic Report and Directors' Report.

Under the Building Societies Act 1986, the directors are required 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.

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 financial statements;
- prepare the accounts on the going concern basis, unless it is inappropriate to presume that the Society and Group will continue in business.

In addition to the accounts, the Building Societies Act requires the directors to prepare, for each financial year, an annual business statement and a directors' report, containing prescribed information relating to the business of the group, if not already contained within the strategic report.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Society's website. Legislation in the UK, governing the preparation and dissemination of financial statements, may differ from legislation in other jurisdictions.

Directors' Responsibilities for Accounting Records and Internal Control

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

- keep accounting records which disclose with reasonable accuracy the financial position of the Society and the Group and which enable them to ensure that the Annual Report and Accounts comply with the Building Societies Act 1986, and
- establish and maintain systems and controls as are appropriate to its business in accordance with the rules made by the Financial Conduct Authority and the Prudential Regulation 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.

The directors are satisfied that the Annual Report and Accounts, taken as a whole, are fair, balanced and understandable and provides the information necessary for members to assess the Society's performance, business model and strategy.

Going Concern

Having fully considered the financial strength of the Society and the current financial market, 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.

Peter Kerns

Chairman

25 February 2015

Leek United
BUILDING SOCIETY

Independent Auditors' Report to the Members of Leek United Building Society

Report on the annual accounts

Our Opinion

In our opinion, Leek United Building Society's group annual accounts and the society annual accounts (the "annual accounts"):

- give a true and fair view of the state of the group's and of the society's affairs as at 31 December 2014 and of the group's and the society's income and expenditure and the group's cash flows for the year ended;
- have been properly prepared in accordance with the United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Building Societies Act 1986.

What we have audited

Leek United Building Society's annual accounts comprise:

- the Group and Society Balance Sheets as at 31 December 2014
- the Group and Society's Income and Expenditure accounts for the year then ended;
- the Group and Society Statements of Total Recognised Gains and Losses for the year then ended;
- the Group Cash Flow Statements for the year then ended;
- The notes to the annual accounts, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the annual accounts is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Snowdon Trek in aid of Wythenshawe Hospital

Opinion on other matters prescribed by the Building Societies Act 1986

In our opinion:

- the Annual Business Statement and the Directors' Report have been prepared in accordance with the requirements of the Building Societies Act 1986;
- the information given in the Directors' Report for the financial year for which the annual accounts are prepared is consistent with the accounting records and the annual accounts; and
- 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.

Other Matters on which we are required to report by exception

Adequacy of accounting records and information and explanation received.

Under the Building Societies Act 1986 we are required to report to you if, in our opinion:

- proper accounting records have not been kept by the Society; or
- the Society annual accounts are not in agreement with the accounting records; or
- we have not received all the information and explanations and access to documents we require for our audit.

We have no exceptions to report arising from this responsibility.

Independent Auditors' Report to the Members of Leek United Building Society (continued)

Responsibilities for the annual accounts and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 22, the directors are responsible for the preparation of annual accounts and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the annual accounts in accordance with applicable law and International Standards on Auditing (UK & Ireland) (ISAs (UK & Ireland)). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, 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 these opinions, 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.

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the annual accounts sufficient to give reasonable assurance that the annual accounts are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Group's and Society's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the annual accounts.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited annual accounts and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Heather Varley (Senior Statutory Auditor)
for and behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Manchester
25 February 2015

Income and Expenditure Accounts

Income and Expenditure Accounts for the year ended 31 December 2014

	Note	Group 2014 £000's	Group 2013 £000's	Society 2014 £000's	Society 2013 £000's
Interest receivable and similar income	2	24,482	24,769	24,474	24,761
Interest payable and similar charges	3	(13,452)	(14,512)	(13,452)	(14,512)
Net interest receivable		11,030	10,257	11,022	10,249
Income from investments	4	-	-	100	250
Fees and commissions receivable		1,705	1,874	1,397	1,553
Fees and commissions payable		(342)	(446)	(342)	(446)
Other operating income		7	7	7	7
Total income		12,400	11,692	12,184	11,613
Administrative expenses	5	(7,212)	(6,699)	(7,085)	(6,517)
Depreciation	13	(228)	(257)	(216)	(245)
Other operating charges	6	(120)	(364)	(120)	(364)
		4,840	4,372	4,763	4,487
Net finance credit on pension scheme	25	665	160	665	160
Provisions for bad and doubtful debts	7	108	232	108	232
Provisions for contingent liabilities and commitments - FSCS Levy	23	(758)	(500)	(758)	(500)
Profit on ordinary activities before tax		4,855	4,264	4,778	4,379
Tax on profit on ordinary activities	8	(1,009)	(1,058)	(971)	(1,030)
Profit for the financial year	22	**3,846**	**3,206**	**3,807**	**3,349**

The notes on pages 29 to 45 form part of these accounts.

The above results are all derived from continuing operations. 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 basis.

Statement of total recognised gains and losses for the year ended 31 December 2014

	Note	Group 2014 £000's	Group 2013 £000's	Society 2014 £000's	Society 2013 £000's
Profit for the financial year		3,846	3,206	3,807	3,349
Actuarial (loss)/gain recognised in pension scheme	25	(7,276)	1,105	(7,276)	1,105
Impact of ceasing to recognise the pension scheme asset	25	-	(3,852)	-	(3,852)
Reinstatement of pension scheme asset	25	3,852	-	3,852	-
Taxation relating to pension scheme		684	549	684	549
Total recognised gains relating to the year		**1,106**	**1,008**	**1,067**	**1,151**

Balance Sheets

Balance sheets as at 31 December 2014

ASSETS	Note	Group 2014 £000's	Group 2013 £000's	Society 2014 £000's	Society 2013 £000's
Liquid assets:					
Cash in hand and balances with the Bank of England		82,732	69,243	82,732	69,243
Loans and advances to credit institutions	9	40,561	40,943	40,474	40,835
Debt securities	10	103,298	65,132	103,298	65,132
		226,591	175,318	226,504	175,210
Loans and advances to customers:	11	675,165	674,266	675,013	674,112
Investments in subsidiary undertakings	12	-	-	24	24
Tangible fixed assets	13	2,410	2,458	2,377	2,447
Other assets	14	716	930	715	929
Prepayments and accrued income	15	368	396	368	396
Total assets		905,250	853,368	905,001	853,118

Balance Sheets

Balance sheets as at 31 December 2014

LIABILITIES	Note	Group 2014 £000's	Group 2013 £000's	Society 2014 £000's	Society 2013 £000's
Shares	16	820,492	770,455	820,492	770,455
Amounts owed to other customers	17	24,366	25,810	24,366	25,810
Other liabilities	18	843	763	948	855
Accruals and deferred income	19	650	647	618	588
Provisions for liabilities and charges	20	1,055	993	1,055	993
Net pension liability	25	2,038	-	2,038	-
Revaluation reserve	21	1,113	1,113	1,113	1,113
General reserve	22	54,693	53,587	54,371	53,304
Total liabilities		**905,250**	**853,368**	**905,001**	**853,118**

The notes on pages 29 to 45 form part of these accounts.

These accounts were approved by the board of directors on 25 February 2015 and were signed on its behalf by:

Peter Kerns Chairman
Kevin Wilson Chief Executive
Paul Wilson Finance Director

Group Cash Flow Statement

Group cash flow statement for the year ended 31 December 2014

	2014 £000's	2013 £000's
Net cash inflow/(outflow) from operating activities (see below)	50,574	(4,143)
Taxation paid	(687)	(264)
Capital expenditure and financial investment:		
Purchase of tangible fixed assets	(204)	(77)
Sale of tangible fixed assets	62	15
Purchase of investment securities	(93,366)	(45,285)
Maturities and disposals of investment securities	55,436	65,564
Amounts recovered in respect of loans previously written off	8	8
Increase in cash and short term deposits	**11,823**	**15,818**

Reconciliation of operating profit to net cash inflow from operating activities

	2014 £000's	2013 £000's
Profit on ordinary activities before tax	4,855	4,264
Increase in prepayments and accrued income	(208)	(68)
(Decrease)/Increase in accruals and deferred income	(49)	117
Provisions for bad and doubtful debts	(108)	(232)
Increase in provisions for liabilities and charges	62	57
Depreciation	228	257
Profit on disposal of tangible fixed assets	(38)	(12)
Pension contributions	(279)	(4,668)
Effect of non cash pension gain	(597)	-
Net cash inflow/(outflow) from operating activities	3,866	(285)
Increase in loans and advances to customers	(799)	(54,016)
Increase in shares	50,037	50,637
Decrease in amounts owed to credit institutions and other customers	(1,444)	(5,614)
(Increase)/decrease in loans and advances to credit institutions	(1,232)	5,097
Decrease in other assets	37	6
Increase in other liabilities	109	32
Net cash inflow/(outflow) from operating activities	**50,574**	**(4,143)**

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

	1 January 2014 £000's	Movement in year £000's	31 December 2014 £000's
Cash in hand and balances with the Bank of England	69,243	13,489	82,732
Loans and advances to credit institutions - repayable on demand	39,675	(1,666)	38,009
	108,918	**11,823**	**120,741**

Notes to the Accounts at 31 December 2014

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 on a going concern basis 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, cash flows and balance sheets of the society and its subsidiaries.

Interest recognition

Interest income 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.

Interest payable on shares and amounts owed to credit institutions and other customers is accrued on a daily interest basis.

Fees and commissions receivable

Fees and commissions receivable are recognised as follows:

- sales commissions receivable in the year net of clawback of any commissions repayable.
- mortgage fees, including loan application and administrative fees, are accounted for on a received basis.

Fees and commission payable

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. Other fees and commissions payable are recognised on an accrual basis as the service is supplied.

Incentives to borrowers

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

Pension costs

Defined contribution scheme

The society provides a defined contribution stakeholder pension scheme. Contributions to the scheme are charged to the income and expenditure account in the period to which they relate.

Defined benefit scheme

On 24 April 2013 the society closed an externally funded final salary (defined benefit) scheme administered by Jardine Lloyd Thompson to further accrual. Contributions payable 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 25.

In accordance with FRS17 the pension scheme deficit on the closed scheme at December 2014 has been recognised as a liability on the balance sheet.

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 charged or credited each year to reserves and shown in the statement of total recognised gains and losses. Past and current service costs are recognised immediately in administrative expenses.

Notes to the Accounts at 31 December 2014

Losses on loans and advances

Provision is made for all incurred losses on loans and advances based upon the following:

Specific provisions are made against mortgage loans on a case by case basis to cover anticipated losses in respect of all accounts that are in arrears or on concessions 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, appropriate discounts on 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.

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.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date.

A net deferred tax asset is recognised as recoverable only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits against which the future reversal of underlying timing differences can be deducted.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is measured on a non-discounted basis.

Liquid assets

Liquid assets are stated at amortised cost to the society together with accrued interest to the balance sheet date less any impairment. Premiums and discounts arising on the purchase of liquid assets are amortised on a straight-line basis over the period to maturity.

Loans to customers

Loans are stated at the initial amount advanced, including accrued interest less capital repayments, and net of any specific and general provisions.

Fixed Assets and Depreciation

Tangible fixed assets are stated at historic purchase cost less accumulated depreciation with the exception of freehold land and buildings which are stated at their previously revalued amount. Freehold buildings are depreciated on a straight-line basis over 50 years. Freehold land is not depreciated. Equipment, fixtures and fittings are depreciated on a straight-line basis over their estimated useful lives of between three and fifteen years.

Shares

Shares are stated at the amount repayable including accrued interest and any other relevant bonuses.

Provisions for liabilities and charges

A provision is recognised in the balance sheet if the Society has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation.

Derivatives

Interest rate contracts are used solely for hedging purposes. Cash flows arising in relation to such instruments are accounted for on an accruals basis and included within net interest receivable. Amounts accrued on hedging instruments are included within prepayments and accrued income or accruals and deferred income.

Investments in subsidiary undertakings

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

Notes to the Accounts at 31 December 2014

2 Interest receivable and similar income

	Group 2014 £000's	Group 2013 £000's	Society 2014 £000's	Society 2013 £000's
On loans fully secured on residential property	23,739	23,657	23,731	23,649
Other loans	159	113	159	113
On debt securities - interest and other income	908	1,347	908	1,347
On other liquid assets - interest and other income	761	645	761	645
Net expense on financial instruments	(1,085)	(993)	(1,085)	(993)
	24,482	**24,769**	**24,474**	**24,761**

3 Interest payable and similar charges

	Group 2014 £000's	Group 2013 £000's	Society 2014 £000's	Society 2013 £000's
On shares held by individuals	13,183	14,109	13,183	14,109
On deposits and other borrowings	269	403	269	403
	13,452	**14,512**	**13,452**	**14,512**

4 Income from investments

	Group 2014 £000's	Group 2013 £000's	Society 2014 £000's	Society 2013 £000's
Dividends from shares in subsidiaries	-	-	100	250

5 Administrative expenses

	Group 2014 £000's	Group 2013 £000's	Society 2014 £000's	Society 2013 £000's
Staff costs (including Executive Directors):				
Wages and salaries	3,461	3,334	3,358	3,193
Social security costs	335	318	326	303
Other pension costs	262	303	256	297
	4,058	3,955	3,940	3,793
Other expenses:				
Remuneration of auditors:				
audit services – statutory audit	63	60	63	60
other services – audit of subsidiaries	10	9	-	-
other services	18	77	18	77
Other	3,063	2,598	3,064	2,587
	7,212	**6,699**	**7,085**	**6,517**

Notes to the Accounts at 31 December 2014

5 Administrative expenses (continued)

The average number of persons (including Executive Directors) employed during the year was:

	Group 2014 Number	Group 2013 Number	Society 2014 Number	Society 2013 Number
(i) At principal office:				
Full-time staff	61	56	57	52
Part-time staff	19	19	19	19
(ii) At branch offices:				
Full-time staff	43	42	43	42
Part-time staff	25	24	25	24

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 22 April 2015 and at the Annual General Meeting. The total loans outstanding at 31 December 2014, in respect of 2 (2013: 3) persons, amounted to £64,247 (2013: £175,272).

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

	2014					2013				
	Salary/ Fees £000's	Benefits /Other £000's	Sub Total £000's	Pensions £000's	Total £000's	Salary/ Fees £000's	Benefits £000's	Sub Total £000's	Pensions £000's	Total £000's
Non Executive Directors										
Peter Kerns	33	-	33	-	33	29	-	29	-	29
Rachel Court (from 26/11/14)	2	-	2	-	2	-	-	-	-	-
Richard Goddard (i)	30	-	30	-	30	23	-	23	-	23
Derek Lyons	28	1	29	-	29	27	1	28	-	28
Jim Washington	28	-	28	-	28	26	-	26	-	26
Paul Marriott (to 24/04/13)	-	-	-	-	-	10	-	10	-	10
Ann O'Connell (to 12/05/14)	10	-	10	-	10	23	-	23	-	23
Mark Taylor (to 19/02/13)	-	-	-	-	-	4	-	4	-	4
Executive directors										
Kevin Wilson	190	11	201	28	229	181	9	190	18	208
Tony Hubbard (from 03/11/14)	15	1	16	2	18	-	-	-	-	-
Paul Wilson (from 07/07/14)	59	5	64	9	73	-	-	-	-	-
Keith Griffiths (to 30/04/14) (ii) (iii)	39	31	70	6	76	95	10	105	35	140
	434	**49**	**483**	**45**	**528**	**418**	**20**	**438**	**53**	**491**

(i) Richard Goddard received a one-off £5k payment in 2014 reflecting his duties as Chair of the Trustees of the Pension Scheme, in addition to being Chair of the Risk Committee and Chair of the Audit Committee

(ii) Keith Griffiths received £18k holiday pay relating to 2013 and 2014 and an additional £10k as part of his agreed retirement package

(iii) The Executive Directors have the option to sacrifice part of their salary in exchange for the Society making additional pension contributions on their behalf. During 2013, Keith Griffiths took advantage of this option.

6 Other operating charges

	Group 2014 £000's	Group 2013 £000's	Society 2014 £000's	Society 2013 £000's
Mortgage incentives	205	264	205	264
Regulated business provision (see note 20)	(10)	-	(10)	-
Mortgage repayment provision (see note 20)	(75)	100	(75)	100
	120	**364**	**120**	**364**

Notes to the Accounts at 31 December 2014

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 2014	18	900	918
Amounts utilised	-	-	-
Credit for the year	-	(100)	(100)
At 31 December 2014	**18**	**800**	**818**

The credit in the income and expenditure account is as follows:	2014 £000's	2013 £000's
Change in provision for the year	(100)	(224)
Amounts recovered in respect of loans previously written off	(8)	(8)
Income and expenditure account	**(108)**	**(232)**

The provisions as at 31 December 2014 have been deducted from loans fully secured on residential property in the balance sheet.

8 Tax on profit on ordinary activities

	Group 2014 £000's	Group 2013 £000's	Society 2014 £000's	Society 2013 £000's
(a) UK Corporation tax at 21.5% (2013: 23.25%):				
Current Tax	658	499	621	471
UK Deferred tax at 20% (2013: 20%):				
Deferred tax - current year (see note 14)	351	559	350	559
Total	**1,009**	**1,058**	**971**	**1,030**

The tax assessed for the year is lower (2013: lower) than the standard rate of corporation tax in the UK of 21.5% (2013: 23.25%). The differences are explained below.

	Group 2014 £000's	Group 2013 £000's	Society 2014 £000's	Society 2013 £000's
(b) Factors affecting current tax charge in year:				
Profit on ordinary activities before tax	4,855	4,264	4,778	4,379
Tax on profit at UK standard rate of 21.5% (2013: 23.25%)	1,044	991	1,027	1,018
Effects of:				
Difference between depreciation and capital allowances together with other timing differences	(351)	(559)	(350)	(559)
Dividend from subsidiary	-	-	(21)	(58)
Expenses not deductible for tax purposes	2	8	2	6
Adjustment re: prior year	(16)	3	(18)	3
Impact of change in rate - deferred tax	(19)	61	(19)	61
Small companies relief	(2)	(5)	-	-
Current tax charge	**658**	**499**	**621**	**471**

A reduction in the UK corporation tax rate from 24% to 23% (effective 1 April 2013) was substantively enacted on 3 July 2012. Further reductions to 21% (effective from 1 April 2014) and 20% (effective from 1 April 2015) were substantively enacted on 2 July 2013. Accordingly the Society's profits have been taxed at an effective rate of 21.5% (2013: 23.25%). The deferred tax asset at 31 December 2014 has been calculated based on the rate of 20% substantively enacted at the balance sheet date.

Notes to the Accounts at 31 December 2014

9 Loans and advances to credit institutions

	Group 2014 £000's	Group 2013 £000's	Society 2014 £000's	Society 2013 £000's
Maturity analysis:				
Repayable on demand	38,009	39,675	37,922	39,567
In more than one year but not more than five years	2,500	1,230	2,500	1,230
	40,509	40,905	40,422	40,797
Accrued interest on balances:				
Repayable on demand	52	38	52	38
In more than one year but not more than five years	-	-	-	-
	40,561	**40,943**	**40,474**	**40,835**

Amounts outstanding in more than one year but not more than five years reflect amounts placed as collateral with counterparties in respect of derivative contracts.

10 Debt securities

	Group 2014 £000's	Group 2013 £000's	Society 2014 £000's	Society 2013 £000's
Issued by other borrowers		-	-	-
Maturity analysis:				
In not more than one year	73,986	54,500	73,986	54,500
In more than one year	28,613	10,209	28,613	10,209
	102,599	64,709	102,599	64,709
Accrued interest	699	423	699	423
	103,298	65,132	103,298	65,132
Analysis of debt securities:				
Listed	71,302	35,002	71,302	35,002
Unlisted	31,996	30,130	31,996	30,130
	103,298	65,132	103,298	65,132
Debt securities held as financial fixed assets:				
Maturity value	101,900	64,500	101,900	64,500
Unamortised premium	699	209	699	209
	102,599	64,709	102,599	64,709
Accrued interest	699	423	699	423
	103,298	**65,132**	**103,298**	**65,132**

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	2014 £000's
At 1 January 2014	65,132
Additions	93,366
Maturities and disposals	(55,436)
Movement in premium and accrued interest	236
At 31 December 2014	**103,298**

Additions and disposals include premium and accrued interest on acquisition/sale, therefore the movement in premium and accrued interest in the table above reflects movements on assets held during the period.

Notes to the Accounts at 31 December 2014

11 Loans and advances to customers

	Group 2014 £000's	Group 2013 £000's	Society 2014 £000's	Society 2013 £000's
Loans fully secured on residential property	666,660	665,716	666,508	665,562
Loans fully secured on land	501	544	501	544
Unsecured loan	8,004	8,006	8,004	8,006
	675,165	**674,266**	**675,013**	**674,112**

The unsecured loan represents a single exposure as part of a syndicated loan provided as part of a registered social landlord arrangement due to mature in 2017, and is fully performing.

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

	Group 2014 £000's	Group 2013 £000's	Society 2014 £000's	Society 2013 £000's
Repayable on demand	86	983	86	983
In not more than three months	6,361	5,006	6,361	5,006
In more than three months but not more than one year	17,929	18,430	17,928	18,430
In more than one year but not more than five years	121,895	114,604	121,815	114,543
In more than five years	529,712	536,161	529,641	536,068
	675,983	675,184	675,831	675,030
Provisions for bad and doubtful debts	(818)	(918)	(818)	(918)
	675,165	**674,266**	**675,013**	**674,112**

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

12 Investments in subsidiary undertakings

	Society 2014 £000's	Society 2013 £000's
Shares	2	2
Loans	22	22
	24	**24**

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 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 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 was the provision of mortgage broking services. No director had a beneficial interest in any shares or debentures of the subsidiary undertaking. The company ceased trading on 31 December 2009. From 1 January 2010 the company has been dormant.

The loan relates to an inter-company balance with The Mortgage Outlet Limited.

Notes to the Accounts at 31 December 2014

13 Tangible fixed assets

Group	Freehold land and buildings £000's	Equipment fixtures and fittings £000's	Totals £000's
Cost			
At 1 January 2014	2,583	4,890	7,473
Additions	-	204	204
Disposals	-	(244)	(244)
At 31 December 2014	2,583	4,850	7,433
Accumulated depreciation			
At 1 January 2014	537	4,478	5,015
Charge for the year	38	190	228
Disposals	-	(220)	(220)
At 31 December 2014	575	4,448	5,023
Net book value			
At 31 December 2014	2,008	402	2,410
At 31 December 2013	2,046	412	2,458

Society	Freehold land and buildings £000's	Equipment fixtures and fittings £000's	Totals £000's
Cost			
At 1 January 2014	2,583	4,842	7,425
Additions	-	168	168
Disposals	-	(212)	(212)
At 31 December 2014	2,583	4,798	7,381
Accumulated depreciation			
At 1 January 2014	537	4,441	4,978
Charge for the year	38	178	216
Disposals	-	(190)	(190)
At 31 December 2014	575	4,429	5,004
Net book value			
At 31 December 2014	2,008	369	2,377
At 31 December 2013	2,046	401	2,447

Leek United BUILDING SOCIETY

Notes to the Accounts at 31 December 2014

13 Tangible fixed assets (continued)

The net book value of land and buildings occupied by the Society for its own activities is £2,008,000 (2013: £2,046,000).

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:

	2014 £000's	2013 £000's
Cost	1,624	1,624
Aggregate depreciation based on cost	(439)	(420)
	1,185	**1,204**

14 Other assets

	Group 2014 £000's	Group 2013 £000's	Society 2014 £000's	Society 2013 £000's
Deferred tax asset	710	887	710	886
Other	6	43	5	43
	716	**930**	**715**	**929**
The elements of deferred taxation are as follows:				
Difference between accumulated depreciation and capital allowances	19	27	19	26
General bad and doubtful debt provision	160	180	160	180
Other provisions	6	28	6	28
Other timing differences	525	652	525	652
	710	**887**	**710**	**886**
Deferred Taxation at 1 January 2014	887	455	886	454
Deferred tax charge	(351)	(559)	(350)	(559)
Movements in relation to pension scheme	684	991	684	991
Less deferred tax asset offset against pension liability	(510)	-	(510)	-
At 31 December 2014	**710**	**887**	**710**	**886**

15 Prepayments and accrued income

	Group 2014 £000's	Group 2013 £000's	Society 2014 £000's	Society 2013 £000's
Prepayments	327	396	327	396
Accrued income	41	-	41	-
	368	**396**	**368**	**396**

16 Shares

	Group 2014 £000's	Group 2013 £000's	Society 2014 £000's	Society 2013 £000's
Held by individuals	820,492	770,455	820,492	770,455
In the ordinary course of business, shares are repayable from the balance sheet date as follows:				
Repayable on demand	568,043	503,627	568,043	503,627
In not more than three months	39,927	31,467	39,927	31,467
In more than three months but not more than one year	133,219	85,486	133,249	85,486
In more than one year but not more than five years	70,621	140,950	70,621	140,950
	811,810	761,530	811,810	761,530
Accrued interest	8,682	8,925	8,682	8,925
	820,492	**770,455**	**820,492**	**770,455**

Notes to the Accounts at 31 December 2014

17 Amounts owed to other customers

In the ordinary course of business, amounts owed to other customers are repayable from the balance sheet date as follows:

	Group 2014 £000's	Group 2013 £000's	Society 2014 £000's	Society 2013 £000's
Repayable on demand	24,222	25,645	24,222	25,645
Accrued interest	144	165	144	165
	24,366	**25,810**	**24,366**	**25,810**

18 Other liabilities

	Group 2014 £000's	Group 2013 £000's	Society 2014 £000's	Society 2013 £000's
Amounts falling due within one year:				
Income tax	100	138	100	138
Corporation tax	357	386	331	372
Other taxation and social security costs	115	106	115	105
Amount due to subsidiary undertakings	-	-	131	107
Other creditors	271	133	271	133
	843	**763**	**948**	**855**

19 Accruals and deferred income

	Group 2014 £000's	Group 2013 £000's	Society 2014 £000's	Society 2013 £000's
Off balance sheet instruments accrued interest	151	158	151	158
Accruals	449	489	417	430
Deferred income	50	-	50	-
	650	**647**	**618**	**588**

20 Provisions for liabilities and charges Group & Society

	Mortgage repayment Provision £000's	Regulated Business £000's	FSCS Levy £000's	Total £000's
At 1 January 2014	100	42	851	933
Amount charged during the year	(75)	(10)	758	673
Amount utilised during the year	(25)	-	(586)	(611)
At 31 December 2014	**-**	**32**	**1,023**	**1,055**

The mortgage repayment provision was to provide for potential redress in respect of a calculation adjustment to mortgage interest made during 2013 and partly used during 2014. The residual provision has been released to the income and expenditure account. The regulated business provision is to provide for potential claims against the group in respect of past sales. The Financial Services Compensation Scheme levy is explained in note 23.

Notes to the Accounts at 31 December 2014

21 Revaluation reserve

	Group £000's	Society £000's
At 1 January 2014 and 31 December 2014	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.

22 General reserve

	Group £000's	Society £000's
At 1 January 2014	53,587	53,304
Profit for the financial year	3,846	3,807
Actuarial losses	(2,740)	(2,740)
At 31 December 2014	**54,699**	**54,371**

23 Financial Services Compensation Scheme Levy

The Society has a liability and a contingent liability in respect of contributions to the Financial Services Compensation Scheme.

In common with all regulated UK deposit takers, the Society pays levies to the Financial Services Compensation Scheme (FSCS) based on its share of protected deposits, to enable the FSCS to meet claims against it. The FSCS levy consists of two parts – a management expenses levy and a compensation levy. The management expenses levy covers the costs of running the scheme and the compensation levy covers the amount of compensation the scheme pays, net of any recoveries it makes using the rights that have been assigned to it.

In 2008 a claim was triggered against the FSCS by the transfer of Bradford & Bingley Plc's retail deposit business to Abbey National Plc and similar issues with various Icelandic Banks, London Scottish Bank Plc and the transfer of core parts of Dunfermline Building Society to Nationwide Building Society in the first half of 2009. The FSCS has met, or will meet, the claims by way of loans received from HM Treasury with the interest on these loans being recovered through levies on UK deposit takers.

The loans are repayable by FSCS on 31 March 2016 for all failures except Bradford & Bingley Plc which is repayable on 29 February 2024. The FSCS confirmed it expects to receive full repayment of the debt of £1.6bn owed to it by Bradford & Bingley Plc by the repayment date. The non-Bradford & Bingley Plc loans will be repaid by a levy on deposit takers in three roughly equal instalments, the first two instalments having been paid in September 2013 and September 2014, with one instalment remaining payable in September 2015.

As a result of notifications it has received from the Financial Services Compensation Scheme, the Society has recognised in this year's accounts a provision for a levy of £758,000 which gives a total levy provision, as at 31 December 2014, of £1,023,000. This provision is in respect of the scheme year 2014/15, which is calculated with reference to the protected deposits at 31 December 2013, and the scheme year 2015/16, which has been estimated based on the protected deposits held at 31 December 2014. In addition, the provision is also in respect of the third of three annual capital repayments to repay the balance of the original loan principal that is not expected to be recovered. This is calculated with reference to the protected deposits held by the Society at 31 December 2014. The levy amounts have been calculated with reference to the level of the Society's protected deposits and expected compensation levies.

The FSCS may have a further liability if there are insufficient funds available from the realisation of the assets of the banks to fully repay the respective HM Treasury loans.

Notes to the Accounts at 31 December 2014

24 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 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 products	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 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 Prudential Regulatory 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 2014 £000's	Credit risk weighted amount 2014 £000's	Replacement cost 2014 £000's	Nominal principal amount 2013 £000's	Credit risk weighted amount 2013 £000's	Replacement cost 2013 £000's
Interest rate contracts maturing:						
In less than 1 year	11,166	-	-	30,000	-	-
Between 1 year and 5 years	143,058	229	29	61,000	459	906

Credit risk

The risk of losses arising from a debtor's failure to meet their legal and contractual obligations. Credit risk in relation to retail customers is governed by limits contained in our board-approved responsible lending policy.

Key performance metrics in relation to retail customer credit risk are as follows:

	2014 £000's	2013 £000's
% of total mortgage balances – Greater than 75% loan to value	16%	19%
% of total mortgages balances – Interest only	35%	38%
% of total mortgages balances – Buy to Let	24%	24%
Number of accounts 3 months or more in arrears	18	24
Number of accounts 1 month or more in arrears	115	113
Number of repossessions	2	1
Number of accounts provided for	8	10

These key performance metrics support our prudent lending approach in line with our Risk Appetite (page 15).

Notes to the Accounts at 31 December 2014

24 Financial Instruments (continued)

Liquidity risk

Liquidity risk is the risk that the Society is unable to meet its financial obligations as they become due, resulting in an inability to support normal business activity, failure to meet liquidity regulatory requirements.

Stress tests are undertaken to measure the Society's ability to meet adverse cash flows on a regular basis. This activity is overseen by the Asset and Liability Committee. The Society also complies with the rules issued by the Prudential Regulatory Authority concerning the quality of liquid assets held by banks and building societies. As a consequence the Society held £81.8m at 31 December 2014 (2013: £68.3m) on deposit with the Bank of England to ensure ready access to liquid funds should the need arise.

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 gap of the group at 31 December 2014 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	170,741	33,400	14,086	7,613	751	226,591
Loans fully secured on residential property and other loans	392,304	45,397	46,577	191,705	(818)	675,165
Tangible fixed assets	-	-	-	-	2,410	2,410
Other assets	-	-	-	-	1,084	1,084
Total assets	563,045	78,797	60,663	199,318	3,427	905,250
Liabilities						
Shares	609,429	43,046	88,071	71,264	8,682	820,492
Amounts owed to credit institutions and other customers	24,222	-	-	-	144	24,366
Other liabilities	-	-	-	-	4,586	4,586
Reserves	-	-	-	-	55,806	55,806
Total liabilities	633,651	43,046	88,071	71,264	69,218	905,250
Off balance sheet items	129,211	9,178	(12,730)	(125,659)	-	-
Interest rate sensitivity gap	58,605	44,929	(40,138)	2,395	(65,791)	-
Cumulative gap	58,605	103,534	63,396	65,791	-	-

Notes to the Accounts at 31 December 2014

24 Financial Instruments (continued)

The interest rate sensitivity gap of the Group at 31 December 2013 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	122,148	42,709	10,000	-	461	175,318
Loans fully secured on residential property and other loans	404,102	16,010	46,682	208,390	(918)	647,266
Tangible fixed assets	-	-	-	-	2,458	2,458
Other assets	-	-	-	-	1,326	1,326
Total assets	526,250	58,719	56,682	208,390	3,327	853,368
Liabilities						
Shares	535,823	23,587	60,130	141,990	8,925	770,455
Amounts owed to credit institutions and other customers	25,646	-	-	-	164	25,810
Other liabilities	-	-	-	-	2,403	2,403
Reserves	-	-	-	-	54,700	54,700
Total liabilities	561,469	23,587	60,130	141,990	66,192	853,368
Off balance sheet items	91,000	(5,000)	(25,000)	(61,000)	-	-
Interest rate sensitivity gap	55,781	30,132	(28,448)	5,400	(62,865)	-
Cumulative gap	55,781	85,913	57,465	62,865	-	-

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 2014. 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)	2014 Book value £000's	2013 Book value £000's	2014 Fair value £000's	2013 Fair value £000's
On balance sheet instruments:				
Debt securities	103,298	65,132	103,883	65,441
Off balance sheet instruments:				
Interest rate contracts	(151)	(158)	(1,949)	(212)

Notes to the Accounts at 31 December 2014

24 Financial Instruments (continued)

	Gains £000's	Losses £000's	Net (loss) /gain £000's
Hedges			
Unrecognised gains/(losses) on hedges at 1 January 2014	906	(694)	212
Of which recognised in the year to 31 December 2014	-	378	378
Gains/(losses) before 31 December 2013 that were not recognised in the year to 31 December 2014	906	(316)	590
Gains/(losses) arising in the year to 31 December 2014 that were not recognised in that year	(877)	(1,662)	(2,539)
Unrecognised gains/(losses) on hedges at 31 December 2014	29	(1,978)	(1,949)
Of which expected to be recognised in the year to 31 December 2015	-	(125)	(125)

Losses recognised within the year to 31 December 2014 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 2013.

The amount to be recognised in the year to 31 December 2015 relates to maturing contracts.

25 Pension scheme

The Society operated a defined benefit scheme up until 24 April 2013 when the scheme was closed to future accrual. The valuation of the scheme assets and liabilities under FRS17 at 31 December 2014 determined that the scheme was in deficit by £2,548,000 (2013: surplus £3,852,000) and has been recognised in the balance sheet.

In February 2014, a portion of the scheme's assets were transferred to an insurer to buy-in pensions in payment. The buy-in policy will provide income that exactly matches the benefits payable under the scheme. This has resulted in a loss in the scheme's assets which is due to the difference between the value of the benefit obligations being subject to a buy-in and the buy-in premium. This loss, together with the impact of lower discount rates deriving from corporate bond yields on the valuation of assets and liabilities resulted in a deficit. The long-term benefit of undertaking the buy-in will be to remove the volatility risk for a substantial part of the scheme.

There remains a contingent liability in respect of future pension scheme deficits.

Present values of scheme liabilities, fair value of assets and deficit

	2014 £000's	**2013 £000's**	**2012 £000's**
Fair value of scheme assets	32,669	33,650	27,486
Present value of scheme liabilities	(35,217)	(29,798)	(29,407)
(Deficit)/surplus in scheme	(2,548)	3,852	(1,921)
(Liability)/asset	(2,548)	3,852	(1,921)
Deferred tax	510	-	442
Impact of ceasing to recognise the Pension Scheme asset	-	(3,852)	-
Net (liability)/asset	(2,038)	-	(1,479)

Notes to the Accounts at 31 December 2014

25 Pension scheme (continued)

Reconciliation of opening and closing balances of the present value of the scheme liabilities

	2014 £000's	2013 £000's
Scheme liabilities at start of year	29,798	29,407
Current service cost	68	160
Interest cost	1,290	1,197
Contributions by scheme participants	-	40
Actuarial losses/(gains)	5,110	(406)
Benefits paid	(1,049)	(600)
Scheme liabilities at end of year	**35,217**	**29,798**

Reconciliation of opening and closing balances of the fair values of scheme assets

	2014 £000's	2013 £000's
Fair value of scheme assets at start of year	33,650	27,486
Expected return on scheme assets	1,955	1,357
Actuarial (losses)/gains	(2,166)	699
Contributions by Society	279	4,668
Contributions by scheme participants	-	40
Benefits paid	(1,049)	(600)
Scheme assets at end of year	**32,669**	**33,650**

The actual return on the scheme assets over the year ended 31 December 2014 was a loss of £211,000

Total expense recognised in the income and expenditure account

	2014 £000's	2013 £000's
Current service cost	68	160
Interest cost on scheme liabilities	1,290	1,197
Expected return on scheme assets	(1,955)	(1,357)
Total expense recognised in the income and expenditure account	**(597)**	**-**

Statement of total recognised gains and losses

	2014 £000's	2013 £000's
Difference between expected and actual return on scheme assets: (loss)/gain	(2,166)	699
Experience gains and losses arising on the scheme liabilities: (loss)/gain	(3)	1
Effects of changes in the demographic and financial assumptions underlying the present value of the scheme liabilities: (loss)/gain	(5,107)	405
Total actuarial gains and losses (before restriction due to some of the surplus not being recognisable): (loss)/gain	(7,276)	1,105
Effect of limit on amount of surplus recognised due to some of the surplus not being recognisable: loss	-	(3,852)
Reinstatement of surplus previously de-recognised in 2013	3,852	-
Total amount recognised in statement of total recognised gains and losses: loss	**(3,424)**	**(2,747)**

The cumulative amount of actuarial gains and losses recognised in the statement of total recognised gains and losses since adoption of FRS17 is net losses of £11,997,000.

Notes to the Accounts at 31 December 2014

25 Pension scheme (continued)

Assets

	2014 £000's	2013 £000's	2012 £000's
Equities	8,521	7,957	11,008
Corporate Bonds	620	14,876	11,043
Diversified Growth Funds	11,098	10,536	5,128
Insured pensioners	12,379	220	267
Other	51	61	40
Total	**32,669**	**33,650**	**27,486**

None of the fair values of the assets shown above include any direct investment in the Society's own financial instruments or any property occupied by, or other assets used by, the Society.

Assumptions

	2014 % per annum	2013 % per annum	2012 % per annum
Retail Price index inflation	3.10	3.60	2.90
Consumer Price index inflation	2.10	2.60	2.20
Salary increases	4.10	4.60	3.90
Rate of discount	3.40	4.40	4.10
Allowance for revaluation of deferred pensions of CPI/RPI or 5% p.a. if less	2.10	2.60	2.20
Allowance for pension in payment increases of RPI or 5% p.a. if less	3.10	3.60	2.90
Allowance for pension in payment increases of RPI or 2.5% if less	2.20	2.20	2.20
Allowance for commutation of pension for cash at retirement	100%	100%	100%

The mortality assumptions adopted at 31 December 2014 imply the following life expectancies:

Male retiring at age 60 in 2014	26.1 years	(2013: 26.0 years)
Female retiring at age 60 in 2014	28.5 years	(2013: 28.4 years)
Male retiring at age 60 in 2033	28.2 years	(2013: 28.1 years)
Female retiring at age 60 in 2033	30.5 years	(2013: 30.4 years)

Expected long-term rates of return

The long-term expected rate of return on cash is determined by reference to bank base rates at the balance sheet dates. The long-term expected return on bonds is determined by reference to UK long-dated corporate bond yields at the balance sheet date. The long-term expected rate of return on equities diversified growth fund is based on the rate of return on Government bonds with an allowance for out-performance. The long-term expected return on annuities is the rate of discount used to calculate the liabilities.

The expected long-term rates of return applicable for each period are as follows:

	2014 % per annum	2013 % per annum
Equities	7.10	6.20
Cash	0.50	0.50
Corporate Bonds	4.40	4.10
Diversified Growth Fund	7.10	6.20
Insured pensioners	4.40	4.10
Overall for scheme	5.88	5.33

Amounts for the current and previous four years

	2014 £000's	2013 £000's	2012 £000's	2011 £000's	2010 £000's
Fair value of scheme assets	32,669	33,650	27,486	23,426	22,184
Present value of scheme liabilities	(35,217)	(29,798)	(29,407)	(26,142)	(24,003)
Surplus in scheme	(2,548)	3,852	(1,921)	(2,716)	(1,819)
Experience adjustment on scheme assets	(2,166)	699	1,778	(1,309)	1,289
Experience adjustment on scheme liabilities	(3)	1	(375)	140	611

Annual Business Statement

Annual Business Statement for the year ended 31 December 2014

Statutory Percentages	Ratio at 31.12.14 %	Ratio at 31.12.13 %	Statutory Limit %
Calculated in accordance with the Building Societies Act 1986 as amended by the Building Societies Acts 1997 and 2005.			
Lending limit	1.42	0.28	25.0
Funding limit	2.88	3.24	50.0

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, amount 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.

Other Percentages	Ratio at 31.12.14 %	Ratio at 31.12.13 %
Gross capital as a percentage of shares and borrowings	6.61	6.87
Free capital as a percentage of shares and borrowings	6.41	6.67
Liquid assets as a percentage of shares and borrowings	26.82	22.02
Profit on ordinary activities after taxation as a percentage of mean total assets	0.44	0.39
Management expenses as a percentage of mean total assets	0.85	0.84

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 2013 and 2014 total assets.

Management expenses represent the aggregate of administrative expenses and depreciation.

Annual Business Statement

Annual Business Statement for the year ended 31 December 2014 (continued)

Information relating to directors as at 31 December 2014

Name Date of Birth	Occupation	Date of Appointment	Other Directorships
Rachel Court 27/06/1966	Non Executive Director	26/11/2014	None
Richard Goddard MA, FCA 09/06/1957	Finance and Risk Consultant	23/11/2011	RCG Business Consultancy Ltd
Tony Hubbard 22/10/1968	Building Society Operations Director	03/11/2014	None
Peter Kerns 09/06/1953	Non Executive Director	21/12/2009	Leek United Home Loans Ltd Leek United Financial Services Ltd The Mortgage Outlet Ltd
Derek Lyons MCISI 05/12/1943	Financial Consultant	14/06/2002	None
Jim Washington ACIB 26/05/1950	Self-employed Independent Mortgage Consultant	23/11/2005	None
Kevin Wilson 20/12/1958	Building Society Chief Executive	01/10/1998	Leek United Home Loans Ltd Leek United Financial Services Ltd The Mortgage Outlet Ltd
Paul Wilson ACA 02/04/1971	Building Society Finance Director	07/07/2014	None

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.

Kevin Wilson, Paul Wilson and Tony Hubbard have 12 months or less rolling service contracts. The Non Executive Directors do not have service contracts.

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SUSTAINABLE FORESTS

The pulp used in the manufacture of this paper is from renewable timber produced from sustainable forests and is elemental chlorine free.