2017
ANNUAL REPORT & ACCOUNTS

Leek United
BUILDING SOCIETY

Contents

Member of the Building Societies Association

Authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and Prudential Regulation Authority

Established 1863

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Registered Number 323B

Key Financial Highlights

Profit before tax £4.5m (2016: £3.5m)

Profit before hedging and tax £3.9m (2016: £3.8m)

Net interest margin 1.29% (2016: 1.31%)

Gross mortgage advances of £184m (2016: £152m)

Mortgage balance growth of c7% to £796m (2016: £743m c5% growth)

Liquidity ratio 24.6% of shares and borrowings (2016: 21.0%)

Number of mortgage accounts in arrears by three or more monthly repayments 0.22% (2016: 0.21%)

Core tier 1 capital ratio 17.6% (2016: 17.9%)

An explanation of some of the terms used here can be found on pages 8 to 11.

Five Year Highlights	**2017**	**2016**	**2015**	**2014**	**2013**
	£000's	£000's	£000's	£000's	£000's
Net interest income	12,685	11,884	12,168	11,142	10,257
Other income	460	791	832	1,060	1,435
Administrative expenses	(8,938)	(8,484)	(7,948)	(7,212)	(6,699)
Other expenses and charges	(240)	(234)	(187)	(143)	(621)
Provisions & other items [1]	(48)	(198)	(440)	(648)	(108)
Profit before tax pre hedging	**3,919**	**3,759**	**4,425**	**4,199**	**4,264**
Impact of hedging	581	(264)	91	(923)	-
Profit before tax	**4,500**	**3,495**	**4,516**	**3,276**	**4,264**
Liquid assets	238,834	180,328	171,800	226,773	175,318
Loans and advances	795,887	742,844	715,182	676,543	674,266
Other assets	4,695	4,720	3,665	3,925	3,784
Total assets	**1,039,416**	**927,892**	**890,647**	**907,241**	**853,368**
Shares and deposits	864,550	858,359	825,475	844,858	796,265
Bank of England funding [2]	105,915	-	-	-	-
Other liabilities	5,793	11,506	6,462	6,924	2,403
Reserves	63,158	58,027	58,710	55,459	54,700
Total liabilities	**1,039,416**	**927,892**	**890,647**	**907,241**	**853,368**

[1] *This includes FSCS levy, impairment losses and pension scheme finance costs.*

[2] This includes £830k owed to banks.

2014 – 2017 are prepared under FRS 102 and IAS 39. 2013 metrics above are shown as historically presented and are not restated.

MACCLESFIELD

CONGLETON

MARKET DRAYTON

OAKENGATES

Directors and Officers

Directors	Keith Abercromby BSc, FIA Rachel Court JP, BA Richard Goddard MA, FCA John Kelly BA (Hons), ACA Colin Kersley Jane Kimberlin BA John Leveson MBA, FCIB Kevin Wilson
Chair	Rachel Court JP, BA
Chief Executive	Kevin Wilson
Internal Auditor	Deloitte LLP Four Brindleyplace Birmingham B1 2HZ
Independent Auditor	KPMG LLP Chartered Accountants 1 St Peter's Square Manchester M2 3AE

Chair's Statement

Rachel Court
Chair

I am delighted to be able to report another successful year for the Society in both financial and business terms. Record mortgage lending, the generation of sustainable profits and the maintenance of our robust capital position are all excellent achievements. To achieve these in a year in which the Society has exceeded £1bn in assets for the first time makes it a particularly impressive and significant year for us.

Economic and Market Conditions

We continue to live in uncertain times with the continuing negotiations with the European Union on Brexit and the Conservative Party failing to win a majority government in the UK election. The Monetary Policy Committee (MPC) took the decision to increase Bank Base Rate in November 2017. This is the first rise in over a decade; but with the rise taking interest rates to just 0.5%, rates continue to be at an unprecedented low. The housing market faces challenges in this economic climate, with the pace of house price growth slowing. Housing transactions, which tend to be more volatile than prices, are where the uncertainty caused by Brexit has manifested itself most strongly, in combination with the effects of recent changes to stamp duty and Buy to Let reform. Delivering such a strong performance in the context of this economic climate is a major achievement.

The Strategy

The Board remains committed to remaining a local independent building society, supporting the communities in which we operate and serving our customers through a choice of savings, mortgages and associated products. Branches play a very important role in this strategy and we remain committed to our high street presence, despite the vast reduction of major banks in the high street. In late 2016, the Society launched an online mortgage application system for intermediaries which has been successfully rolled out during 2017. We will continue to develop this to improve its functionality and ease of use.

We have also made it easier for our existing mortgage customers who wish to switch to a new product at the end of their product term through the successful launch of an online portal.

The Board

2017 has seen some changes to the Executive team. John Kelly joined the Board in April 2017 as Operations Director, whilst Paul Wilson, the Society's Finance Director, left us at the end of 2017 to pursue a new opportunity. On behalf of the Board, I would like to thank Paul for his contribution to the Society's success and to wish him all the very best for the future. I am delighted to welcome Andrew Morris to the Executive team in early 2018 to replace Paul as Finance Director, he will be co-opted to the Board subject to regulatory approval. Andrew brings a wealth of knowledge and has extensive experience in the financial services sector.

Meanwhile, Kevin Wilson, the Society's Chief Executive for the past 14 years, has indicated to the Board his intention to retire at the end of 2018. Under Kevin's leadership, the Society has delivered consistently strong financial results and excellent customer service and the Board is extremely grateful to him for all his dedication and enthusiasm throughout this successful period for the Society. Kevin will continue to lead the Society until the end of 2018. A rigorous selection process for Kevin's successor is currently underway and an announcement regarding the outcome of this will be made later in the year.

The Future

Reaching £1bn of assets has been a major achievement for the Society, against a backdrop of challenging market and economic conditions. The Board is aware that the housing market has been subject to significant Government intervention, particularly in terms of low cost funding which has been available to banks and building societies but that is shortly due to end. This withdrawal of Government funding is likely to put pressure on the profitability of lenders, and the Society will not be immune to this. The Society has a clear strategic plan in place to deal with this, which will require slower growth in the next few years to ensure that the position of financial strength, which has been built up over many generations, remains unchanged.

With this is mind, and with its commitment to the traditional values of a mutual organisation, the Board believes that a successful future lies ahead for the Society.

Thanks

I would like to extend my thanks to my fellow Board members and all of the hard-working colleagues in our branches, head office and agencies through whose commitment and high standards these excellent financial results have been delivered. Finally, I am very grateful for the support and loyalty from you, our members, and look forward to meeting many of you at our AGM on 25 April.

Rachel Court
21 February 2018

Chief Executive's Business Review

	2017	2016
Group profit before tax	£4.5m	£3.5m
Group profit before tax and hedging adjustments	£3.9m	£3.8m
Group reserves	£63.2m	£58.0m
Group assets	£1,039.4m	£927.9m
Mortgage assets	£795.9m	£742.8m
Core tier 1 ratio	17.6%	17.9%
Management expense ratio	0.93%	0.96%

Kevin Wilson
Chief Executive

Overview

I am pleased to be able to report that the Society has delivered a very strong performance during 2017 and we continue to be in a robust financial position. This has been a record year for the Society in terms of mortgage lending which has seen the Society achieve the landmark of over £1bn assets as at the end of the year.

The Society does not seek to maximise profits but rather deliver sufficient levels of profit to support future growth and allow investment for the future whilst maintaining our capital resilience. Once again, through our wide range of competitive products and excellent customer service, we have achieved this. Profit before tax and hedging of £3.9m (profit before tax £4.5m) has been delivered, this continues to maintain the Society's capital position in order to support the lending growth and sustain its ability to meet the ongoing higher capital requirements under the Capital Requirements Directive.

Mortgages

The Society advanced a record £184m during 2017, outpacing the lending of £152m in 2016. This exceptional performance has driven mortgage balance growth of c£53m (7%), an increase of £25m over that achieved last year.

This level of growth has been achieved against a backdrop of a market where competition continues to intensify, particularly for the standard lower Loan to Value (LTV) mortgages which are the mainstay of banks' and building societies' lending.

Our lending proposition continues its core focus on residential lending providing a range of fixed and discount mortgages primarily for owner occupiers but also for Buy to Let (BTL) landlords.

The Society is proud to be supporting people to buy their first home through the introduction of 95% LTV products and our range of Help to Buy products which are available across the country. In our heartland we are also able to offer 95% First Time Buyer mortgages in conjunction with backing from local authorities.

Further regulatory changes to BTL lending affecting the underwriting requirements were introduced in 2017. These have impacted the market with some evidence of larger lenders withdrawing from the 'portfolio' lender sector. As a Society, we continue to offer a range of products to support BTL lending including 'portfolio' lending.

The Society also offers products for customers seeking mortgages beyond their expected retirement dates and to customers who require interest only mortgages where a credible repayment plan is in place.

Our mortgage book remains of the highest quality which continues to be evidenced by the low level of arrears (0.22% of mortgage accounts in arrears by the equivalent of three or more monthly repayments. 2016: 0.21%). All our loans are individually underwritten and reviewed for affordability and suitability by an experienced team. All lending over 80% LTV at inception is insured through a mortgage indemnity policy which protects the Society from losses incurred if a property is taken into possession. Responsible lending, as always, is the key to the quality of our mortgage book and we remain committed to managing arrears in a proactive manner with only 3 properties being taken into possession in the year (2016: 2).

Savings

In an unprecedented extended low interest rate environment, the Society has been able to maintain its level of savings balances. It continues to be a challenging time for our savings members and unfortunately we had to make the extremely difficult decision to reduce the rate on our main ISA account earlier in the year. We held off reducing this rate for as long as possible, longer than many of our high street competitors, but ultimately we had to recognise the market pressures. These market pressures are because lenders have had access to low cost Bank of England funding through the Funding for Lending Scheme (FLS) and Term Funding Scheme (TFS). As a regional Society, we are unable to shape market rates but we are committed to offering fair and sustainable rates to our loyal customer base and we continue to offer preferential loyalty products for existing members. I was delighted that the Society was able to pass on in full the increase in Bank Base Rate in December to our ISA customers and the majority of our core savings book.

Bike ride in aid of
Bloodwise

Financial Investment Advice

The Society offers whole of market financial advice through our relationship with Wren Sterling. Members can consult with the independent advisers on all aspects of financial planning including savings, protection, investments, retirement and inheritance tax planning. The service offering is primarily branch based face to face advice with some phone support.

We also continue to offer buildings and contents home insurance for our members via our long standing relationship with Royal Sun Alliance.

Our Staff and Members

I very much appreciate the skill, dedication and enthusiasm of the Society's staff and their role in achieving the excellent business and financial results. I recognise that it is our people and the service they offer which makes the difference for our members and I am delighted that 97.2% of customers have reported to be satisfied or very satisfied with our service during 2017. As always, customer feedback is really important to us at Leek United Building Society, and we continue to monitor all feedback closely.

A Leadership and Management Programme is in operation and the third successful Management Development Scheme has been delivered across the Society. These schemes develop talent and identify potential succession for future management roles.

We continue to operate our successful apprenticeship programme, with the recruitment of three further local young people during 2017 and with two of the initial intake achieving professional qualifications and securing permanent roles at the Society. I am proud that the Society has been accredited by the National Skills Academy for Financial Services for its training provision, recognising the Society's commitment to training and development and implementation of practices and policies to ensure its effectiveness.

Community

As a mutual, being part of the community is in our DNA. We have continued to give something back to the communities within our heartland through a wide range of sponsorship and community activities. The Society is proud to continue its commitment as the main sponsor of the Leek and District show. This sponsorship is just one of the many ways the Society supports the local community.

Staff continue to raise money for Bloodwise, the UK's leading blood cancer charity. To date, the Society has donated in excess of £10,000 to the charity through various fund raising events, including a 150 mile cycle ride and charity run. Also, during 2017, staff have staged coffee mornings, taken part in the Stoke City Football Club's 'Big Sleepover' and helped with gardening at Rossendale Trust, a residential care home in Macclesfield.

Our affinity savings accounts with the County Air Ambulance and Stoke City Football Club allow our members to support their local communities through their savings which pay a percentage of the savings balances to the charity or local club.

In conjunction with Stoke City Football Club's Community Trust, staff have also visited local schools to advise and educate youngsters about the importance of saving. Staff have also attended careers events to highlight career opportunities for young people as well as providing regular work experience placements for students.

Outlook

Prospects for the UK economy remain subdued and uncertain particularly with potential implications from Brexit. However, the Society's core values and sustainable business model together with its financial strength means it is well placed to respond to any challenges and achieve future success and to meet further regulatory demands.

And Finally

After a total of 24 years with Leek United, of which 14 years have been as Chief Executive, I have indicated to the Board my intention to retire from my position at the end of 2018.

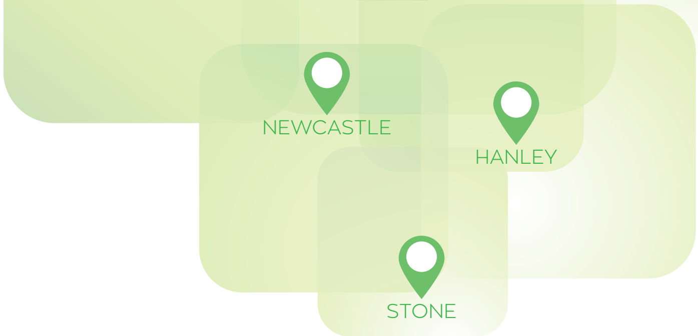
It has been a great privilege to have the opportunity to lead this very special Society and contribute to its continued success. I have valued and appreciated the tremendous support provided by you, the members of the Society, during my time as CEO. This period has seen the Society continue to prosper throughout a lengthy time of unprecedented volatility in the financial services marketplace. I take great personal pride knowing that Leek United has continued to increase its capital strength, developed its product proposition and maintained its reputation for providing outstanding service to its members.

I would like to express my gratitude to the fantastic colleagues, both past and present, with whom I have had the pleasure of working and I will leave the Society with many fantastic memories and highlights. Together, we have ensured that Leek United has continued to go from strength to strength.

Our excellent results in 2017 have consolidated the Society's robust financial strength and I know the Board and staff of Leek United are committed to fulfilling the needs of its members in the future.

I wish you, the members and staff of Leek United, continued success and prosperity.

Kevin Wilson
21 February 2018



Strategic Report

The Strategy for the Society is outlined below:

Vision Statement

We aim to be the local Society of choice for new and existing members, respected, trusted and renowned for our exceptional customer service.

Mission Statement

To excel in meeting the financial needs of our members and the service needs of intermediaries by providing high quality, competitive products, outstanding customer service and fair outcomes for customers.

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.

Values

- We are honest, straightforward and trustworthy
- We are easy to deal with
- We treat customers as people not numbers

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 two agencies.

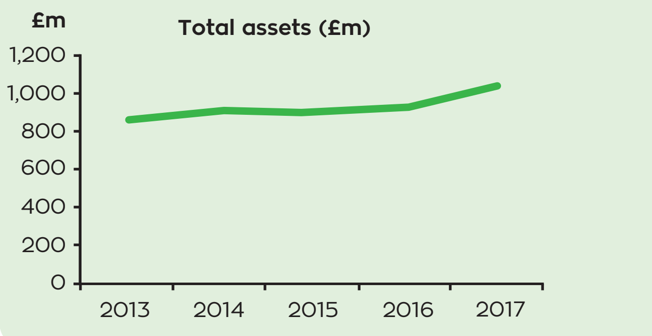
As a building society and a mutual, Leek United does not seek to maximise profits at the expense of members, but rather deliver a level of profitability sufficient to balance member value with the need to protect our capital position and so ensure that member confidence remains high.

Key Performance Indicators

The Society has delivered a strong financial performance in 2017 and ends the year in a robust financial 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:

Our Branch Managers' visit to **The Rossendale Trust**, where they spent a day helping to make a difference to the lives of residents of the Trust

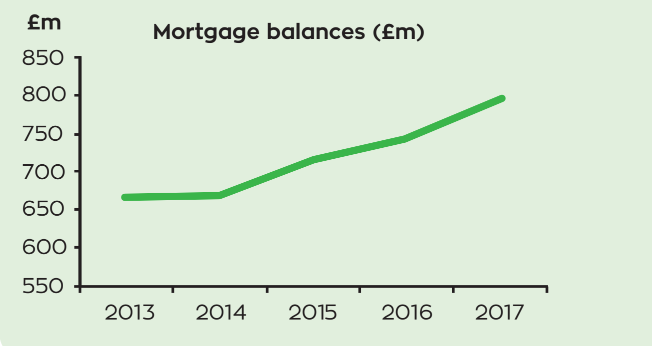
Total assets (£m)



Total assets: *the value of all assets in the Group balance sheet.*

Total assets of the Society have exceeded £1 billion for the first time. Assets have increased from £928m at the end of 2016 to £1,039m at the end of 2017. This was achieved by solid growth in mortgage balances funded primarily through funding from the Bank of England Term Funding Scheme.

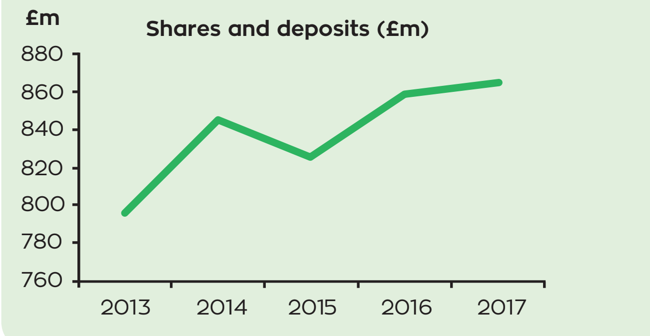
Mortgage balances (£m)



Mortgage balances: *the total amount owed to the Society for mortgages by customers.*

Total mortgage balances have increased by c£53m in the year to £796m (2016: £743m). We lent £184m to new mortgage customers in 2017 (2016: £152m). Redemptions in the year were £93m (2016: £82m).

Savings and funding (£m)

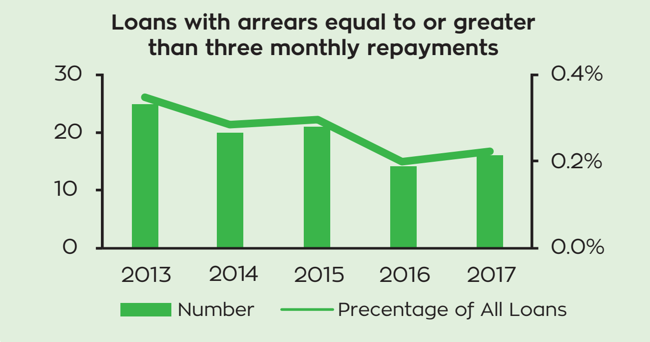


Shares and deposits: *the total amount owed by the Society to shareholding members and depositors in respect of their account balances.*

Despite the unprecedented extended low interest rates, resulting in the continued difficult environment for savers, balances have increased from £858m in 2016 to £865m at the end of 2017.

Lenders, including the Society, have had access to low cost funding through the Term Funding Scheme (TFS). The Society has drawn funding of £105m from this scheme at the year end.

Mortgage arrears

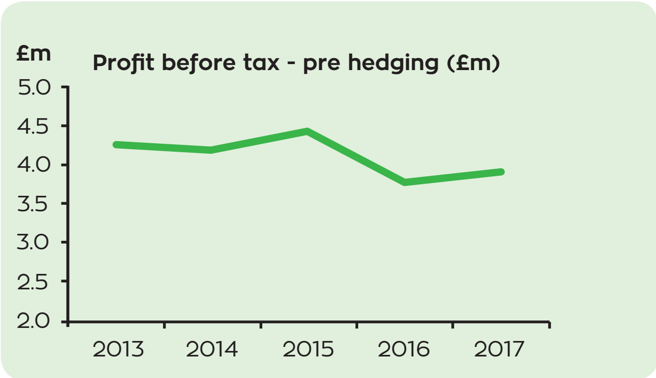


Mortgage arrears: *The number of mortgage accounts which are in arrears by the equivalent of three or more monthly repayments.*

The Society remains committed as always to responsible lending and continues to take a cautious approach to lending. Our mortgage book remains of high quality as evidenced by the low level of arrears. This is demonstrated by the number of its mortgages which are in arrears by the equivalent of three or more monthly repayments. These totalled 16 at 31 December 2017, representing 0.22% of mortgage accounts (2016: 0.21%). Where appropriate an impairment allowance is held, cases that do not have an individual impairment allowance are included within the collective impairment allowance.

Strategic Report
(continued)

Profit before tax – pre hedging (£m)

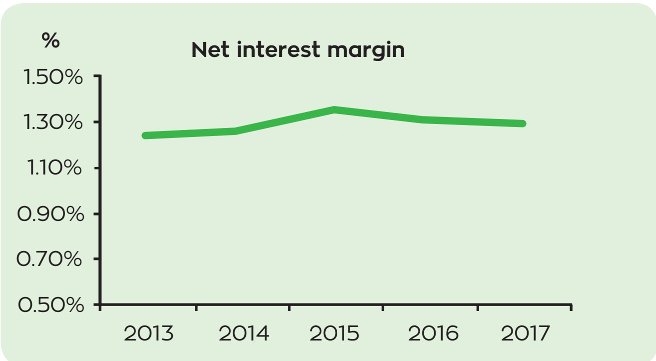


Profit before tax: *The surplus before tax, achieved from trading activity during the financial year.*

Pre-tax profits (before hedging) were achieved in 2017 of £3.9m compared to £3.8m in 2016. Increased income as a result of significant growth has been broadly offset by continued pressure on both margin and costs.

While pre-tax profits (before hedging) have increased slightly year on year, profit after tax of £3.7m has increased considerably compared to 2016 (£2.8m). This has been assisted by favourable movements to the fair value of our derivatives helped by the rising interest rate environment.

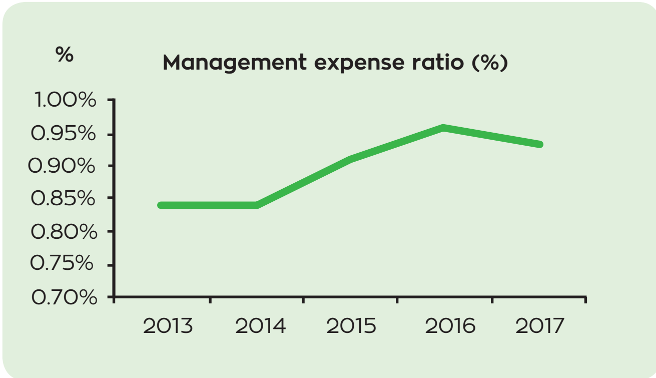
Net interest margin percentage



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 percentage (%) has reduced slightly to 1.29% in 2017 (2016: 1.31%). Bank Base Rate remains at an unprecedented low, despite the increase to 0.50% in November 2017. The Society's net interest margin remains under pressure and has fallen slightly year on year, particularly in respect of earnings on its core liquidity.

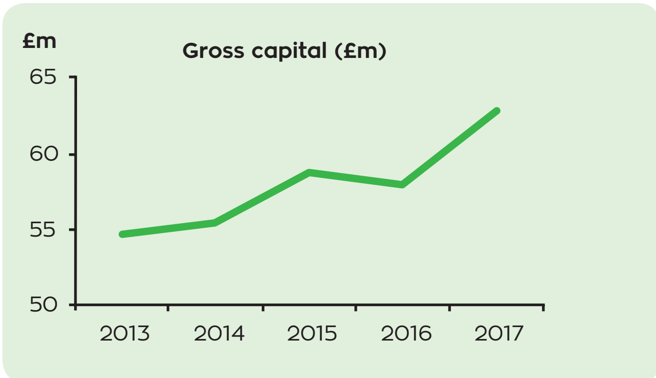
Management expense ratio (%)



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

As in recent years, there continues to be significant investment in the Society both in terms of people and technology with a 5% increase in expenses year on year. The Board is committed to ensuring cost efficiency, a key element in delivering the required level of profitability to protect members' interests, however, this must be balanced with long term investment for the Society's future as well as meeting the increasing resource needs of regulatory requirements. Despite the increase in expenses, the management expense ratio has decreased in 2017 to 0.93% (2016: 0.96%) as the growth in assets has outpaced the rising costs.

Gross capital (£m)



Gross capital: *The total value of the reserves as shown in the balance sheet.*

Consistent levels of appropriate profit generated again in 2017 ensure that the capital position remains strong with reserves as at 31 December 2017 of £63.2m (2016: £58.0m). The 2017 capital position has also benefitted by £1.5m, due to our year end pension accounting deficit reducing to £2.7m. The improvement in the capital position is due to gains in the actuarial valuation with the deficit also reducing due to the planned contributions made by the Society.

The ratio of gross capital as a percentage of total shares and borrowings was 6.5% at 31 December 2017 (2016: 6.8%) and the ratio of free capital as a percentage of total shares and borrowings was 6.3% at 31 December 2017 (2016: 6.5%). Free capital is the total reserves and collective loss provision less fixed assets. The core tier 1 ratio stood at 17.6% (2016: 17.9%) and the leverage ratio (unaudited) stood at 6.0% (2016: 6.1%).

Money raised for the Donna Louise Trust (Staffordshire) through our 'Feelgood Mortgage' scheme

Capital Management

The Society's policy is to maintain a strong capital base to maintain member, creditor and market confidence and to sustain the future development of the business. The Board manages the Society's capital and risk exposure to maintain capital in line with regulatory requirements. This is subject to regular stress tests to ensure the Society maintains sufficient capital for future possible events.

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

- General Reserves, accumulated profit, Revaluation Reserves and Available for Sale Reserves, less intangible assets representing Tier 1 Capital
- Collective Mortgage Impairment Allowance representing Tier 2 Capital

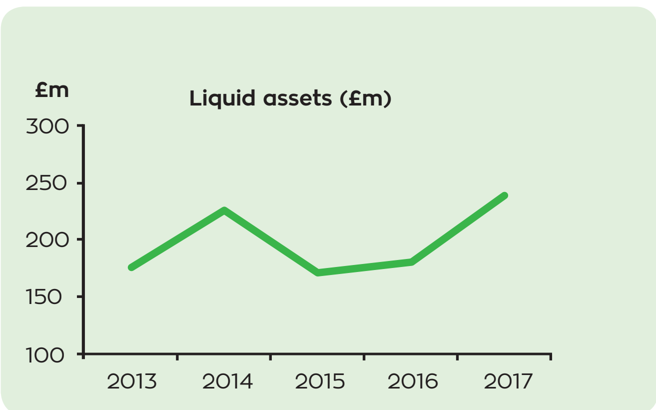
The Society's capital position has been significantly above the regulatory limits at all times.

The Society also assessed its capital requirements in line with the 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.

Capital disclosures to comply with FRS 102	2017	2016
Total Reserves (audited)	£63.2m	£58.0m
Intangible Assets (audited)	(£0.2m)	(£0.2m)
Tier 1 Capital (audited)	£63.0m	£57.8m
Tier 2 Capital – collective impairment allowance (audited)	£0.4m	£0.3m
Capital Resources (audited)	£63.4m	£58.1m
Risk Weighted Assets (unaudited)	£359.1m	£322.6m
Pillar 1 and 2A requirement (unaudited)	£39.0m	£35.7m
Core Tier 1 Ratio (unaudited)	17.6%	17.9%
Assets for leverage purposes (unaudited)	£1,055.9m	£942.7m
Leverage Ratio (unaudited)	6.0%	6.1%

The Society is required to set out its capital position, risk exposures and risk assessment processes in its Pillar 3 disclosures document. This can be found on the Society's website.

Liquid assets (£m)



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

The Society continues to maintain strong and readily available levels of liquidity. Throughout the year, the Society held levels well in excess of its regulatory requirements. As at the year end, we held £239m of liquidity (2016: £180m). The amount of liquidity repayable on demand is £137m (2016: £110m).

Strategic Report
(continued)

Leek United staff again took part in the Stoke City Football Club Community Trust's 'Big Sleep Out' to highlight the plight of homeless people in North Staffordshire

Trends and factors likely to affect future development, performance and position

The Bank of England raised its Bank Base Rate (BBR) by 0.25% to 0.5% in November 2017. This was the first increase in BBR for over ten years but interest rates remain at an unprecedented low for an extended period. The UK economy continues to grow but growth slowed markedly during 2017 as both consumer spending and services growth have moderated, alongside a fall in construction output. Consumer spending has been impacted by rising inflation, squeezing household budgets. However, many economists expect inflation to slow during 2018, as the exchange rate effects wash through (i.e. the effect of the weaker pound included in the 12 month inflation calculation). This economic environment and the ongoing negotiations with Brexit have all indirectly affected the Society.

The competition for mortgages has continued to intensify, particularly for the standard lower LTV mortgages that are the mainstay of banks' and building societies' lending. There are further challenges ahead for the Society as large banks and challenger banks are looking to increase their market share.

Further regulatory changes to BTL lending, affecting the underwriting requirements, were introduced in 2017. These have impacted the market with some evidence of larger lenders withdrawing from the 'portfolio' lender sector. As a Society, we continue to offer a range of products to support BTL lending including 'portfolio' lending.

The savings market has remained subdued during 2017, affected by the introduction of the Term Funding Scheme (TFS) in addition to the Funding for Lending Scheme (FLS). These schemes have also contributed to a reduction in customer savings rates across the market but these reductions have not been in line with mortgage interest rates, therefore, putting pressure on net interest margin.

Costs of doing business, continue to increase for all financial services companies especially with the need to strengthen the risk and control framework in first, second and third line, as well as further significant investment in technology and premises. This is expected to include a continuation of the recent trend towards more banking and saving transactions being conducted online, using mobile as well as desktop devices. We must recognise the changing lifestyles and behaviours of members and the impact these have on how they want to interact with us. Increasingly, it is becoming an essential element of the customer's expectations that their retail financial services business will provide them with a range of digital (online, mobile, etc.) options to manage their accounts and conduct transactions but still retain a local branch for when they require advice or want to talk to someone face-to-face.

The Society is not immune to the trends affecting financial services distribution in the economy as a whole and so will need to continue to adapt and evolve its branch proposition whilst retaining the culture, feel and high quality service that our members expect. We continue to monitor these trends to ensure that we respond to the needs of our members.

The Society is very mindful that each of these issues can cause risk and uncertainty which, in extreme circumstances, can 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 Adequacy Assessment Process (ILAAP) regulatory assessments and also its forward looking five year Corporate Plan. Through these processes, the Society performs a wide range of severe stresses across each of the Society's principal risks, including stresses to house prices, credit quality, net interest margin compression, cost pressures, regulatory pressures, liquidity and operational events. The Society's currently robust level of capital and liquidity are sufficiently resilient to withstand the impacts of these stresses which have been assessed as part of the Long Term Viability statement (page 15).

Risk Management Report

The purpose of this report is to:

- Explain the Society's Risk Management Framework;
- Highlight the risk governance arrangements; and
- Set out the principal risks and uncertainties facing the Society.

Risk Management Framework

The Society's activities are governed by its constitution, principles and values. The directors have also agreed a set of statements which describe the Board's risk appetite in terms of the principal risk categories: credit, strategic, market, liquidity and funding, conduct, regulatory and legal, pension and operational (the Society's Risk Appetite Statements).

These Risk Appetite Statements enable the Board to formally communicate to the organisation the level of risk they are willing to accept to achieve Society objectives, both in terms of qualitative and quantitative measures. The Board's Risk Appetite Statement is as follows:

'As a mutual, Leek United Building Society operates so that the Board and Management are custodians of the interests of our members. Therefore we seek a prudent position in aggregate for our risk appetite acknowledging that the lower levels of risk will lead to lower levels of return. The suite of Risk Appetite Metrics quantifies this prudent approach with the aim to deliver sustainable member value for the Society.'

The final element of the framework is the formal structure for managing risk across the Group. This is based on the 'three lines of defence' model which is illustrated overleaf.

Leek United is proud to be the main sponsor of **Leek & District Show** which brings thousands of families and businesses together each year

First Line of Defence	Second Line of Defence	Second Line of Defence	Third Line of Defence	
BUSINESS	**RISK MANAGEMENT**	**COMPLIANCE**	**INTERNAL AUDIT**	
Overall accountability and ownership	Design risk management framework	Design compliance framework and approach	Independent review of the design and implementation of framework	**RISK GOVERNANCE**
Implementation of framework	Develop processes for implementation of framework	Develop processes for implementation of framework		**RISK CULTURE**
Establish strong risk management culture	Promote strong risk management culture	Promote strong compliance culture		**GOVERNANCE STRUCTURE**
Promote strong risk management culture	Challenge and oversight	Challenge and oversight		
Set risk appetite				

Principal Risks and Uncertainties

The Board is committed to the traditional values of a mutual organisation. Central to these values are requirements to deliver the right outcomes for customers based on their needs. These core values also determine the Society's prudent 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 a third party, Wren Sterling. 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 and mitigate our interest rate risk. The derivatives are used solely for this purpose and are not used for trading activity or speculative purposes.

The Risk Management Framework has been established to ensure the Society has a strong, robust risk management methodology and culture as part of our strategy to proactively manage our risks in accordance with our prudent approach to risk.

The eight principal risks, their controls and the Board's appetite statements are set out as follows. In addition to these, the Society is also at risk from economic uncertainty including the political changes and potential implications of Brexit which may impact the markets in which we operate. For example, the Bank of England Base Rate remaining at low levels has, and will continue to have, implications for the level of interest income the Society earns and, similarly, in the future, competition or regulatory intervention in the mortgage market can impact on market pricing and customer demand. Increasing interest rates or inflation could have a detrimental impact on the affordability of our customers to repay their mortgages. Both of these repercussions are considered as part of the Society's planning.

The County Air Ambulance Trust is one of the main beneficiaries of Leek United's commitment to its surrounding communities

Principal Risk	Mitigants	Risk Appetite
Credit The risk of losses arising from a debtor's failure to meet their legal and contractual obligations. Potentially arising from mortgage customers falling into arrears, insufficient security value or the write off of Treasury exposures.	The Society operates within appropriate policies and risk appetites and performance is monitored closely. Our prudent lending policy means our mortgage book is of high quality. Each application is individually underwritten to ensure that loans are affordable. This is evidenced by our low level of arrears. There is potential risk from the failure of a Treasury 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 creditworthiness as well as the results of published regulatory stress tests.	The Society will adopt a prudent lending approach to our mortgage customers and Treasury counterparties resulting in low default rates and not impacting on earnings or capital.
Strategic 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.	The Society has an established corporate planning process which is subject to rigorous challenge which sets the overall direction for the Society. The Society recognises that it operates in a competitive market place and keeps a close eye on market trends and is mindful of these in its decision making. The Non Executive Directors provide a robust level of challenge over Executive proposals.	The Society will ensure that the strategic direction delivers a sufficient return that enables it to deliver capital which provides long term growth as well as financial stability for our members.
Market 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. In addition, the Society is also exposed to basis risk, this is the risk that assets and liabilities of similar re-pricing periods can move by varying amounts.	Reports are produced on a monthly basis to ensure the Society remains within policy limits and risk appetite. The Society only takes out interest rate swaps with approved counterparties to reduce interest rate risk exposure.	The Society will manage its interest rate and basis risk positions to ensure that losses due to adverse movements in market rates do not impact significantly over and above forecast market expectations.
Liquidity and Funding The risk that the Society is unable to meet its financial obligations as they become due and, as a consequence, is unable to support normal business activity and fails to meet liquidity regulatory requirements. There is potential risk to the level of liquidity from an extreme scenario of depositors withdrawing their funds.	The Society aims to provide customer savings rates that are both fair and sustainable and monitor them closely. The Society has appropriate policies in place and monitors the liquidity and funding positions closely on an ongoing and forward looking basis. There are also contingency plans in place should extreme situations arise.	The Society 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. The Society will maintain sufficient retail deposits to fully support and fund retail lending at all times. The Society will additionally utilise wholesale or central bank funding when appropriate to support Treasury or liquidity holdings but will ensure that wholesale funding is managed such that an appropriate balance of funding from retail and wholesale sources is maintained.
Conduct The risk that the Society does not do the right thing for its customers and does not put the customer's interest at the very heart of the business and as a result unfair outcomes for customers arise, which may result in customer detriment.	The Society monitors customer feedback closely on an ongoing basis. In line with our core values and beliefs the customer is at the heart of everything we do.	The Society 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.

Cheque presentation to Treetops Hospice (Derbyshire) for money raised through our 'Feelgood Mortgage' scheme

Principal Risk	Mitigants	Risk Appetite
Regulatory and Legal The risk of fines, public censure, limitation on business, or restitution costs arising from failing to understand, interpret, implement and comply with UK and EU regulatory requirements. It is essential for the Society to comply with all applicable regulatory requirements.	Continuous monitoring of regulatory change requirements is ongoing to ensure awareness and compliance by the Society and this is reported on a monthly basis. The Three Lines of Defence model also provides oversight, challenge and independent assurance.	The Society's aim in managing its regulatory risk is to be compliant with all relevant UK and EU regulatory requirements. Accordingly, whilst acknowledging that it is not possible to eliminate the risk of a regulatory breach, the Society is committed to managing the risk, within the bounds of what is reasonably viable, in order to minimise the probability and potential impact of breaches and to remedy promptly and comprehensively the consequences of any that do occur. The Society aims to adhere to all of its legislative and statutory obligations. The Society acknowledges that during the course of its business activities it will take on legal risk but will endeavour to minimise the likelihood and impact of breaches and in the event of breaches seek to remediate the situation as quickly and effectively as possible.
Pension 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.	The defined benefit pension scheme is closed to further accrual. The Society works closely with the pension trustees to try and seek further de-risking opportunities as conditions allow.	The Society will ensure that it can meet our contractual and regulatory requirements so that we can meet our existing and future liabilities.
Operational 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, such as the Risk & Control Self-Assessment tool and the Risk Registers. The Society has disaster recovery and business continuity plans in place, that are also tested, to mitigate the impact of loss or damage to buildings, systems or staff caused by natural disaster or other event.	The Society defines its operational risk appetite using a combination of measures used across the various secondary risk categories. Tolerances are reviewed at least annually for ongoing appropriateness.

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

Long Term Viability

The directors confirm that their assessment of the principal risks facing the Society was robust.

Based on the Board's robust assessment of the principal risks (all of which are described on pages 14-15 of the Strategic Report), and their stress testing of these principal risks, the directors have a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the period to December 2022 subject to unforeseeable external stresses including, but not limited to, the macro economic climate, competitive pressures, reputational damage and regulatory change.

The directors have no reason to believe the Society will not be viable over a longer period, however, given the inherent uncertainty, the directors have selected this period based on the Society's Board approved five year corporate planning and stress testing. The directors have also considered it appropriate to prepare the annual accounts on the going concern basis, as explained in the Basis of Preparation in note 1 to the accounts.

Rachel Court
Chair
21 February 2018

Directors' Profiles

01

02

03

04


Non Executive Directors

01 Rachel Court, Chair, JP, BA (age 51)

Rachel worked at Yorkshire Building Society for almost 23 years, concluding with seven years as a Senior Executive. 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 the independent Chair of the NHS Pension Board and a Non Executive Director on the Boards of Invesco Perpetual Life Limited, Invesco UK Ltd and South West Yorkshire Partnership NHS Foundation Trust. She is Chair of a Charity, PRISM, which offers alternative educational provision to young people excluded from mainstream education as well as being a Governor of Calderdale College. Rachel also serves as a Magistrate.

Rachel was co-opted onto the Board in November 2014 and during April 2016, she was elected to be the Chair of the Board following the retirement of the former Chairman. During 2017, Rachel has served as a member of the Remuneration Committee and Chair of the Nominations Committee, having stepped down as a member of the Board Risk Committee in April 2017.

02 Keith Abercromby, Non Executive Director, BSc, FIA (age 53)

Keith has had a 30 year executive career in retail banking and insurance including the Halifax, Clerical Medical, Aviva and Liverpool Victoria – spending the last five years as one of the founding directors of the innovative mortgage lender, Castle Trust. During his career at the Halifax, Keith was employed at board level in a wide range of roles including Chief Executive of its life insurance and investment businesses and the executive responsible for risk and products in retail. At Aviva, Keith was the Finance Director of its UK life insurance companies – Norwich Union, General Accident and Commercial Union – before being appointed Group Finance Director by Liverpool Victoria.

In addition, Keith is a Non Executive Director on the Boards of Canada Life UK Limited, Argus Group Holdings Limited and its subsidiary Argus Insurance Company (Europe) Limited.

Keith was co-opted onto the Board in March 2016. During 2017, he has served as a member of the Board Risk Committee, Nominations Committee and as Chair of the Audit Committee.

03 Richard Goddard, Non Executive Director, MA, FCA (age 60)

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 robust, effective financial controls 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. During 2017, he has served as Chair of the Board Risk Committee, Chair of the Audit Committee and on the Nominations Committee as well as the Pension Trustees Committee.

04 Colin Kersley, Non Executive Director (age 61)

Colin has extensive experience in the financial services sector, holding senior roles across several areas, with his most recent position being as Chief Executive of M&S Bank. During his career, he spent 39 years at Midland Bank / HSBC Bank and held Senior Executive roles including Regional Head of Corporate, Regional Director and Head of Premier Wealth for the UK. Colin is also a Non Executive Director on the Board of Assurant plc, a global provider of risk management solutions.

Colin was co-opted onto the Board in December 2016. During 2017, he has served as a member of the Audit Committee and the Nominations Committee.

05 Jane Kimberlin, Non Executive Director BA (age 58)

Jane is a Liveryman of the Worshipful Company of Information Technologists with over 25 years of international experience in Board Chief Information Officer / Information Technology Director roles. Jane's most recent role was with LaSer UK (part of BNP Paribas) and previously with a range of blue chip companies including Domino's Pizza, Scottish and Newcastle and E.ON / PowerGen. Jane has also, via her own company, Creaton Consultants, provided consultancy expertise to other organisations. She is actively involved in the promotion of coding skills for children and mentoring future IT leaders.

Jane was co-opted onto the Board in November 2016. During 2017 she has served as a member of the Board Risk Committee and the Remuneration Committee.

06 John Leveson, Non Executive Director, MBA, FCIB (age 58)

John is a Fellow of the Chartered Institute of Bankers and worked in the Building Society sector for over 36 years, the last 17 years as an Executive Director and latterly as Deputy Chief Executive of a regional building society. During his career, he was responsible at various times for marketing, sales, product development, HR, IT, mortgage underwriting, customer services, legal services and internal audit. In addition to serving on a building society group board, he has served on and chaired the boards of subsidiary companies involved in estate agency, financial planning and car finance. John is also a governor of Queen Elizabeth School, a coeducational selective grammar school in Penrith, and is manager of the GB and NI Transplant Cycling Team.

John was co-opted onto the Board in May 2015. During 2017, he has served as a member of the Board Risk Committee and as Chair of the Remuneration Committee, having stepped down as a member of Audit Committee in April 2017.

Executive Directors

07 Kevin Wilson, Chief Executive (age 59)

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 2017, 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.

08 John Kelly, Operations Director (age 52)

John has over 17 years' experience in financial services across finance, IT, strategy and operations. After qualifying as a chartered accountant in the UK in 1990, he lived and worked in New Zealand for eight years. Since returning to the UK in 1999, he has worked in the financial services sector in employed and consultancy roles with responsibility for Strategy and Planning, Operations and Management Information. He joined Leek United Building Society as Interim Operations Director on a consultancy basis in October 2016 and joined the Board as Operations Director in April 2017.

John is responsible for the Branch Network, Marketing, Customer Operations, Credit Risk, Change Management and IT. During 2017, John has served as a member of the Management Risk Committee and Asset and Liability Committee and also attends the Board Risk Committee and Audit Committee. He also chairs the Customer Conduct Forum, Product Governance Committee and Change Management Committee.

Staff and customers throughout Leek United's branch network helped to raise money for people living with cancer during **Macmillan Cancer Support's** World's Biggest Coffee Morning

Directors' Report

The directors have pleasure in presenting the Annual Report and Accounts for the year ended 31 December 2017.

Business Review

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

Directors

Keith Abercromby Non Executive Director

Rachel Court Non Executive Director

Richard Goddard Non Executive Director

John Kelly Operations Director
Appointed 26 April 2017

Colin Kersley Non Executive Director

Jane Kimberlin Non Executive Director

John Leveson Non Executive Director

Kevin Wilson Chief Executive

Paul Wilson Finance Director
Resigned 31 December 2017

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 2017. 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.

Capital Ratios

The Society's capital ratios are detailed on page 11.

Principal Risks and Uncertainties

A detailed assessment of the Society's principal risks and uncertainties is set out on pages 13-15.

Financial Risk Management Objectives and Policies

Details related to the Society's use of financial instruments and the Society's risk exposures are set out in note 26.

Interest Rates

The Society's standard variable mortgage rate increased by 0.25bps to 5.44% with effect from 1 December 2017.

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 auditor is 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.

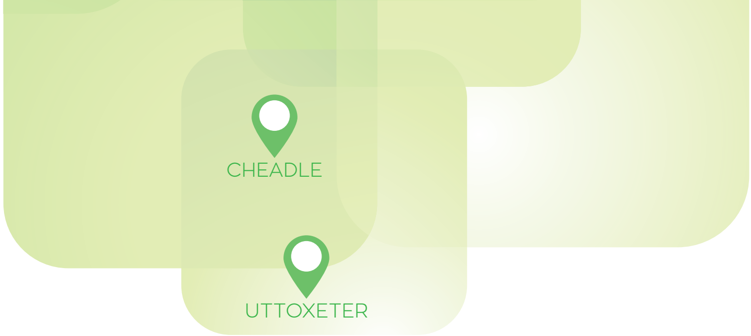
Independent Auditor

An external audit tender was conducted during 2016. As a result of the tender, the Board recommended that KPMG LLP should be appointed as the Society's auditor from the year ended 31 December 2017. As such, a resolution was proposed and passed to appoint KPMG LLP at the AGM in April 2017.

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.

Rachel Court
Chair
21 February 2018



Corporate Governance Report

The Financial Reporting Council updated the UK Corporate Governance Code (the Code) in April 2016. The Code is a set of principles of good corporate governance predominantly aimed at listed companies. The Prudential Regulation Authority states that building societies should have regard to the Code when establishing and reviewing their own corporate governance requirements. The Code does not directly apply to mutual organisations, however, the Board confirms that the Society has appropriate regard to the Code, as set out in this report.

The Board

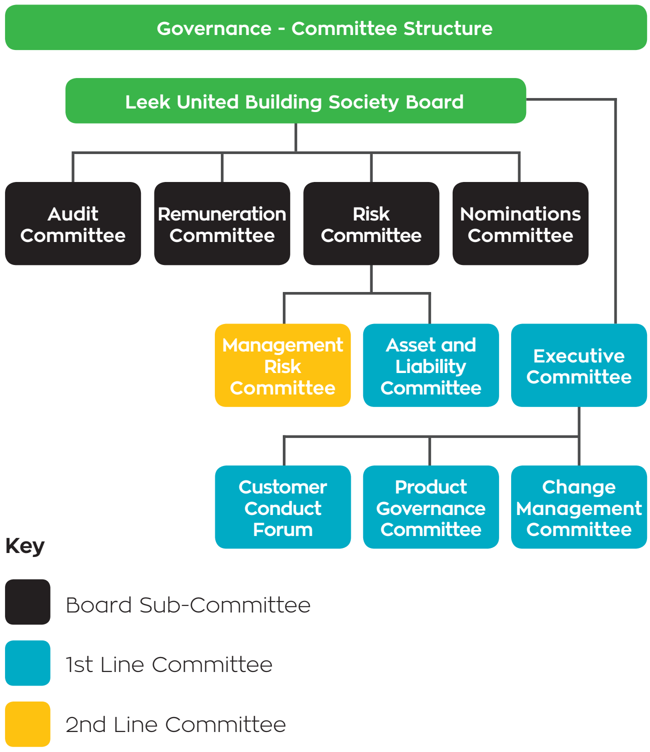
The Board sets the overall strategic aims, long term objectives and commercial strategy for the Society. As such, it is the Board's responsibility to ensure that the resources are in place to enable the Society to meet these objectives, as well as review management performance to support delivery of the Corporate Plan objectives. The Board also has responsibility to ensure that an effective framework of prudent and effective controls is in place for risk management.

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.

There is a schedule of decisions which can only be made by the Board, the Board meets monthly, with no planned meeting in August, and must meet a minimum of ten times per year. There are also additional days focussed specifically on strategy. The Non Executive Directors meet regularly without the Executive Directors present.

There have been changes to the Executive Directors in 2017 with John Kelly co-opted to the Board in April 2017 and Paul Wilson resigning from the Board at the end of December 2017. At the end of 2017, the Board consisted of six Non Executive Directors and three Executive Directors including Paul Wilson.

Certain responsibilities are delegated by the Board to be the responsibility of the executives and management of the Society either collectively or individually. The Board has agreed a management structure to create strong corporate governance in the Society and the Group, with greater and clearer accountability. In addition, the Board has set up certain sub-committees to which it has delegated certain powers. Each of the Board Committees has Board approved Terms of Reference, which are published on the Society's website. The Board receives recommendations from the Committees within their Terms of Reference and the minutes of the Committee meetings are reported to the Board. The structure is shown overleaf:



The Board is responsible for ensuring that the risk management systems and internal control framework are designed appropriately to facilitate day to day operational effectiveness whilst containing risk. The Board and senior management are committed to maintaining a robust and effective risk and control framework.

The Board ensures the effectiveness of systems and internal control and risk management through a combination of processes, including:

- Regular reports to the Board and Board Risk Committee from the Head of Risk and Compliance on the principal risks facing the Society and the adequacy of the controls in place.
- Maintaining an independent reporting line between the Head of Risk and Compliance and the Chair of the Board Risk Committee.
- Regular reports to the Board and the Audit Committee from Internal Audit in respect of its independent audits of risk management processes and the effectiveness of internal controls across the Society.
- An annual assessment of the effectiveness and independence of the Risk and Compliance Function by the Head of Risk and Compliance which is considered by the Board Risk Committee.
- A monthly Head of Risk and Compliance Report which provides an independent assessment of current and emerging risks and the effectiveness of the controls and mitigating actions in place.

The Board can confirm that it has carried out a review of risk management systems and internal control framework and is satisfied that these were adequate, taking into account its size, risk profile and strategy.

For the last 12 years, we have pledged a donation to the **Douglas Macmillan Charity** in Stoke-on-Trent for every vote cast and for each member survey returned at the Society's Annual General Meeting.

Corporate Governance Report (continued)

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. These responsibilities are as follows:

- To oversee and advise the Board on the current risk exposures of the Society and future risk strategy.
- To oversee all the principal risks as defined in the Risk Management Framework except pension risk which remains with the Board.
- To keep under review the Society's overall risk assessment processes that inform the Board's decision making, ensuring both qualitative and quantitative metrics are used.
- To review regularly and approve the parameters used in these measures and the methodology adopted.
- To set a standard for the accurate and timely monitoring of large exposures and certain risk types of critical importance.
- To advise the Board on proposed strategic transactions, ensuring that a due diligence appraisal of the proposition is undertaken, focussing in particular on risk aspects and implications for the risk appetite and tolerance of the Society and taking independent external advice where appropriate and available.
- To review reports on any material breaches of risk limits and adequacy of the proposed action.
- To review the effectiveness of the Society's internal controls and risk management systems.
- To review the adequacy and security of the Society's arrangements for its employees and contractors to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters. The Committee shall ensure that these arrangements allow proportionate and independent investigation of such matters and appropriate follow up action.
- To review the Society's procedures for detecting fraud and the prevention of bribery.
- To review promptly all reports on the Society from the Head of Risk and Compliance.
- To review and monitor management's responsiveness to the findings and recommendations of the Head of Risk and Compliance.
- To ensure the Head of Risk and Compliance is given the right of unfettered direct access to the Chair of the Board and to the Committee.
- To give due consideration to laws and regulations, as well as other applicable rules, as appropriate.

At 31 December 2017, the BRC comprised Richard Goddard (Chair), Keith Abercromby, Jane Kimberlin and John Leveson.

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

The MRC's main responsibility is to assess the management of operational, credit and conduct risk together with legal and regulatory risk across the Group. Responsibilities of the MRC also include ensuring the detailed application of the Risk Management 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. Management of market, liquidity and strategic risk has been delegated to the ALCO.

Board Audit Committee

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

- To review the effectiveness of the Society's first and second lines of defence, internal controls and risk management systems established by management, to identify, assess, manage and monitor financial and non-financial risks, for ensuring compliance with the regulatory environment in which the Society operates.
- To review management's and the Internal Auditor's reports on the effectiveness of systems for internal financial control, financial reporting and risk management, including all aspects of the first and second lines of defence.
- To approve the appointment or removal of the supplier of Internal Audit and monitoring the effectiveness of the Internal Audit in its operation of the third line of defence.
- To monitor the integrity of the annual accounts of the Society, reviewing any significant financial judgements contained therein.
- To report to the Board on the content of the Annual Report, to determine whether it is fair, balanced, and understandable and provides the information necessary for users to assess the Society's performance, business model and strategy.
- To review the Pillar 3 disclosure and recommend to the Board for approval.
- To make recommendations on the appointment, reappointment and removal of External Auditor, via the Board, to members for consideration at the AGM.
- To develop and implement policy on the supply of non-audit services by the External Auditor to avoid any threat to auditor objectivity and independence, taking into account any relevant ethical guidance on the matter.
- To ensure that at least once every ten years, the external audit services contract is put out to tender to enable the Committee to compare the quality and effectiveness of the services provided by the incumbent auditor with those of other firms.

At 31 December 2017, the Committee comprised Keith Abercromby (Chair), Richard Goddard and Colin Kersley.

Our AGM vote donations are also shared with the **Donna Louise Trust**.

To date, 'the Dougie Mac' and the Donna Louise have now received a total of **£9,235** and **£6,316** respectively from Leek United.

Remuneration Committee

The Board has established the Remuneration Committee to which it has delegated the following responsibilities:

- To review and recommend to the Board the overarching 'Remuneration Policy'.
- To approve the maximum overall increase that is appropriate in respect of the annual review of salaries.
- To approve the total remuneration package of each Executive Director.
- To approve the salary of the Head of Risk and Compliance.
- To set the level of fees payable to the Chair of the Board.
- To approve the design and implementation of any incentive schemes, including the monitoring of such schemes at intervals determined as part of the approval process of each scheme. Where such a scheme relates to Executive Directors, the committee shall refer consideration to the Board.
- To review contractual payments made to material risk takers on termination and any non-contractual payments made to other staff on termination.

The Committee makes an annual report to members which can be found on page 25. The Committee is composed entirely of Non Executive Directors and as at 31 December 2017, comprised John Leveson (Chair), Rachel Court and Jane Kimberlin.

Nominations Committee

The Board has established the Nominations Committee to which it has delegated the following responsibilities:

- To periodically review the structure, size and composition of the Board including a review of the skills, knowledge and experience mix of the members of the Board in order to ensure that such mix remains relevant to the business of the Society at any given time.
- To give full consideration to succession planning for directors and other senior executives, taking into account the challenges and opportunities facing the Society, and the skills and expertise needed on the Board in the future.
- To ensure that appropriate arrangements are in place for the recruitment and selection of suitably qualified persons to act as directors (both Non Executive and Executive) of the Society.
- To identify any role, other than that of director, for which the Committee deems it appropriate to assume responsibility for the recruitment and selection of a suitable candidate for any and all such roles.

At 31 December 2017, the Committee comprised Rachel Court (Chair), Richard Goddard, Colin Kersley and Kevin Wilson.

Division of Responsibilities

The offices of Chair and Chief Executive are held by different people, with a clear division of responsibilities which are set out in writing and agreed by the Board. The Chief Executive has responsibility for managing the Society in line with strategies, policies and delegated authorities as agreed by the Board.

The Chair

The Chair is responsible for leadership of the Board and ensuring the Board's effectiveness in all aspects of its role. In addition, the Chair sets the direction and culture of the Board, promoting a culture of openness and fairness by facilitating effective debate and contribution and maintaining constructive relationships between the Executive and Non Executive Directors. The Chair also ensures that directors receive accurate, timely and clear information.

The Society's current Chair, Rachel Court, was appointed as a Non Executive Director in November 2014 and became Chair in April 2016. Rachel Court has never been Chief Executive or an employee of Leek United Building Society.

Non Executive Directors

Over the course of the year, the Non Executive Directors participate in regular discussions about matters of strategic importance. They also attend a number of Board Strategy days each year with the Executive Directors to identify, debate and assess the strategic options available to the Society. Using the options identified, a five year Corporate Plan is prepared by the Society's management and Executives which is subject to rigorous challenge by the Non Executive Directors.

The Senior Independent Director of the Society provides a sounding board for the Chair and serves as an intermediary for the other directors where necessary. The Senior Independent Director also has responsibility for leading Non Executive Directors in the performance appraisal of the Chair and to act as a contact for any member who may feel that contact with the Chair or Chief Executive would not be appropriate.

The Senior Independent Director for the Society is Richard Goddard who is pleased to act as an alternative contact point for members.

Corporate Governance Report (continued)

The Composition of the Board

At the end of 2017, the Board consisted of six Non Executive Directors and three Executive Directors.

The composition of the Board is reviewed at regular intervals (at least annually on a formal basis) and changes progressively over time in a planned manner and in line with the good practices specified in the Code. The Board effectiveness review looks at the performance of the Board including Board composition. The Board is responsible for ensuring that any subsidiary Board has the appropriate range of skills, expertise and experience, particularly where a non-core activity is carried out in a subsidiary.

Responsibility for issues relating to Board composition and succession planning is delegated to the Nominations Committee.

The Board considers that all Non Executive Directors are independent and carry out their duties with complete objectivity. Subject to satisfactory performance, a Director may hold office for up to nine years, after which period they must be re-elected on an annual basis. The Board has no Non Executive Directors whose service exceeds nine years.

Appointments to the Board

There is a formal, rigorous and transparent procedure for the appointment of new directors to the Board. Responsibility for this process and for making recommendations to the Board as regards appointments is delegated by the Board to the Nominations Committee. A Board Succession Plan is in place for appointments to the Board in order to facilitate that recruitment and that the Board remains 'fit for purpose' in terms of the skills, knowledge, expertise and experience required at any given time.

The Society uses independent executive search and selection agencies, to support the recruitment of Non Executive Directors. In 2017, the Society used Warren Partners for the recruitment of Executive Directors. The Society's only connection with Warren Partners is for recruitment and selection. Careful consideration is given to the combined skills, experience and diversity of existing Board members in making new appointments to the Board. As relevant to their individual role, all directors conform to the requirements of the Senior Managers' Regime governed by the Financial Conduct Authority and Prudential Regulation Authority and pass the 'fit and proper' test specified. All directors are also subject to election by members at the AGM following their appointment.

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, marital status, disability, sexual orientation and religion or belief.

Commitment

On appointment, directors receive a formal letter of appointment clearly setting out the Society's expectations in terms of time commitment, Committee service and involvement in activities other than meetings of the Board and / or its Committees.

The attendance record during the year of Board and Committee members is set out below:

Name	Board	Audit	Risk	Nominations	Remuneration
Keith Abercromby	11 (11)	4 (4)	6 (6)		
Rachel Court	11 (11)		2 (2)	9 (9)	7 (7)
Richard Goddard	11 (11)	4 (4)	6 (6)	9 (9)	
Colin Kersley	11 (11)	4 (4)		9 (9)	
Jane Kimberlin	10 (11)		5 (6)		6 (7)
John Leveson	10 (11)	2 (2)	6 (6)		7 (7)
John Kelly from 26/04/17	8 (8)				
Kevin Wilson	11 (11)			9 (9)	
Paul Wilson to 31/12/17	11 (11)				

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

Cheque presentation to **Bloodwise**, the blood cancer research charity, for money raised in last twelve months

Development

The Society provides all new directors with a full, formal and tailored induction on joining the Board. All directors participate in a programme of training and professional development designed to keep their knowledge and skills up to date in a fast changing, highly regulated business environment. Training and development needs are also identified as part of the annual appraisal process.

Information and Support

The Chair ensures that the Board receives sufficient accurate, timely and clear information to enable it to discharge its duties. If necessary, all Non Executive Directors are entitled to obtain independent professional advice at the Society's expense.

Performance Evaluation

A formal system of Board appraisals is in place and each Non Executive Director's personal contribution to Board proceedings and Society progress in the year has been the subject of rigorous review by the Chair. The Chair also conducted a formal review of the performance of the Chief Executive. The performance of the Finance Director and Operations Director was reviewed by the Chief Executive, with reference to feedback from the Non Executive Directors. Performance evaluation of the Chair 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 a formal and rigorous evaluation 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 line with the Code, the Board effectiveness is evaluated by external consultants on a three yearly basis. The last external review was carried out by Deloitte LLP during 2015.

Re-election

Non Executive Directors with over nine years' service are required to offer themselves for re-election on an annual basis. All directors are required to submit themselves for re-election at least once every three years.

Financial and Business Reporting

The Board and Audit Committee believes that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the necessary information for Members to assess performance, strategy and the business model of the Society. The Statement of Directors' Responsibilities on page 26 sets out the Board's responsibilities in relation to the preparation of the Annual Report and Accounts. Business performance is reviewed in the Chair's Statement, Chief Executive's Business Review and the Strategic Report. The accounts have been prepared under the going concern principle.

The Audit Committee has considered the Annual Report and Accounts and considered the key judgmental items in relation to the Annual Accounts for 2017 including:

- The impairment allowance required for both individual and collective mortgage impairment allowance. This is assessed on the level of arrears and forbearance on customer accounts. The key judgments are the level of loans that will actually default as well as expected levels of loan exposure compared to expected levels of security including mortgage indemnity insurance where relevant.
- The assumptions underpinning the Effective Interest Rate (EIR) calculation. The interest and fees earned and incurred on loans are spread over the expected life of the product. The key judgements are to assess the cashflows to be included and the expected life of the product to determine the EIR period.
- The assumptions utilised in the valuation of the defined benefit pension scheme. This is particularly sensitive to asset valuations as well as expectations of long term corporate bond yields, inflation and mortality. Management appointed a third party specialist for the valuation of the defined benefit pension scheme which included advice on the assumptions to use and the sensitivities of those assumptions. The Committee was satisfied that the pension assumptions were within an appropriate range by reviewing the sensitivities and benchmarking with external data and with other organisations.

Further detail regarding the sensitivities of these assumptions is included on pages 43-44 within the Notes to the Accounts.

The Committee 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 that they were appropriately dealt with in the accounts.

Corporate Governance Report (continued)

Risk Management and Internal Control

The Society uses the Risk Management Framework as part of our strategy to manage risk proactively in accordance with our prudent risk appetite stance.

During 2017, 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
	Conduct Risk	Liquidity and Funding Risk
	Legal and Regulatory Risk	Strategic Risk
	Credit Risk	

The Board owns and approves the risk appetite, as set out on pages 14-15, for the Society including the Risk Management Framework. The Risk Management Framework identifies the 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, as shown on page 13, to ensure appropriate responsibility is allocated to the management, reporting and escalation of risks. Supervision and direction is facilitated by the operation of a number of Board Committees, which meet regularly to consider issues specific to key business areas.

The Board has identified a number of principal risks and uncertainties that could threaten its business model, future performance, solvency or liquidity. These risks, together with the way in which they are mitigated, are included within the 'Principal Risks and Uncertainties' section of the Strategic Report.

Audit Committee and Auditors

The role of the Audit Committee is set out on page 20. The Committee comprises three members, all of whom are Non Executive Directors, and meets at least four times a year, and where appropriate, this coincides with key dates in the Society's financial reporting cycle. At least annually, the Committee meets with the external and internal auditors without the Executive Directors present. The Board are satisfied that at least one member of the Audit Committee has recent and relevant financial experience. The Society has an Audit Committee approved policy on the provision of non-audit service by the auditor. The policy reflects the requirements of the UK Corporate Governance Code and legislation on EU Audit Reform. This sets out both qualitative and quantitative criteria on the relevant services and governance procedures.

The Committee assesses 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 Committee undertook an external tender process during 2016 to review the Society's external auditor engagement and, with effect from the 2017 annual accounts, KPMG LLP was appointed at the AGM in April 2016.

Deloitte LLP is the Society's Internal Auditor and provides independent and objective assurance regarding the design and performance of risk management systems and controls. The information received and considered by the Committee during 2017 provided assurance that there were no material breaches of control and that the Society maintained an adequate internal control framework. The Audit Committee receives and approves, on an annual basis, a Strategic Audit Plan covering a period of five years. Deloitte LLP provide the Committee with reports summarising the results and its recommendations as well as the response from the Society's management. The Committee is satisfied that, throughout 2017, the Internal Auditor had an appropriate level of resource to deliver its plan of work and that it discharged its duties effectively.

Remuneration

The Directors' Remuneration Report is set out on page 25.

Dialogue with Shareholders

As a mutual organisation, the Society has members rather than shareholders. 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 Chair and other Executive Directors gives a presentation on the main business developments. The members present at the forum are given the opportunity to raise questions to the Directors and senior management. The Society also has a Senior Independent Director, Richard Goddard, who is pleased to provide a further means by which members can communicate with the Society.

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 vote if they cannot, or choose not to, attend the AGM. For wider customer choice, the Society has provided access to members to be able to vote on-line. 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 is, therefore, available to answer questions raised by members.

On behalf of the Board of Directors

Rachel Court
Chair
21 February 2018

Directors' Remuneration Report

The Society's Remuneration Committee is composed solely of Non Executive Directors. The Committee's principal responsibilities are:

- To review and recommend to the Board the overarching Remuneration Policy for the Society as a whole.
- To determine the overall increase that is appropriate in respect of the annual review of salaries.
- To approve the specific level of remuneration for Executive Directors and the Head of Risk and Compliance (a Senior Manager).
- To set the level of fees payable to the Chair of the Board.
- To approve any incentive schemes (excluding the participation of Executive Directors which is referred to the Board).

In determining remuneration, the Committee considers the guidance in the UK Corporate Governance Code April 2016 (the Code) and applies the FCA Remuneration Code.

The Level and Components of 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.

A performance related pay scheme is in operation for all staff in the Society, and the Executive Directors participate in this scheme. The scheme has robust performance measures based on the Society's performance, and results in a maximum payment of £1,000 per annum regardless of salary. Based on the measures set for 2017, a payment of £750 has been awarded to all qualifying staff, payable in March 2018.

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. Both the Chief Executive and Operations Director are members, and the Finance Director was a member, of the defined contribution stakeholder pension scheme. With effect from June 2015, the Chief Executive elected to receive the equivalent contribution to that provided in the defined contribution scheme in the form of a cash allowance.

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 Directors conforms to this limit. Kevin Wilson and John Kelly each have a service contract with the Society, terminable by either party giving three and six months' notice respectively.

Non Executive Directors

Non Executive Directors receive fees for the provision of their services, including additional fees for Chairmanship of Committees as well as reimbursement of relevant expenses. 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.

The Procedure for Determining Remuneration

The remuneration of the Executive Directors is determined by the Remuneration Committee which comprises of a minimum of three Non Executive Directors (at 31 December 2017: three Non Executive Directors) and in addition the Chief Executive, Finance Director and Head of Human Resources attend by invitation but take no part in the discussion of their own salary. The Committee meets a minimum of six times a year.

The fees payable to the Chair of the Board are set by the Remuneration Committee. If the Chair of the Board is a member of the Remuneration Committee she/he takes no part in the discussion of their own fees.

The fees and expenses payable for Non Executive Directors (excluding the fees payable to the Chair of the Board) are agreed by the Board based on a recommendation from the Remuneration Committee.

In determining the remuneration of Non Executive and Executive Directors, both the Board and the Remuneration Committee take account of fees and salaries payable and other benefits provided to Non Executive Directors, Executive Directors and Chairmen of building societies that are similar in size and complexity to Leek United Building Society.

Directors' Remuneration

The table in note 7 to the Annual Report and Accounts summarises directors' pay and benefits for the year ended 31 December 2017.

Member Consultation

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

John Leveson
Chair of the Remuneration Committee
21 February 2018

Statement of Directors' Responsibilities

Presentation of hamper containing art equipment to **Donna Louise Trust** by our Uttoxeter branch.

Directors' Responsibilities for Preparing the Annual Report and Accounts

The following statement, which should be read in conjunction with the Independent Auditor's Report on page 27, 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.

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

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

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 UK accounting standards have been followed, subject to any material departures disclosed and explained in the annual accounts;
- 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 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 annual accounts, 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 Act; 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 are responsible for such internal control as they determine is necessary to enable the preparation of annual accounts that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Society and to prevent and detect fraud and other irregularities.

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

Rachel Court

Chair

21 February 2018

Independent auditor's report

to the members of Leek United Building Society

1. Our opinion is unmodified

We have audited the annual accounts of Leek United Building Society ('the Society') for the year ended 31 December 2017 which comprise the Statements of Comprehensive Income, the Statements of Financial Position, the Statements of Changes in Members Interests, the Statements of Cashflows and the related notes, including the accounting policies in note 1.

In our opinion the annual accounts:

— give a true and fair view of the state of the Group's and of the parent Society's affairs as at 31 December 2017 and of the Group's profit for the year then ended;

— have been properly prepared in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*; and

— have been prepared in accordance with the requirements of the Building Societies Act 1986.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit committee.

We were appointed as auditor by the directors on 26 April 2017. The period of total uninterrupted engagement is for one financial year ended 31 December 2017. We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to public interest entities. No non-audit services prohibited by that standard were provided.

Overview	
Materiality: group annual accounts as a whole	£0.2m 0.9% of Total revenues
Risks of material misstatement	
Key audit matters	Loan portfolio impairment
	Effective interest rate income recognition
	Retirement benefit obligations

2. Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the annual accounts and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters, in decreasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the annual accounts as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

	The risk	Our response
Loan portfolio impairment **Parent society risk** (Group and Society: £478 thousand) *Refer to page 23 (Audit Committee Report), page 41 (accounting policy) and page 43 and 48 (financial disclosures).*	**Subjective estimate** Impairments cover loans specifically identified as impaired and a collective impairment of all other loans for those impairments incurred but not yet specifically identified. The directors judge individual impairments by reference to loans that have current or historical arrears, forbearance flagging and interest only characteristics. The collective impairment is derived from a model that uses the Society's historical experience, due to the Society's limited loss experience, increased judgement is required in the estimate. In particular, judgement is required on the key assumptions of probability of defaults and forced sale discounts against collateral. The impairment model is most sensitive to movements in the forced sale discount assumption and probability of default.	Our procedures included: - **Controls:** We tested the key controls over the acceptance and monitoring of credit risk; - **Benchmarking assumptions:** We compared the key assumptions used in the model of probability of default and forced sale discounts with externally available data, including KPMG's Building Society database. - **Test of detail:** We identified a selection of loans which included specific items identified based on risk characteristics including forborne loans, interest only exposure and loans in arrears to identify individual loans which may have unidentified impairments. We tested the provision attached to these loans by reference to relevant supporting information such as those listed above in addition to other items such as property type and valuation to challenge the completeness and accuracy of the Group's specific impairment provision estimate. - **Our sector experience:** We challenged the key impairment assumptions used in the model of probability of default and forced sale discounts using our knowledge of recent impairment experience in this industry. - **Sensitivity analysis:** We assessed the collective model impairments for their sensitivities to changes in the key assumptions by performing stress testing to help us assess the areas of potential additional focus. - **Assessing transparency:** We assessed the adequacy of the Society's disclosures about the degree of estimation involved in arriving at the provision. **Our results** We found the resulting estimate of the loan portfolio impairment provision to be acceptable.

	The risk	Our response
Effective interest rate income recognition **Parent society risk** (Group and Society EIR Asset £136 thousand, EIR Revenue £53 thousand) *Refer to page 23 (Audit Committee Report), page 40 (accounting policy) and page 43 and 51 (financial disclosures).*	**Subjective estimate:** Financial assets are required to be measured at amortised cost using the effective interest rate method ('EIR'). Using an excel model, interest earned and fees earned and incurred on loans are recognised using the EIR method that spreads directly attributable cash flows over the expected lives of the loans. The directors are required to apply judgement in assessing which cashflows are included and the period over which time the EIR period is determined. The most critical element of judgement in this area is the estimation of the future redemption profiles of the loans. This is informed by product mix and past customer behaviour of when loans are repaid.	Our procedures included: - **Historical comparison:** We assessed the consistency of the model's expected repayment profiles assumptions against historical experience of loan lives based on customer behaviour, product mix and recent performance. - **Our sector experience:** We assessed the key assumptions behind the expected customer lives, which include the cashflows to be included in the calculations and the lives and profiles of significant loan products against our own knowledge of industry experience and trends, including benchmarking with comparable lenders. - **Sensitivity analysis:** We assessed the models for their sensitivities to changes in the key assumptions by considering different profiles to help us identify areas of potential additional focus. - **Assessing transparency:** We assessed the adequacy of the Society's disclosures about the degree of estimation involved in arriving at the interest income recognised. **Our results** We found the resulting estimate of the EIR to be acceptable.
Retirement benefit obligations **Parent society risk** (Group and Society: £2.7 million) *Refer to page 23 (Audit Committee Report), page 42 (accounting policy) and page 44 and 67 (financial disclosures).*	**Subjective valuation** Small changes in the assumptions and estimates used to value the retirement benefit obligations (before deducting scheme assets) would have a significant effect on the Group's net pension deficit. The pension obligation is most sensitive to movements in discount rate, inflation rate and mortality / life expectancy assumptions.	Our procedures included: — **Benchmarking assumptions:** We challenged, with the support of our own actuarial specialists, the key assumptions applied, being the discount rate, inflation rate and mortality/life expectancy against externally derived data; — **Assessing transparency:** We considered the adequacy of the group's disclosures in respect of the sensitivity of the deficit to these assumptions. **Our results** We found the valuation of the pension obligation to be acceptable.

KPMG

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

Materiality for the Group annual accounts as a whole was set at £0.2 million, determined with reference to a benchmark of total revenues.

Materiality for the Society only annual accounts was set at £0.2 million, determined with reference to a benchmark of total revenues.

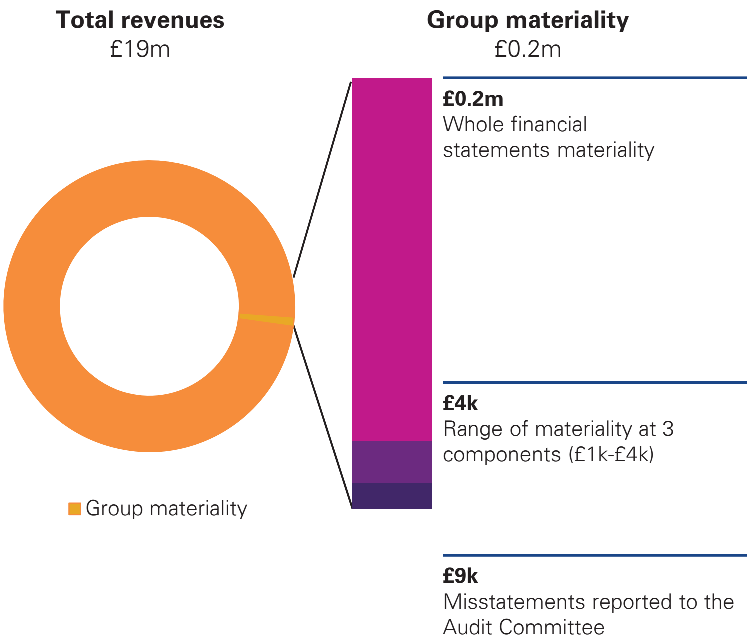
We reported to the Audit Committee any corrected or uncorrected identified misstatements exceeding £9k, in addition to other identified misstatements that warranted reporting on qualitative grounds.

The components within the scope of our work accounted for the following percentages of the Group's results:

Leek United Home Loans Limited

Leek United Financial Services Limited

The Mortgage Outlet Limited



4. We have nothing to report on going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the annual accounts. We have nothing to report in these respects.

5. We have nothing to report on the other information in the Annual Report

The directors are responsible for the other information presented in the Annual Report together with the annual accounts. Our opinion on the annual accounts does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our annual accounts audit work, the information therein is materially misstated or inconsistent with the annual accounts or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Annual Business Statement and Directors' Report

In our opinion:

— the Annual Business Statement and the Directors' Report have each been prepared in accordance with the applicable requirements of the Building Societies Act 1986 and regulations thereunder;

— the information given in the Directors' Report for the financial year is consistent with the accounting records and the annual accounts; and

— the information given in the Annual Business Statement (other than the information upon which we are not required to report) gives a true representation of the matters in respect of which it is given.

6. We have nothing to report on the other matters on which we are required to report by exception

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

— adequate accounting records have not been kept by the Society; or

— the 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 nothing to report in these respects.

7. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 26, the directors are responsible for: the preparation of annual accounts which give a true and fair view; such internal control as they determine is necessary to enable the preparation of annual accounts that are free from material misstatement, whether due to fraud or error; assessing the Society's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Society or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

Irregularities – ability to detect

Our audit aimed to detect non-compliance with relevant laws and regulations (irregularities) that could have a material effect on the annual accounts. We identified relevant areas from our sector experience, through discussion with the directors and other management (as required by auditing standards), and from inspection of the Society's regulatory and legal correspondence.

We had regard to laws and regulations in other areas that directly affect the annual accounts including financial reporting, Building Society and taxation legislation. We considered the extent of compliance with those laws and regulations as part of our procedures on the related annual account items.

In addition we considered the impact of laws and regulations in the specific areas of regulatory capital and liquidity, conduct including PPI mis-selling, money laundering, financial crime and certain aspects of company legislation recognising the financial and regulated nature of the Society's activities and its legal form. With the exception of any known or possible non-compliance, and as required by auditing standards, our work in respect of these was limited to enquiry of the directors and other management and inspection of regulatory and legal correspondence. We considered the effect of any known or possible non-compliance in these areas as part of our procedures on the related annual accounts items.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

As with any audit, there remained a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

8. The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Society's members, as a body, in accordance with section 78 of the Building Societies Act 1986. Our audit work has been undertaken so that we might state to the Society's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Society and the Society's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Jessica S.S. Katsouris

Jessica Katsouris (Senior Statutory Auditor)

for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

1 St Peter's Square

Manchester

M2 3AE

21 February 2018

Income Statements for the year ended 31 December 2017

	Notes	Group 2017 £000's	Group 2016 £000's	Society 2017 £000's	Society 2016 £000's
Interest receivable and similar income	2	19,437	20,665	19,433	20,659
Interest payable and similar charges	3	(6,752)	(8,781)	(6,752)	(8,781)
Net interest receivable		12,685	11,884	12,681	11,878
Income from investments	4	-	-	-	300
Fees and commissions receivable	5	672	972	676	762
Fees and commissions payable		(212)	(181)	(212)	(181)
Net gains/(losses) from derivative financial instruments	6	581	(264)	581	(264)
Total net income		13,726	12,411	13,726	12,495
Administrative expenses	7	(8,938)	(8,484)	(8,923)	(8,274)
Depreciation	16	(240)	(234)	(240)	(228)
		4,548	3,693	4,563	3,993
Net finance credit on pension scheme	27	(139)	(82)	(139)	(82)
Impairment (charge)/credit on loans and advances to customers	8	(70)	7	(70)	7
Provisions for liabilities – FSCS levy	25	161	(123)	161	(123)
Profit on ordinary activities before tax		4,500	3,495	4,515	3,795
Tax on profit on ordinary activities	9	(775)	(714)	(775)	(712)
Profit for the financial year	**29**	3,725	2,781	3,740	3,083

The notes on pages 40 to 72 form part of these accounts.

Operating profit is defined as profit before net gains/(losses) from derivative financial instruments, provision for FSCS levy and tax. Operating profit for the Group is £3,758k (2016: £3,882k) and for the Society is £3,773k (2016: £4,182k).

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.

Statements of Comprehensive Income for the year ended 31 December 2017

	Notes	Group 2017 £000's	Group 2016 £000's	Society 2017 £000's	Society 2016 £000's
Profit for the financial year		3,725	2,781	3,740	3,083
Items that will not be reclassified to the Income Statement					
Actuarial gain/(loss) recognised in pension scheme	**27**	1,783	(4,338)	1,783	(4,338)
Taxation on items that will not be reclassified to the Income Statement	**17**	(303)	680	(303)	680
Items that may subsequently be reclassified to the Income Statement					
Available for Sale reserve	**31**	(96)	148	(96)	148
Tax on items that may subsequently be reclassified to the Income Statement	**31**	17	6	17	6
Tax on revaluation reserve	**30**	5	40	5	40
Other Comprehensive Income/(Expense) for the year net of income tax		1,406	(3,464)	1,406	(3,464)
Total Comprehensive Income/(Expense) for the financial year		**5,131**	**(683)**	**5,146**	**(381)**

Statements of Financial Position as at 31 December 2017

	Notes	Group 2017 £000's	Group 2016 £000's	Society 2017 £000's	Society 2016 £000's
ASSETS					
Liquid assets:					
Cash in hand and balances with the Bank of England	**10**	128,520	101,263	128,520	101,263
Loans and advances to credit institutions	**11**	10,050	12,577	9,909	12,443
Debt securities	**12**	100,264	66,488	100,264	66,488
		238,834	180,328	238,693	180,194
Derivative financial instruments	**13**	1,186	498	1,186	498
Loans and advances to customers	**14**	795,887	742,844	795,830	742,761
Investments in subsidiary undertakings	**15**	-	-	24	24
Fixed assets	**16**	2,412	2,446	2,412	2,446
Other assets	**17**	572	1,220	643	1,288
Prepayments and accrued income	**18**	525	556	525	556
Total assets		**1,039,416**	**927,892**	**1,039,313**	**927,767**
LIABILITIES					
Shares	**19**	843,419	836,578	843,419	836,578
Amounts owed to credit institutions	**20**	105,915	-	105,915	-
Amounts owed to other customers	**21**	21,131	21,781	21,131	21,781
Derivative financial instruments	**13**	1,576	3,387	1,576	3,387
Other liabilities	**22**	427	656	428	654
Accruals and deferred income	**23**	884	887	870	869
Provisions for liabilities	**24**	247	582	247	582
Retirement benefit obligations	**27**	2,659	5,994	2,659	5,994
Total liabilities		**976,258**	**869,865**	**976,245**	**869,845**
RESERVES					
General reserve	**29**	62,099	56,894	62,009	56,789
Revaluation reserve	**30**	1,012	1,007	1,012	1,007
Available for sale reserve	**31**	47	126	47	126
Total reserves attributable to members of the Society		63,158	58,027	63,068	57,922
Total reserves and liabilities		**1,039,416**	**927,892**	**1,039,313**	**927,767**

These accounts were approved by the Board of Directors on 21 February 2018 and were signed on its behalf by:

Rachel Court
Chair

Kevin Wilson
Chief Executive

Statements of Changes in Members' Interest for the year ended 31 December 2017

Group	Notes	General reserve £000's	Revaluation reserve £000's	Available for Sale reserve £000's	Total reserves attributable to members of the Society £000's
Balance as at 1 January 2017		56,894	1,007	126	58,027
Profit for the financial year		3,725	-	-	3,725
Other Comprehensive Income/(Expense) for the year (net of tax)					
Re-measurement of defined benefit scheme obligations		1,480	-	-	1,480
Net gains from changes in financial assets		-	-	(79)	(79)
Net gains from changes in land and building		-	5	-	5
Total Comprehensive Income/(Expense) for the year		5,205	5	(79)	5,131
Balance as at 31 December 2017	**29, 30, 31**	**62,099**	**1,012**	**47**	**63,158**

Group	Notes	General reserve £000's	Revaluation reserve £000's	Available for Sale reserve £000's	Total reserves attributable to members of the Society £000's
Balance as at 1 January 2016		57,771	967	(28)	58,710
Profit for the financial year		2,781	-	-	2,781
Other Comprehensive (Expense)/Income for the year (net of tax)					
Re-measurement of defined benefit obligations		(3,658)	-	-	(3,658)
Net gains from changes in financial assets		-	-	154	154
Net gains from changes in land and building		-	40	-	40
Total Comprehensive (Expense)/Income for the year		(877)	40	154	(683)
Balance as at 31 December 2016	**29, 30, 31**	**56,894**	**1,007**	**126**	**58,027**

Statements of Changes in Members' Interest as at 31 December 2017 (cont'd)

Society	Notes	General reserve £000's	Revaluation reserve £000's	Available for Sale reserve £000's	Total reserves attributable to members of the Society £000's
Balance as at 1 January 2017		**56,789**	**1,007**	**126**	**57,922**
Profit for the financial year		3,740	-	-	3,740
Other Comprehensive Income/(Expense) for the year (net of tax)					
Re-measurement of defined benefit obligations		1,480	-	-	1,480
Net gains from changes in financial assets		-	-	(79)	(79)
Net gains from changes in land and building		-	5	-	5
Total Comprehensive Income/(Expense) for the year		5,220	5	(79)	5,146
Balance as at 31 December 2017	**29, 30, 31**	**62,009**	**1,012**	**47**	**63,068**

Society	Notes	General reserve £000's	Revaluation reserve £000's	Available for Sale reserve £000's	Total reserves attributable to members of the Society £000's
Balance as at 1 January 2016		**57,364**	**967**	**(28)**	**58,303**
Profit for the financial year		3,083	-	-	3,083
Other Comprehensive (Expense)/Income for the year (net of tax)					
Re-measurement of defined benefit obligations		(3,658)	-	-	(3,658)
Net gains from changes in financial assets		-	-	154	154
Net gains from changes in land and building		-	40	-	40
Total Comprehensive (Expense)/Income for the year		(575)	40	154	(381)
Balance as at 31 December 2016	**29, 30, 31**	**56,789**	**1,007**	**126**	**57,922**

Statement of Cash Flows
For the year ended 31 December 2017

	Notes	2017 £000's Group	2016 £000's Group	2017 £000's Society	2016 £000's Society
Cash flows from operating activities					
Profit on ordinary activities before tax		4,500	3,495	4,515	3,795
Depreciation		240	234	240	228
(Increase)/decrease in fair value of derivative financial instruments and hedged items		(581)	264	(581)	264
(Increase)/decrease in effective interest rate adjustment		(53)	89	(53)	89
Increase/(decrease) in impairment on loans and advances		70	(7)	70	(7)
Amounts recovered in respect of loans previously written off		8	5	8	5
Net gains on disposal and amortisation of debt securities		-	(27)	-	(27)
(Profit)/loss on sale of tangible fixed assets		(14)	9	(14)	6
Non cash pension losses		197	136	197	136
Total cash flow from operating activities		**4,367**	**4,198**	**4,382**	**4,489**
Changes in operating assets and liabilities					
Increase in loans and advances to customers		(54,987)	(26,541)	(55,013)	(26,603)
(Decrease)/increase in accruals and deferred income		(3)	76	1	76
Increase in prepayments and accrued income		(91)	(295)	(91)	(295)
Increase in amounts owed to credit institutions and other customers		105,265	1,421	105,265	1,421
Decrease/(increase) in loans and advances to credit institutions		2,250	(1,931)	2,250	(1,931)
Decrease/(increase) in other assets		1	-	(2)	(68)
Decrease in other liabilities		(12)	(107)	(11)	(317)
Increase in shares		6,841	31,463	6,841	31,463
Decrease in provisions for liabilities		(335)	(77)	(335)	(77)
Pension contributions		(1,749)	(1,325)	(1,749)	(1,325)
Taxation paid		(626)	(339)	(624)	(327)
Net cash generated from operating activities		**60,921**	**6,543**	**60,914**	**6,506**
Cash flows from investing activities					
Proceeds from sale of fixed assets		24	8	24	3
Purchase of fixed assets		(216)	(337)	(216)	(345)
Purchase of debt securities		(93,037)	(112,776)	(93,037)	(112,776)
Maturities and disposal of debt securities		59,288	159,918	59,288	159,918
Net cash used in investing activities		**(33,941)**	**46,813**	**(33,941)**	**46,800**
Net increase in cash and cash equivalents		**26,980**	**53,356**	**26,973**	**53,306**
Cash and cash equivalents at 1 January		110,159	56,803	110,025	56,719
Cash and cash equivalents at 31 December	**28**	137,139	110,159	136,998	110,025
Net cash generated from operating activities		**26,980**	**53,356**	**26,973**	**53,306**

Notes to the Accounts for the year ended 31 December 2017

1. Principal accounting policies

Basis of preparation

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.

Basis of accounting

The Group and Society annual accounts have been prepared in compliance with UK Accounting Standards, including Financial Reporting Standard 102, the Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland ("FRS 102") and the Building Societies Act 1986.

The accounts have been prepared on a going concern basis under the historical cost convention with the exception of the following:

- Land and buildings are included at valuation under the transitional rules of FRS 102, consequently land and buildings have been included at their 1999 revalued amount
- Available for sale assets are held at fair value
- Derivatives and underlying hedged items are held at fair value

The accounts are presented in Sterling (£), there are no foreign currency transactions.

Basis of consolidation

The Group accounts include the results, cash flows and balance sheets of the Society and its subsidiaries.

The Group accounts consolidate the accounts of Leek United Building Society and all its subsidiary undertakings drawn up to 31 December each year. The Group accounts consolidate the assets, liabilities and results of the Society, and all of its subsidiaries, eliminating intercompany balances and transactions. All entities have accounting periods ending 31 December.

Exemptions

The Group has taken exemption as provided in Section 33.1A of FRS 102 and does not disclose transactions with members of the same group that are wholly owned. See note 7 for disclosure of the directors' remuneration and key management compensation.

Investments in subsidiary undertakings

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

Interest income and expense

Interest income and expense in respect of all Financial Assets is credited to the income and expenditure account as it becomes receivable with the exception of certain fees and costs that are recognised on an effective interest rate basis. These include application fees, cashback, free valuation fees, broker fees and free Mortgage Indemnity Guarantee (MIG). The effect of the policy is to spread the impact of relevant costs and fees directly attributable and incremental to setting up the loan, over the effective life of the mortgage.

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

Fees and commissions

Fees payable and receivable other than relating to mortgage loans, including sales commission, are recognised when the relevant service is provided.

1. Principal accounting policies (continued)

Financial assets

The Group and Society have chosen to adopt the recognition and measurement provisions of IAS 39 - Financial Instruments: Recognition and Measurement, and disclosure requirements of section 11 and 12 of FRS 102 in respect of Financial Instruments.

a) Loans and receivables

Loans and receivables are predominantly mortgage loans to customers and money market advances held for liquidity purposes. They are recorded at amortised cost, including any effective interest rate adjustment, less any impairment losses other than where an adjustment is made as part of a fair value hedging arrangement.

b) Financial asset at fair value through profit and loss

The Group uses derivatives only for interest rate risk management purposes. It does not use derivatives for trading purposes. A fair value hedge is used to hedge exposures to variability in the fair value of financial assets and liabilities, such as fixed rate mortgages.

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into, and are subsequently re-measured at their fair value. Fair values of derivative financial instruments are calculated by discounted cash flow models using yield curves that are based on observable market data. All derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative. Changes in the fair value of derivatives are recognised immediately in the income statement together with changes in the fair value of the hedged item that are attributable to the hedged risk within net gain/(losses) from derivative financial instruments.

All derivatives entered into by the Group are for the purposes of providing an economic hedge. Hedge accounting is an optional treatment but the specific rules and conditions in IAS 39 have to be complied with before it can be applied. When transactions meet the criteria specified in IAS 39, the Group applies fair value hedge accounting so that changes in the fair value of the underlying asset or liability that are attributable to the hedged risk are recorded in the income statement to offset the fair value movement of the related derivative. The Group has classified all of its derivatives as fair value hedges. To qualify for hedge accounting at inception, the hedge relationship must be clearly documented. At inception, the derivative must be expected to be highly effective in offsetting the hedged risk and effectiveness must be tested throughout the life of the hedge relationship.

If the hedging derivative expires or is sold, terminated, or exercised, or the hedge no longer meets the criteria for fair value hedge accounting, or the hedge designation is revoked, hedge accounting is discontinued prospectively. If the underlying instrument is sold or repaid, the unamortised fair value adjustment is immediately recognised in the income statement and, therefore, as a consequence within the statement of changes in members interests. A summary of the effects of hedging and the associated fair value adjustments can be found in notes 13 and 26.

c) Available for Sale assets – debt securities

Available for Sale assets are non-derivative assets that are intended to be held for an indefinite period of time. They may be sold in response to needs for changes in liquidity or changes in interest rates. The Group's debt securities are classified as available for sale assets. The Group measures debt securities at fair value, with subsequent changes in fair value being recognised through the Statement of Comprehensive Income, except for impairment losses which are recognised in profit or loss.

Further information regarding how fair values are determined can be found in note 26 to the accounts. Upon sale or maturity of the asset, the cumulative gains and losses recognised in other comprehensive income are removed from available for sale reserves and recycled to the Income Statement.

d) Offsetting

Financial assets and liabilities are offset and the net amounts presented in the accounts when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously. There are no financial assets or liabilities offset on the balance sheet.

Notes to the Accounts for the year ended 31 December 2017

1. Principal accounting policies (continued)

Impairment of loans and advances to customers

Individual assessments are made of all mortgage loans that are three months or greater in arrears, in possession, or where there is specific concern about the realisation of the underlying collateral and where there is objective evidence that all cash flows will not be received. Based upon these assessments, an individual impairment reduction of these assets is made. In addition, a collective impairment reduction is made against those loans and advances to customers where objective evidence, including forbearance measures, indicates that it is likely that losses may ultimately be realised. The impairment value is calculated by applying various factors to each loan. These factors take into account the Group's expectation of default and delinquency rate, loss emergence periods, regional house price movements, any discount which may be needed against the value of the property thought necessary to achieve a sale, selling costs and any potential recovery of MIG.

Any increases or decreases in projected impairment provisions are recognised through the Income Statement. If a loan is ultimately uncollectable, then any loss incurred by the Group on extinguishing the debt is written off against the allowance for loan impairment. Any subsequent recoveries of amounts previously written off are recognised through the Income Statement.

Forbearance strategy

A range of forbearance options are available to support customers who are in financial difficulty, the purpose of which is to support customers who have temporary difficulties to get back on their feet. The main options offered are:

- Reduced monthly payment including interest only concession
- An arrangement to clear outstanding arrears
- Payment holiday
- Extension of mortgage term
- Transfer to a new product which could help to reduce monthly payments and, as a last resort
- Capitalisation of arrears

Customers requesting a forbearance option will need to provide information to support the request which is likely to include the completion of an Income and Expenditure Questionnaire, bank statements and payslips in order that the request can be properly assessed. If the forbearance request is granted, the account is monitored in accordance with our policy and procedures. Further information on forbearance is contained within note 26.

Impairment losses on debt securities

At each statement of financial position date, the Group assesses whether or not there is objective evidence that individual debt instruments are impaired. In determining whether there is any objective evidence of impairment, the Group takes into account a number of factors including:

- Significant financial difficulties of the issuer or obligor
- Any breach of contract or covenants
- The granting of any concession or rearrangement of terms
- The disappearance of an active market
- Any significant downgrade of ratings of the issuer or obligor
- Any significant reduction in market value of the instrument

In some cases, a significant adverse change in one of the above factors will cause the Group to determine that there is objective evidence of impairment. In other cases, it may not be possible to identify a single event that identifies impairment. The Group may additionally determine that there is impairment where there are a number of factors contributing to that view.

Where the Group determines that there is objective evidence of impairment or that trigger events exist at the statement of financial position date, then, in the case of available for sale instruments, the cumulative loss that had been recognised directly in reserves is removed from reserves and recognised in the Income Statement. In the case of held to maturity instruments, an appropriate charge is made to the Income Statement.

Notes to the Accounts for the year ended 31 December 2017

1. Principal accounting policies (continued)

If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be related to an event occurring after the impairment loss was recognised through the Income Statement, the impairment loss is reversed, with the amount of the reversal recognised through the Income Statement.

Pension costs

The Society operates two pension schemes, a defined contribution and a defined benefit scheme. A defined contribution scheme is one into which the Group and the employee pay fixed contributions, without any obligations to pay future contributions. Payments into the defined contribution scheme are charged to the Income Statement as they become payable in accordance with the rules of the scheme. A defined benefit scheme is one that defines the benefit the employee will receive on retirement, depending on such factors as age and length of service.

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 last full actuarial valuation was carried out on 24 April 2015. The charge to the income and expenditure account over the financial year in relation to the defined benefit scheme is shown in note 27.

The pension scheme deficit on the closed scheme at 31 December 2017 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 the Statement of Other Comprehensive Income. Past and current service costs are recognised immediately in administrative expenses.

Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including cash and other eligible bills and loans and advances to credit institutions.

Taxation

Current tax is the amount of income tax payable in respect of the taxable profit for the year or prior years. Tax is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the period end.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred tax is recognised providing for temporary differences between the carrying amount of certain assets and liabilities for accounting purposes and for taxation purposes. Deferred tax is provided using tax rates enacted or substantively enacted at the statement of financial position date, depending on the date at which they are expected to reverse.

Deferred tax has been recognised in respect of all timing differences at the reporting date.

Deferred tax is provided using tax rates enacted or substantively enacted by the reporting date that are expected to apply to the reversal of the timing differences. FRS 102 prohibits discounting of deferred tax.

Notes to the Accounts for the year ended 31 December 2017

1. Principal accounting policies (continued)

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.

Some asset and liability amounts reported in the accounts are based on management estimates, judgements and assumptions. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. These are described below:

Critical accounting judgements

a) Impairment losses on loans and advances

The Group reviews its mortgage portfolio to assess impairment on a regular basis, in determining whether an impairment loss should be recorded in the Income Statement. In undertaking this review, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows on an individual loan basis. This evidence may include observable data indicating that there has been an adverse change in the payments status or borrower's local economic conditions, including forbearance measures such as a transfer to interest only products and term extensions that correlate with defaults on assets in the Group.

Management also assesses the expected loss on loans and advances as a result of the expected movement in house prices and the forced sale discount on properties in possession as well as the likely time taken to recover a loan. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to minimise any differences between loss estimates and actual loss experience.

The principal estimates are the proportion of loans that will become impaired/default, known as the probability of default (PD) and, on these cases, how much will be lost, known as loss given default (LGD). This is principally driven by house prices at the point of realisation of collateral. The impact of a 1% change in PD would impact the provision in 2017 by £325k. The impact of a 5% increase in the forced sale discount affecting the LGD would impact the provision in 2017 by £226k.

b) Effective Interest Rate

FRS 102 requires that all of the cash flows directly associated with financial instruments must be recognised in the Income Statement through the interest margin using the effective interest rate method. When this approach is applied to a mortgage portfolio, judgements must be made to estimate the average life of each mortgage where a product fee or income is attached. These judgements are applied taking into account factors including the terms of the particular products, historic repayment data and economic conditions. These estimates are updated in each reporting period to reflect the portfolio's actual performance. A 12 month increase in the life profile of mortgage assets would result in an impact on the value of loans in the Statement of Financial Position of less than £50k.

Notes to the Accounts for the year ended 31 December 2017

1. Principal accounting policies (continued)

c) Employee benefits

The Group operates a defined benefit pension scheme. Significant judgements (on such areas as future interest and inflation rates and mortality rates) have to be exercised in estimating the value of the assets and liabilities of the scheme, and hence its net deficit. The assumptions are outlined in note 27. Of these assumptions, the main determinant of the liability is the discount rate. The sensitivity to key assumptions is as follows:

Assumption	Sensitivity (increase)	Impact on liabilities
Discount rate	0.1%	c. £800k reduction
Inflation (RPI/CPI)	0.1%	c. £250k increase
Salary increases	0.1%	c. £150k increase
Life expectancy	1 year	c. £800k increase

Critical accounting estimates

d) Financial Services Compensation Scheme (FSCS)

The Group has a provision for a levy covering the two year period from 1 April 2017 to 31 March 2019 relating to relevant deposits at 31 December 2016 and 31 December 2017. The amount has been determined by reference to expected interest rates at the balance sheet date. Changes in interest rates over the period of the levy will impact the final amount of the payment. An additional 25bps increase in the future interest rate assumption would increase the provision by less than £50k in total. More detail of the FSCS and the Society's provision are contained in note 25.

e) Fair values of derivatives and financial assets

The Group values the fair value of its derivatives and financial assets as follows:

- Available for Sale – measured at fair value using market prices
- Derivative financial instruments – calculated by discounted cash flow models using yield curves that are based on observable market data
- A change in the yield curve of 0.5% would change the net fair value of derivative financial instruments by c. £5.0m, before allowing for any mitigating change of hedged items in fair value hedge accounting relationships

f) Deferred taxation

The deferred taxation asset principally represents timing differences on both the recognition of defined benefit pension obligations and other timing differences. The recovery of the pension asset is contingent and assumes future payment of benefit to pension scheme members and, to a lesser extent, the future profitability of the business.

Notes to the Accounts for the year ended 31 December 2017

2. Interest receivable and similar income

	Group 2017 £000's	Group 2016 £000's	Society 2017 £000's	Society 2016 £000's
On loans fully secured on residential property	20,702	21,276	20,698	21,270
On other loans	10	132	10	132
On debt securities – interest and other income	589	784	589	784
On other liquid assets – interest and other income	321	349	321	349
Net (expense) on derivative financial instruments	(2,185)	(1,876)	(2,185)	(1,876)
	19,437	**20,665**	**19,433**	**20,659**

3. Interest payable and similar charges

	Group 2017 £000's	Group 2016 £000's	Society 2017 £000's	Society 2016 £000's
On shares held by individuals	6,578	8,682	6,578	8,682
On deposits and other borrowings	174	99	174	99
	6,752	**8,781**	**6,752**	**8,781**

4. Income from investments

	Group 2017 £000's	Group 2016 £000's	Society 2017 £000's	Society 2016 £000's
Dividends from shares in subsidiary undertakings	-	-	-	300

5. Fees and commissions receivable

	Group 2017 £000's	Group 2016 £000's	Society 2017 £000's	Society 2016 £000's
Insurance commission	583	844	587	634
Other fees	89	128	89	128
	672	**972**	**676**	**762**

6. Net gains/(losses) from derivatives and financial instruments

	Group 2017 £000's	Group 2016 £000's	Society 2017 £000's	Society 2016 £000's
Gains/(losses) on hedging instruments	2,659	(1,667)	2,659	(1,667)
(Losses)/gains on hedged items attributable to the hedged risk	(1,919)	1,208	(1,919)	1,208
Net matched position	**740**	**(459)**	**740**	**(459)**
(Losses)/gains on derivatives not in designated fair value relationships	(159)	195	(159)	195
Total net gain/(loss) on derivatives	**581**	**(264)**	**581**	**(264)**

The net fair value (FV) gain from matched derivative financial instruments of £740k (2016: FV loss of £459k) represents the net fair value movement on derivative instruments that are matching risk exposure on an economic basis, offset by the net fair value movement on the hedged item. As part of its interest rate risk management, the Society transacts derivatives when there is sufficient confidence and volumes of fixed rate mortgages either offered or completed. Whilst this economically results in the Society fixing its economic risk and margin, hedge accounting cannot be applied until the mortgage completes and is on the balance sheet. Therefore, the Society is exposed to accounting volatility for the period of normally a few weeks, between the two respective dates. The effect of this included within the gain/(loss) on matched derivatives comprises a FV loss of £678k in 2017 and a FV gain of £418k in 2016. The movement in fair value is primarily due to timing differences in income recognition between derivative instruments and the hedged assets or liabilities, which at an individual hedge relationship level are temporary in nature. Hedge accounting is also not achievable on certain items, resulting in a net FV loss of £159k (2016: FV gain of £195k) on unmatched derivatives.

Notes to the Accounts for the year ended 31 December 2017

7. Administrative expenses

	Group 2017 £000's	Group 2016 £000's	Society 2017 £000's	Society 2016 £000's
Staff costs (including Executive Directors):				
Wages and salaries	4,390	4,378	4,389	4,211
Social security costs	424	418	424	403
Other pension costs	298	289	298	282
	5,112	**5,085**	**5,111**	**4,896**
Other expenses:				
Remuneration of auditors				
Audit of Group and Society accounts	110	89	110	89
Audit of subsidiaries	13	11	-	-
Other services	8	39	8	39
Total auditor remuneration	**131**	**139**	**118**	**128**
Other administrative expenses	3,695	3,260	3,694	3,250
Total administrative expenses	**8,938**	**8,484**	**8,923**	**8,274**

In addition to the auditor remuneration as shown above, the Society also paid audit fees in relation to the defined benefit pension scheme of £17k (2016: £13k).

Other pension costs include both defined contribution costs as well as current service costs for the defined benefit scheme as set out in note 27.

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

	Group 2017	Group 2016	Society 2017	Society 2016
(i) At principal office:				
Full-time staff	80	82	80	78
Part-time staff	25	18	25	18
(ii) At branch offices:				
Full-time staff	49	44	49	44
Part-time staff	24	28	24	28
Total staff	**178**	**172**	**178**	**168**
(iii) Total full-time equivalents	162	160	162	156

Notes to the Accounts for the year ended 31 December 2017

7. Administrative expenses (continued)

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 25 April 2018 and at the Annual General Meeting. The total loans outstanding at 31 December 2017, in respect of 1 (2016: 1) person amounted to £17k (2016: £24k). 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:

	2017					2016				
	Salary/ Fees	Benefits /Other (iii)	Sub Total	Pensions	Total	Salary/ Fees	Benefits /Other (iii)	Sub Total	Pensions	Total
	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's
Non Executive Directors (NEDs) (iv)										
Rachel Court (i)	41	1	42	-	42	35	-	35	-	35
Richard Goddard	34	-	34	-	34	35	-	35	-	35
John Leveson	27	1	28	-	28	25	1	26	-	26
Keith Abercromby (from 23/03/16) (ii)	28	2	30	-	30	18	1	19	-	19
Jane Kimberlin (from 23/11/16)	24	-	24	-	24	3	-	3	-	3
Colin Kersley (from 21/12/16)	24	-	24	-	24	1	-	1	-	1
Peter Kerns (to 27/04/16)	-	-	-	-	-	13	-	13	-	13
Jim Washington (to 27/04/16)	-	-	-	-	-	9	-	9	-	9
Kerry Spooner (to 15/06/16)	-	-	-	-	-	13	-	13	-	13
Executive Directors										
Kevin Wilson (iii) (iv)	213	48	261	-	261	205	46	251	-	251
John Kelly (from 26/04/17) (iv)	92	8	100	14	114	-	-	-	-	-
Paul Wilson (to 31/12/2017)	138	11	149	20	169	130	11	141	20	161
Tony Hubbard (to 30/11/16)	-	-	-	-	-	88	7	95	13	108
	621	**71**	**692**	**34**	**726**	**575**	**66**	**641**	**33**	**674**

(i) Appointed as Chair from 27 April 2016

(ii) Appointed as Chair of Audit Committee from 1 March 2017

(iii) Kevin Wilson, with agreement from the Society, has taken his pension contribution as cash allowance

(iv) Includes £750 bonus for Executive Directors in post at 31 December 2017 (2016: £1,000); further details are included on page 25

(iv) In addition to basic annual fees and travelling expenses, NEDs receive increments for additional responsibilities. These are included in the table above for the relevant period by individual. These can include situations where an individual performs multiple responsibilities concurrently. The annual amounts by role are set out in the table below:

Responsibility	2017 £000's	2016 £000's
Chair	41	39
Senior Independent Director	28	29
Chair of Audit	28	28
Chair of Risk	28	28
Chair of Remuneration	27	26
'Notified' NED	24	23

8. Impairment charge/(credit) on loans and advances to customers

Group and Society

	Loans fully secured on residential property		
	Individual Impairment £000's	Collective Impairment £000's	Total £000's
At 1 January 2017	**222**	**281**	**503**
Change in loan impairment allowance	(120)	95	(25)
At 31 December 2017	**102**	**376**	**478**

Group and Society

	Loans fully secured on residential property		
	Individual Impairment £000's	Collective Impairment £000's	Total £000's
At 1 January 2016	**133**	**384**	**517**
Change in loan impairment allowance	89	(103)	(14)
At 31 December 2016	**222**	**281**	**503**

The charge/(credit) in the Income Statement is as follows:-

Group and Society	2017 £000's	2016 £000's
Change in loan impairment allowance	(25)	(14)
Amounts recovered in respect of loans previously written off	(8)	(5)
Amounts written off	103	12
Income and expenditure account	**70**	**(7)**

The impairment allowance as at 31 December 2017 and 2016 has been deducted from loans fully secured on residential property in the Statement of Financial Position. No impairment allowance is held for loans fully secured on land.

Notes to the Accounts for the year ended 31 December 2017

9. Tax on profit on ordinary activities

	Group 2017 £000's	Group 2016 £000's	Society 2017 £000's	Society 2016 £000's
(a) UK corporation tax at 20% (2016: 20%):				
Current tax	409	456	409	454
UK deferred tax at 17% (2016: 17%):				
Deferred tax – current year (see note 17)	366	258	366	258
Total	**775**	**714**	**775**	**712**

The tax assessed for the year is lower (2016: higher) than the standard rate of corporation tax in the UK of 19.25% (2016: 20%). The differences are explained below.

	Group 2017 £000's	Group 2016 £000's	Society 2017 £000's	Society 2016 £000's
(b) Factors affecting current tax charge in year:				
Profit on ordinary activities before tax	4,500	3,495	4,515	3,795
Tax on profit at UK standard rate of 19.25% (2016: 20%)	866	699	869	759
Dividend from subsidiary	-	-	-	(60)
Expenses not deductible for tax purposes	4	1	4	1
Timing differences on fixed assets	-	2	-	-
Adjustment re: prior year	(56)	2	(56)	2
Group relief claimed	-	-	(3)	-
Impact of change in rate – deferred tax	(48)	7	(48)	7
Changes to treatment of debt securities	9	3	9	3
Total tax charge	**775**	**714**	**775**	**712**

Reductions in the UK corporation tax rate from 21% to 20% (effective from 1 April 2015) were substantively enacted on 2 July 2013. A reduction to 19% (effective from 1 April 2017) was substantively enacted on 26 October 2015 and a further reduction to 17% (effective from 1 April 2020) was substantively enacted on 7 September 2016. Accordingly, the Society's profits have been taxed at an effective rate of 19.25% (2016: 20%). The deferred tax asset at 31 December 2017 has been calculated based on the rate of 17% (2016: 17%) substantively enacted at that date.

10. Cash in hand and balances with the Bank of England

	Note	Group 2017 £000's	Group 2016 £000's	Society 2017 £000's	Society 2016 £000's
Cash in hand		864	798	864	798
Balances at Bank of England		127,656	100,465	127,656	100,465
Included in cash and cash equivalents	**28**	**128,520**	**101,263**	**128,520**	**101,263**

11. Loans and advances to credit institutions

	Group 2017 £000's	Group 2016 £000's	Society 2017 £000's	Society 2016 £000's
Maturity analysis:				
Repayable on demand	8,619	8,896	8,478	8,762
In more than one year but not more than five years	1,431	3,681	1,431	3,681
	10,050	**12,577**	**9,909**	**12,443**

Amounts outstanding in more than one year but not more than five years of £1,431k (2016: £3,681k) fully reflect amounts placed as collateral with counterparties in respect of derivative contracts.

12. Debt securities

	Group 2017 £000's	Group 2016 £000's	Society 2017 £000's	Society 2016 £000's
Available for sale securities				
Issued by UK Government	500	9,997	500	9,997
Issued by other borrowers - listed	7,443	7,817	7,443	7,817
Issued by other borrowers - unlisted	92,321	48,674	92,321	48,674
	100,264	**66,488**	**100,264**	**66,488**
Available for sale securities				
Maturity analysis:				
In not more than one year	100,264	58,671	100,264	58,671
In more than one year	-	7,817	-	7,817
	100,264	**66,488**	**100,264**	**66,488**

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. Movements in debt securities during the year may be analysed as follows:

Group and Society	2017 £000's	2016 £000's
At 1 January	**66,488**	**113,247**
Additions	93,037	112,776
Maturities and disposals	(59,288)	(159,891)
Movement in premium and accrued interest	123	208
Gains/(loss) in fair value recognised in Other Comprehensive Income	(96)	148
At 31 December	**100,264**	**66,488**

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 year.

13. Derivatives financial instruments

Group & Society	Contract Notional Amount £000's	Fair Value Assets £000's	Fair Value Liabilities £000's	Fair Value Net Asset (Liability) £000's
At 31 December 2017				
Unmatched derivatives – interest rate swaps	65,001	25	(122)	(97)
Derivatives designated as fair value hedges interest rate swaps	346,629	1,161	(1,454)	(293)
Total recognised derivative assets/(liabilities)	**411,630**	**1,186**	**(1,576)**	**(390)**
At 31 December 2016				
Unmatched derivatives – interest rate swaps	56,049	234	(171)	63
Derivatives designated as fair value hedges interest rate swaps	249,734	264	(3,216)	(2,952)
Total recognised derivative assets/(liabilities)	**305,783**	**498**	**(3,387)**	**(2,889)**

Unmatched derivatives relates to swaps which have not been matched against mortgages for hedge accounting purposes as at the relevant balance sheet date.

Notes to the Accounts for the year ended 31 December 2017

14. Loans and advances to customers

	Group 2017 £000's	Group 2016 £000's	Society 2017 £000's	Society 2016 £000's
Loans and advances to customers comprise				
Loans fully secured on residential property	795,640	740,661	795,583	740,578
Loans fully secured on land	204	221	204	221
Fair value adjustment for hedged risk	43	1,962	43	1,962
	795,887	**742,844**	**795,830**	**742,761**

Loans and advances to customers are held at amortised cost (with the exception of loans in a hedged relationship described below), with interest and associated costs being recognised in the interest receivable and similar income line of the Income Statement on an effective interest rate basis.

Fair value hedging adjustments of £43k (2016 - £1,962k) have been made to certain fixed rate mortgages that are in fair value hedging relationships.

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

	Group 2017 £000's	Group 2016 £000's	Society 2017 £000's	Society 2016 £000's
Repayable on demand	468	1,378	468	1,376
In not more than three months	6,455	7,507	6,455	7,506
In more than three months but not more than one year	19,509	20,028	19,507	20,026
In more than one year but not more than five years	123,561	115,987	123,549	115,956
In more than five years	646,193	596,402	646,150	596,355
	796,186	**741,302**	**796,129**	**741,219**
Loan impairment allowance	(478)	(503)	(478)	(503)
Fair value adjustment for hedged risk	43	1,962	43	1,962
Effective Interest Rate adjustment	136	83	136	83
	795,887	**742,844**	**795,830**	**742,761**

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

15. Investments in subsidiary undertakings

	Society 2017 £000's	Society 2016 £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.

15. Investments in subsidiary undertakings (continued)

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 intercompany balance with The Mortgage Outlet Limited.

The registered office address for all subsidiaries is the same as for the Society.

16. Fixed assets

Group	Freehold land and buildings £000's	Equipment, fixtures and fittings £000's	Totals £000's
Cost			
At 1 January 2017	2,583	4,957	7,540
Additions	0	216	216
Disposals	0	(103)	(103)
At 31 December 2017	2,583	5,070	7,653
Accumulated depreciation			
At 1 January 2017	652	4,442	5,094
Charge for the year	38	202	240
Disposals	0	(93)	(93)
At 31 December 2017	690	4,551	5,241
Net book value			
At 31 December 2017	**1,893**	**519**	**2,412**

Society	Freehold land and buildings £000's	Equipment, fixtures and fittings £000's	Totals £000's
Cost			
At 1 January 2017	2,583	4,948	7,531
Additions	0	216	216
Disposals	0	(103)	(103)
At 31 December 2017	2,583	5,061	7,644
Accumulated depreciation			
At 1 January 2017	652	4,433	5,085
Charge for the year	38	202	240
Disposals	0	(93)	(93)
At 31 December 2017	690	4,542	5,232
Net book value			
At 31 December 2017	**1,893**	**519**	**2,412**

Notes to the Accounts for the year ended 31 December 2017

16. Fixed assets (continued)

Group	Freehold land and buildings £000's	Equipment, fixtures and fittings £000's	Totals £000's
Cost			
At 1 January 2016	2,583	4,711	7,294
Additions	-	337	337
Disposals	-	(91)	(91)
At 31 December 2016	2,583	4,957	7,540
Accumulated depreciation			
At 1 January 2016	613	4,321	4,934
Charge for the year	39	195	234
Disposals	-	(74)	(74)
At 31 December 2016	652	4,442	5,094
Net book value			
At 31 December 2016	**1,931**	**515**	**2,446**

Society	Freehold land and buildings £000's	Equipment, fixtures and fittings £000's	Totals £000's
Cost			
At 1 January 2016	2,583	4,675	7,258
Additions	-	345	345
Disposals	-	(72)	(72)
At 31 December 2016	2,583	4,948	7,531
Accumulated depreciation			
At 1 January 2016	613	4,307	4,920
Charge for the year	39	189	228
Disposals	-	(63)	(63)
At 31 December 2016	652	4,433	5,085
Net book value			
At 31 December 2016	**1,931**	**515**	**2,446**

Equipment, fixtures and fittings include intangible assets with a net book value of £128k (2016: £183k).

The net book value of land and buildings occupied by the Society for its own activities is £1,893k (2016: £1,931k).

Notes to the Accounts for the year ended 31 December 2017

16. Fixed assets (continued)

Under FRS 102, the Society and Group have elected to maintain the book value of fixed assets at their revalued amount as at 31 December 2000 and have elected to use this revaluation as deemed cost at the date of the original valuation. If land and buildings had not been revalued they would have been included at the following amount:

	2017 £000's	2016 £000's
Cost	1,470	1,470
Aggregate depreciation based on cost	(393)	(371)
	1,077	**1,099**

17. Other assets

	Group 2017 £000's	Group 2016 £000's	Society 2017 £000's	Society 2016 £000's
Deferred tax asset	569	1,216	569	1,216
Amounts due from subsidiary undertakings	-	-	71	68
Other	3	4	3	4
	572	1,220	643	1,288

The elements of deferred taxation are as follows:	Group 2017 £000's	Group 2016 £000's	Society 2017 £000's	Society 2016 £000's
Difference between accumulated depreciation and capital allowances	4	9	4	9
Capital gains on revalued land and building	(101)	(106)	(101)	(106)
Other timing differences	666	1,313	666	1,313
	569	1,216	569	1,216
Deferred taxation at 1 January	**1,216**	**748**	**1,216**	**748**
Deferred tax charge	(366)	(258)	(366)	(258)
Items in relation to the Statement of Comprehensive Income				
Movements in relation to pension scheme	(303)	680	(303)	680
Movements in relation to debt securities	17	6	17	6
Movements in relation to revalued land and buildings	5	40	5	40
At 31 December	**569**	**1,216**	**569**	**1,216**

18. Prepayments and accrued income

	Group 2017 £000's	Group 2016 £000's	Society 2017 £000's	Society 2016 £000's
Prepayments	483	511	483	511
Accrued income	42	45	42	45
	525	**556**	**525**	**556**

19. Shares

	Group 2017 £000's	Group 2016 £000's	Society 2017 £000's	Society 2016 £000's
Held by individuals	**843,419**	**836,578**	**843,419**	**836,578**

In the ordinary course of business, shares are repayable from the balance sheet date as follows:

	Group 2017 £000's	Group 2016 £000's	Society 2017 £000's	Society 2016 £000's
Repayable on demand	688,223	660,370	688,223	660,370
In not more than three months	32,545	33,705	32,545	33,705
In more than three months but not more than one year	72,320	88,934	72,320	88,934
In more than one year but not more than five years	50,331	53,569	50,331	53,569
	843,419	**836,578**	**843,419**	**836,578**

Notes to the Accounts for the year ended 31 December 2017

20. Amounts owed to credit institutions

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

	Group 2017 £000's	Group 2016 £000's	Society 2017 £000's	Society 2016 £000's
Repayable in more than one year but not more than five years	105,915	-	105,915	-

21. 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 2017 £000's	Group 2016 £000's	Society 2017 £000's	Society 2016 £000's
Repayable on demand	21,131	21,781	21,131	21,781

22. Other liabilities

	Group 2017 £000's	Group 2016 £000's	Society 2017 £000's	Society 2016 £000's
Amounts falling due within one year:				
Income tax	1	-	1	-
Corporation tax	83	300	83	298
Other taxation and social security costs	134	118	134	118
Amount due to subsidiary undertakings	-	-	-	-
Other creditors	209	238	210	238
	427	**656**	**428**	**654**

23. Accruals and deferred income

	Group 2017 £000's	Group 2016 £000's	Society 2017 £000's	Society 2016 £000's
Accrued interest on derivatives	188	220	188	220
Accruals	663	667	649	649
Deferred income	33	-	33	-
	884	**887**	**870**	**869**

24. Provisions for liabilities

Group and Society

	Mortgage Arrears Redress £000's	Regulated Business £000's	FSCS Levy £000's	Total £000's
1 January 2017	50	31	501	582
Amount charged/(released) during the year	(48)	28	(161)	(181)
Amount utilised during the year	(2)	(8)	(144)	(154)
31 December 2017	**-**	**51**	**196**	**247**

The mortgage arrears redress was to provide for potential claims against the Group in respect of historical arrears which have been capitalised and interest charged thereon, the liability has been crystallised and paid during 2017, with the surplus released to the income statement under interest receivable and similar income. The regulated business provision is to provide for potential claims against the Group in respect of past sales, the amount charged during the year has been reported in the Income Statement under fees and commissions payable. The Financial Services Compensations Scheme Levy is explained in note 25.

25. Financial Services Compensation Scheme levy

The Society has a liability in respect of contributions to the Financial Service Compensation Scheme (FSCS).

In common with all regulated UK deposit takers, the Society pays levies to the 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.

Notes to the Accounts for the year ended 31 December 2017

25. Financial Services Compensation Scheme levy (continued)

The loans (except Bradford & Bingley Plc which is repayable on 29 February 2024) have been fully repaid. 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 were repaid by a levy on deposit takers in three roughly equal instalments in 2013, 2014 and 2015.

The invoice payable in the year ended 31 December 2017 was significantly lower than expected, due to the FSCS being able to offset recoveries made on other estates against the interest cost on the Bradford & Bingley Plc loan (balance of £15.7bn). In addition, on 25 April 2017, the loan was substantially reduced by the sale of certain Bradford & Bingley Plc mortgage assets, reducing the balance outstanding to £4.7bn. This, in turn, has substantially reduced the requirement for the default levy provision at 31 December 2017.

As a result of notifications it has received from the FSCS, the Society has recognised in this year's accounts the release of a surplus provision in 2017 of £161k (2016: £123k charge) which gives a total levy provision, as at 31 December 2017, of £196k (2016: £501k). This provision is in respect of the scheme year 2017/18 and the scheme year 2018/19, both years have been estimated based on the protected deposits held at 31 December 2016 and 31 December 2017. 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 Bradford & Bingley Plc to fully repay the respective HM Treasury loan.

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

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

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. Management of market, liquidity, funding and strategic risk has been delegated to the ALCO.

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. An interest rate swap is a contract to exchange one set of interest rate cash flows for another. Such swaps result in the economic exchange of interest rates. No exchange of principal takes place. Instead, interest payments are based on notional principal amounts agreed at inception of the swap. The duration of the interest rate swap is generally short to medium term and their maturity profile reflects the nature of the exposures arising from the underlying business activities.

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. The Group applies fair value hedging techniques to these. The fair value of these hedges as at 31 December 2017 is shown in note 13.

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

Notes to the Accounts for the year ended 31 December 2017

26. Financial instruments (continued)

The following table sets out a summary terms and conditions and accounting policies of financial instruments.

Financial Instrument	Terms and Conditions	Accounting Policy
Loans and advances to credit institutions	Variable interest rates Short to medium term maturity	Loans and receivables at amortised cost Accounted for at settlement date
Debt securities	Fixed interest rates Fixed term Short to medium term maturity	Available for sale at fair value Accounted for at settlement date
Loans and advances to customers	Secured on residential property or land Standard contractual term of 25 years Fixed or variable interest rate	Loans and receivables at amortised cost if not in a hedged relationship Loans and advances held at fair value where in a hedged relationship Accounted for at settlement date
Shares	Fixed or variable term Fixed or variable interest rates Short to medium term maturity	Financial liabilities at amortised cost Accounted for at settlement date
Amounts owed to credit institutions	Variable interest rates Short to medium term maturity	Financial liabilities at amortised cost Accounted for at settlement date
Amounts owed to other customers	Variable interest rates Short to medium term maturity	Financial liabilities at amortised cost Accounted for at settlement date
Derivative financial instruments	Fixed interest paid converted to variable interest received Based on notional value of derivative	Fair value through profit and loss Accounted for at trade date

Financial assets and liabilities are measured on an ongoing basis either at fair value or amortised cost. Note 1 describes how the classes of financial instruments are measured, and how income and expenses, including fair values and gains and losses, are recognised. The tables below analyse the Group's assets and liabilities by financial classification. There are no material differences between Group and Society.

Carrying values as at 31 December 2017	**Loans and receivables £000's**	**Financial assets and liabilities at amortised cost £000's**	**Available for Sale reserve £000's**	**Derivatives designated as fair value hedges £000's**	**Unmatched derivatives at fair value £000's**	**Total £000's**
Financial assets						
Cash in hand and balances with the Bank of England	-	128,520	-	-	-	128,520
Loans and advances to credit institutions	10,050	-	-	-	-	10,050
Debt securities	-	-	100,264	-	-	100,264
Derivative financial instruments	-	-	-	1,161	25	1,186
Loans and advances to customers	795,887	-	-	-	-	795,887
Total financial assets	**805,937**	**128,520**	**100,264**	**1,161**	**25**	**1,035,907**
Total non-financial assets						3,509
Total Group assets						**1,039,416**
Financial liabilities						
Shares	-	843,419	-	-	-	843,419
Amounts owed to credit institutions	-	105,915	-	-	-	105,915
Amounts owed to other customers	-	21,131	-	-	-	21,131
Derivative financial instruments	-	-	-	1,454	122	1,576
Total financial liabilities	**-**	**970,465**	**-**	**1,454**	**122**	**972,041**
Total non-financial liabilities						4,217
General and other reserves						63,158
Total Group reserves and liabilities						**1,039,416**

26. Financial instruments (continued)

Carrying values as at 31 December 2016	Loans and receivables £000's	Financial assets and liabilities at amortised cost £000's	Available for Sale reserve £000's	Derivatives designated as fair value hedges £000's	Unmatched derivatives £000's	Total £000's
Financial Assets						
Cash in hand and balances with the Bank of England	-	101,263	-	-	-	101,263
Loans and advances to credit institutions	12,577	-	-	-	-	12,577
Debt securities	-	-	66,488	-	-	66,488
Derivative financial instruments	-	-	-	264	234	498
Loans and advances to customers	742,844	-	-	-	-	742,844
Total financial assets	**755,421**	**101,263**	**66,488**	**264**	**234**	**923,670**
Total non-financial assets						4,222
Total Group assets						**927,892**
Financial liabilities						
Shares	-	836,578	-	-	-	836,578
Amounts owed to other customers	-	21,781	-	-	-	21,781
Derivative financial instruments	-	-	-	3,216	171	3,387
Total financial liabilities	**-**	**858,359**	**-**	**3,216**	**171**	**861,746**
Total non-financial liabilities						8,119
General and other reserves						58,027
Total Group reserves and liabilities						**927,892**

Fair value of financial instrument assets and liabilities carried at fair vale

The table below summarises the fair value of the Group's financial assets and liabilities that are accounted for at fair value, analysed by the valuation method used by the Group to derive the financial instrument's fair value:

	Notes	Level 1 £'000's	Level 2 £'000's	Level 3 £'000's	Total £'000's
As at 31 December 2017					
Financial assets					
Available for Sale					
Debt securities	**12**	100,264	-	-	100,264
Derivative financial instruments					
Interest rate swaps	**13**	-	1,186	-	1,186
		100,264	**1,186**	**-**	**101,450**
Financial liabilities					
Derivative financial instruments					
Interest rate swaps	**13**	**-**	**1,576**	**-**	**1,576**
As at 31 December 2016					
Financial assets					
Available for Sale					
Debt securities	**12**	66,488	-	-	66,488
Derivative financial instruments					
Interest rate swaps	**13**	-	498	-	498
		66,488	**498**	**-**	**66,986**
Financial liabilities					
Derivative financial instruments					
Interest rate swaps	**13**	**-**	**3,387**	**-**	**3,387**

Notes to the Accounts for the year ended 31 December 2017

26. Financial instruments (continued)

Valuation techniques

The following is a description of the determination of fair value for financial instruments which are accounted for at fair value using valuation techniques.

Level 1 - Quoted Prices (unadjusted) based on independent third party valuations in active markets for identical assets or liabilities.

Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly or indirectly.

Level 3 - Inputs for the asset or liability that are not based on observable market data.

The main valuation techniques employed by the Group to determine fair value of the financial instruments disclosed in the previous table are set out below.

Debt securities

Level 1 – Market prices have been used to determine the fair value of the listed debt securities.

Level 2 - Interest rate swaps – the valuation of interest rate swaps is based on the net present value method. The expected interest cash flows are discounted using the three month forecast LIBOR curves. The LIBOR curves are generally observable market data which is derived from quoted interest rates in similar time bandings which match the timings of the interest cash flows and maturities of the instruments.

Credit risk

Credit risk is the risk that the Group incurs a financial loss arising from the failure of a customer or counterparty. The Group structures the level of credit risk it undertakes, by maintaining a credit governance framework involving delegated approval authority levels and credit procedures, the objective of which is to build and maintain risk asset portfolios of high quality. Credit risk in relation to retail customers is governed by limits contained in the Society's Board approved responsible lending policy. The Society's treasury policies mean that tight criteria are set over where the Society is prepared to 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 creditworthiness as well as the results of published regulatory stress tests.

The Group and Society's maximum credit risk exposure is detailed in the table below.

	Group 2017 £000's	Group 2016 £000's	Society 2017 £000's	Society 2016 £000's
Cash in hand and balances with the Bank of England	128,520	101,263	128,520	101,263
Loans and advances to credit institutions	10,050	12,577	9,909	12,443
Debt securities	100,264	66,488	100,264	66,488
Derivative financial instruments	1,186	498	1,186	498
Loans and advances to customers	795,887	742,844	795,830	742,761
Total statement of financial exposure *(1)*	**1,035,907**	**923,670**	**1,035,709**	**923,453**
Off balance sheet exposure - mortgage commitment *(2)*	26,859	25,990	26,859	25,990
Total	**1,062,766**	**949,660**	**1,062,568**	**949,443**

(1) All values are stated at balance sheet amounts
(2) This reflects business that has been formally offered but has not yet completed.

a) Loans and advances to credit institutions, debt securities and derivative financial instruments

The BRC is responsible for approving treasury counterparties for both derivatives and investment purposes. Limits are placed on the amount of risk accepted in relation to one counterparty, or group of counterparties, and to industry sectors. This is monitored daily and reviewed monthly by the MRC and quarterly by the BRC.

The Group's policy only permits lending to central government (which includes the Bank of England), UK local authorities, banks with a high credit rating and building societies. The Group performs regular analysis of counterparty credit risk and monitoring of publicly available information to highlight possible indirect exposures.

26. Financial instruments (continued)

An analysis of the Group's treasury asset concentration is shown in the table below:

	Group			
Industry sector	**2017 £000's**	**2017 %**	**2016 £000's**	**2016 %**
Banks	79,690	80%	44,899	68%
Building Societies	20,074	20%	11,592	17%
Central Government	500	-	9,997	15%
Total	**100,264**	**100%**	**66,488**	**100%**

Geographic region	**2017 £000's**	**AAA %**	**AA %**	**A %**	**BBB %**
United Kingdom	82,237	-	1%	90%	9%
Europe	5,002	-	100%	-	-
Australia	8,019	-	100%	-	-
Canada	5,006	-	100%	-	-
Total	**100,264**				

Geographic region	**2016 £000's**	**AAA %**	**AA %**	**A %**	**BBB %**
United Kingdom	54,571	-	18%	68%	14%
Europe	5,012	-	100%	-	-
Australia	6,905	-	100%	-	-
Canada	-	-	-	-	-
Total	**66,488**				

The Group's derivative financial instruments are analysed in the table below:

Geographic region	**2017 £000's**	**AA %**	**A %**	**BBB %**	**2016 £000's**	**AA %**	**A %**	**BBB %**
United Kingdom	1,186	-	100%	-	498	-	100%	-
Total	**1,186**				498			

There are no impairment charges against any of the Group's treasury assets at 31 December 2017 or 31 December 2016.

b) Loans and advances to customers

All mortgage loan applications are assessed with reference to the Group's retail credit risk appetite statement and lending policy, which includes assessing applicants for potential fraud risk, and which is approved by the Board. When deciding on the overall risk appetite that the Group wishes to adopt, both numerical and non-numerical considerations are taken into account, along with data on the current UK economic climate and competitor activity. The lending portfolio is monitored by the Management Risk Committee (MRC) and the Board Risk Committee (BRC) to ensure that it remains in line with the stated risk appetite of the Group, including adherence to the lending principles, policies and lending limits.

Notes to the Accounts for the year ended 31 December 2017

26. Financial instruments (continued)

The Society adopts a prudent approach to mortgage lending which delivers low rates of default. For new customers, the Society relies upon adherence to its Responsible Lending Policy to determine the credit quality of potential customers. Prior to making loan offers, applications are stress tested using the Society's affordability model. This approach, combined with the use of credit checks, is used to confirm the credit quality of all new applicants. For existing customers who subsequently apply for additional lending, the same process is adopted. All mortgage applications are overseen by the Mortgage Underwriting team who ensure that all information submitted within the application is validated and loans are approved in line with appropriate mandate levels.

For existing customers who already have mortgages with the Society, ongoing creditworthiness of customers is determined through close monitoring of mortgage accounts. In addition, monitoring takes place to ensure the Society adheres to a range of operational lending limits, designed to meet the Society's Risk Appetite as set by the Board.

Credit risk management information is circulated to the MRC on a monthly basis to ensure that the portfolio remains within the Group's risk appetite. It is the Group's policy to ensure good customer outcomes and lend responsibly by ensuring at the outset that the customer can meet the mortgage repayments. This is achieved by obtaining specific information from the customer concerning income and expenditure but also external credit reference agency data. The Group does not have any exposure to the sub-prime market. The maximum credit risk exposure is disclosed in the table on page 59. Loans and advances to customers are predominantly made up of retail loans fully secured against UK property of £796m (2016: £741m) split between residential and buy to let loans. The Group operates through England and Wales with the portfolio well spread throughout the geographic regions. An analysis of the Group's geographical concentration, gross of provisions, is shown in the table below.

		Group			
Geographic region	**Note**	**2017 £000's**	**2017 %**	**2016 £000's**	**2016 %**
West Midlands		191,938	24%	186,892	25%
North		141,818	18%	129,498	17%
London		105,345	13%	94,415	13%
East Midlands		95,020	12%	90,882	12%
Outer South East		76,414	10%	70,180	9%
South West		73,673	9%	66,045	9%
Yorkshire & Humberside		51,508	6%	49,035	7%
East Anglia		31,013	4%	27,910	4%
Wales and Northern Ireland		29,254	4%	26,224	4%
Total		**795,983**	**100%**	**741,081**	**100%**
Other loans (see below)		203		221	
	14	**796,186**		**741,302**	

Other loans represent commercial loans secured on land.

Retail loans

Loans fully secured on residential property are split between residential and buy to let. The split of the loan book between Buy to Let and residential, interest only and repayments is shown below:

	2017 %	**2016 %**
Repayment – Residential mortgage	60%	59%
Interest Only – Residential mortgage	10%	10%
Repayment – Buy to Let	4%	5%
Interest Only – Buy to Let	26%	26%

26. Financial instruments (continued)

The average loan to value (LTV) is the weighted average LTV for the portfolio. Each individual LTV is calculated by comparing the value of the mortgage loan to the value of collateral held adjusted by a house price index.

The average LTV of residential mortgages is 43% (2016: 42%). All residential loans above 75% (2016: 75%) LTV are insured.

Further LTV information on the Group's residential mortgage portfolio is shown below:

	Group	
LTV analysis	**2017 %**	**2016 %**
Residential		
0% - 30%	12%	13%
30% - 60%	33%	35%
60% - 80%	31%	29%
80% - 90%	22%	21%
90%-100%	2%	2%
>100%	-	-
Average loan to value of residential mortgage loans	**43%**	**42%**
Average loan to value of new business in the year	**62%**	**70%**

	Group	
LTV analysis	**2017 %**	**2016 %**
Buy to Let		
0% - 30%	3%	4%
30% - 60%	42%	38%
60% - 80%	55%	58%
80% - 90%	-	-
90%-100%	-	-
>100%	-	-
Average loan to value of Buy to Let mortgage loans	**54%**	**54%**
Average loan to value of new business in the year	**59%**	**67%**

The quality of the Group's retail mortgage book is reflected in the number and value of accounts in arrears, by value it is 0.8% (2016: 0.9%), of which only 0.1% (2016: 0.2%) is greater than three months in arrears.

The main factor for loans moving into arrears tends to be the condition of the general economic environment.

The table below provides information on retail loans by payment due status:

Arrears analysis	**2017 £000's**	**2017 %**	**2016 £000's**	**2016 %**
Not impaired				
Neither past due or impaired	789,301	99%	734,770	99.0%
Past due up to three months but not impaired	5,380	1%	4,883	0.7%
Impaired				
Not past due but impaired	377	<=0.1%	382	0.1%
Past due three to six months	1,030	<=0.1%	538	0.1%
Past due six to 12 months	98	<=0.1%	729	0.1%
Past due over 12 months	-	-	-	-
Total	**796,186**	**100%**	**741,302**	**100%**

Notes to the Accounts for the year ended 31 December 2017

26. Financial instruments (continued)

Value of collateral held	2017 Indexed £000's	2017 Unindexed £000's	2016 Indexed £000's	2016 Unindexed £000's
Neither past due or impaired	1,709,695	1,461,175	1,619,359	1,362,619
Not past due but impaired	410	398	336	336
Past due up to three months but not impaired	11,845	9,001	11,913	8,581
Past due over three months and impaired	2,822	1,892	3,057	2,133

The collateral consists of residential property. Collateral values are adjusted by the Nationwide price index to derive the indexed valuation at 31 December. This takes into account regional data across 13 regions of the UK. The Group uses the index to update the property values of its residential and buy to let portfolios on a quarterly basis.

Mortgage indemnity guarantee insurance acts as additional security. For mortgage applications up to 30 November 2017, it was taken out for all residential loans where the borrowing exceeded 75% of the value of the property at the point of application. From 1 December 2017, the threshold was increased to borrowing exceeding 80% of the value of the property. As at 31 December 2017, no loans in the mortgage book had utilised the 80% threshold. The status 'not past due but impaired' includes assets where no balance is overdue, but due to other factors the loan is considered impaired. The status 'past due up to three months but not impaired' includes any asset where a payment due is received late or missed but no individual provision has been allocated. The amount included is the entire loan amount rather than just the overdue amount. The status past due over three months and impaired includes assets where an individual provision has been allocated where appropriate.

At 31 December 2017, the Group and Society had no (2016: 1) properties in possession with an outstanding balance of £nil (2016: £356k) and related collateral of £nil (2016: £475k).

Forbearance

Interest only concessions are offered to customers in financial difficulty on a temporary basis with formal periodic review. The concession allows the customer to reduce monthly payments to cover interest only, and if made, the arrears status will not increase.

Arrangement payment plans are agreed to enable customers to reduce their arrears balances by an agreed amount per month which is paid in addition to their standard monthly repayment.

Loan terms can be extended to allow customers additional time to fully repay their loans.

Capitalisations occur where arrears are added to the capital balance outstanding for the purposes of re-structuring the loan, allowing the customer to repay the arrears over the remaining term of the loan.

All forbearance arrangements are formally discussed and agreed with the customer. By offering customers in financial difficulty the option of forbearance, the Society potentially exposes itself to an increased level of risk through prolonging the period of non-contractual payment and/or potentially placing the customer into a detrimental position at the end of the forbearance period.

All forbearance arrangements are reviewed and monitored on a monthly basis to assess the ongoing potential risk, suitability and sustainability to the Society. The level and different types of forbearance activity are reported to the MRC on a monthly basis. The table below details the number of forbearance cases within the 'Not impaired' category:

Type of forbearance	31 December 2017 Number	31 December 2016 Number
Reduced payment including interest only concessions	1	11
Arrangements	17	23
Capitalisation	-	-
Payment holidays	2	6
Total	**20**	**40**

In total £1.5m (2016 £2.5m) of loans are subject to forbearance. There is no requirement for a collective impairment allowance in 2017 (2016 £15k).

26. 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 or a 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 Regulation Authority concerning the quality of liquid assets held by banks and building societies. As a consequence the Society held £127.4m at 31 December 2017 (2016: £100.5m) on deposit with the Bank of England to ensure ready access to liquid funds should the need arise.

The table below analyses the Group's assets and liabilities into relevant maturity groupings, based on the remaining period to contractual maturity on an undiscounted basis at the statement of financial position date. This is not representative of the Group's management of liquidity. Loans and advances to customers rarely run their full course. The actual repayment profile is likely to be significantly different from that shown in the analysis. For example, most mortgages have a contractual maturity of around 25 years but are generally repaid much sooner. Conversely, retail deposits repayable on demand generally remain on balance sheet much longer.

Residual maturity as at 31 December 2017	On demand £000's	Not more than three months £000's	More than three months but less than one year £000's	More than one year but not more than five years £000's	More than five years £000's	Non cash £000's	Total £000's
Financial assets							
Liquid assets							
Cash in hand	128,520	-	-	-	-	-	128,520
Loans and advances to credit institutions	8,619	-	-	1,431	-	-	10,050
Debt securities	-	32,718	67,546	-	-	-	100,264
Total liquid assets	**137,139**	**32,718**	**67,546**	**1,431**	**-**	**-**	**238,834**
Derivative financial instruments	-	-	-	-	-	1,186	1,186
Loans and advances to customers	468	6,455	19,509	123,561	646,193	(299)	795,887
Fixed assets	-	-	-	-	-	2,412	2,412
Other assets	-	-	-	-	-	1,097	1,097
Total assets	**137,607**	**39,173**	**87,055**	**124,992**	**646,193**	**4,396**	**1,039,416**
Financial liabilities							
Shares	688,223	32,545	72,320	50,331	-	-	843,419
Amounts owed to credit institutions	-	-	-	105,915	-	-	105,915
Amounts owed to other customers	21,131	-	-	-	-	-	21,131
Derivative financial instruments	-	-	-	-	-	1,576	1,576
Other liabilities	-	-	-	-	-	4,217	4,217
Reserves	-	-	-	-	-	63,158	63,158
Total liabilities and reserves	**709,354**	**32,545**	**72,320**	**156,246**	**-**	**68,951**	**1,039,416**
Net liquidity gap	**(571,747)**	**6,628**	**14,735**	**(31,254)**	**646,193**	**(64,555)**	**-**

Notes to the Accounts for the year ended 31 December 2017

26. Financial instruments (continued)

Residual maturity as at 31 December 2016	On demand £000's	Not more than three months £000's	More than three months but less than one year £000's	More than one year but not more than five years £000's	More than five years £000's	Non cash £000's	Total £000's
Financial assets							
Liquid assets							
Cash in hand	101,263	-	-	-	-	-	101,263
Loans and advances to credit institutions	8,896	-	-	3,681	-	-	12,577
Debt securities	-	23,628	35,043	7,817	-	-	66,488
Total liquid assets	**110,159**	**23,628**	**35,043**	**11,498**	**-**	**-**	**180,328**
Derivative financial instruments	-	-	-	-	-	498	498
Loans and advances to customers	1,378	7,507	20,028	115,987	596,402	1,542	742,844
Fixed assets	-	-	-	-	-	2,446	2,446
Other assets	-	-	-	-	-	1,776	1,776
Total assets	**111,537**	**31,135**	**55,071**	**127,485**	**596,402**	**6,262**	**927,892**
Financial liabilities							
Shares	660,370	33,705	88,934	53,569	-	-	836,578
Amounts owed to other customers	21,781	-	-	-	-	-	21,781
Derivative financial instruments	-	-	-	-	-	3,387	3,387
Other liabilities	-	-	-	-	-	8,119	8,119
Reserves	-	-	-	-	-	58,027	58,027
Total liabilities and reserves	**682,151**	**33,705**	**88,934**	**53,569**	**-**	**69,533**	**927,892**
Net liquidity gap	**(570,614)**	**(2,570)**	**(33,863)**	**73,916**	**596,402**	**(63,271)**	**-**

There are no material differences between the maturity profile for the Group and that for the Society.

The following is an analysis of gross contractual cash flows payable under financial liabilities

	Repayable on demand £000's	Not more than three months £000's	More than three months but not more than six months £000's	More than six months but less than one year £000's	More than one year but not more than five years £000's	More than five years £000's	Total £000's
31 December 2017							
Shares	688,223	32,870	26,982	45,773	51,058	-	844,906
Amounts owed to credit institutions	-	85	134	262	107,363	-	107,844
Amounts owed to other customers	21,131	-	-	-	-	-	21,131
Derivative financial instruments	-	425	357	471	(700)	-	553
Total liabilities	**709,354**	**33,380**	**27,473**	**46,506**	**157,721**	**-**	**974,434**
31 December 2016							
Shares	660,370	33,806	33,030	56,713	54,794	-	838,713
Amounts owed to other customers	21,781	-	-	-	-	-	21,781
Derivative financial instruments	-	527	476	794	1,322	-	3,119
Total liabilities	**682,151**	**34,333**	**33,506**	**57,507**	**56,116**	**-**	**863,613**

26. Financial instruments (continued)

Market risk

Market risk is the risk of changes to the Society's financial condition caused by market interest rates. The Society is exposed to market risk in the form of changes (or potential changes) in the general level of interest rates, changes in the relationship between short and long-term interest rates and divergence of interest rates for different balance sheet elements (basis risk).

The Society hedges interest rate risk by hedging its exposure to fixed mortgage lending tranches. Overall interest rate risk is managed through a statement of financial position gap analysis. The statement of financial position is subjected to a stress test of a 2% change in interest rates on a monthly basis and the results are measured against the risk appetite for market risk which is currently set at a maximum of 3.5% of capital. The Society's exposure to a 2% change in interest rates was 1.6% of capital (£1.0m) at 31 December 2017 (2016: 0.8%, £0.4m). In addition, interest rate basis risk is controlled by a Board approved risk appetite. Both are reported to the monthly ALCO meeting and to the Board.

The following table summarises the Society's exposure to interest rate risk. Included in the table are Society assets and liabilities, including derivative financial instruments which are principally used to reduce exposure to interest rate risk, categorised by repricing date.

The interest rate sensitivity gap of the Group at 31 December 2017 by reference to the next interest reset date is shown below:

	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
Financial assets						
Cash in hand	128,491	-	-	-	29	128,520
Loans and advances to credit institutions	10,049	-	-	-	1	10,050
Debt securities	32,499	36,000	31,022	-	743	100,264
Total liquid assets	**171,039**	**36,000**	**31,022**	**-**	**773**	**238,834**
Derivative financial instruments	-	-	-	-	1,186	1,186
Loans fully secured on residential property and other loans	352,030	38,773	59,172	346,211	(299)	795,887
Fixed assets	-	-	-	-	2,412	2,412
Other assets	-	-	-	-	1,097	1,097
Total assets	**523,069**	**74,773**	**90,194**	**346,211**	**5,169**	**1,039,416**
Liabilities						
Shares	716,554	26,724	45,365	50,096	4,680	843,419
Amounts owed to credit institutions and other customers	126,712	-	-	-	334	127,046
Derivative financial instruments	-	-	-	-	1,576	1,576
Other liabilities	-	-	-	-	4,217	4,217
Reserves	-	-	-	-	63,158	63,158
Total liabilities	**843,266**	**26,724**	**45,365**	**50,096**	**73,965**	**1,039,416**
Off balance sheet Items	375,847	(32,699)	(50,022)	(293,126)	-	-
Net interest rate gap	**55,650**	**15,350**	**(5,193)**	**2,989**	**(68,796)**	**-**

There are no material differences between the maturity profile for the Group and that for the Society.

Notes to the Accounts for the year ended 31 December 2017

26. Financial instruments (continued)

The interest rate sensitivity gap of the Group at 31 December 2016 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
Financial assets						
Cash in hand	101,253	-	-	-	10	101,263
Loans and advances to credit institutions	12,576	-	-	-	1	12,577
Debt securities	23,488	10,000	24,900	7,022	1,078	66,488
Total liquid assets	**137,317**	**10,000**	**24,900**	**7,022**	**1,089**	**180,328**
Derivative financial instruments	-	-	-	-	498	498
Loans fully secured on residential property and other loans	373,212	28,825	82,067	257,198	1,542	742,844
Fixed assets	-	-	-	-	2,446	2,446
Other assets	-	-	-	-	1,776	1,776
Total assets	**510,529**	**38,825**	**106,967**	**264,220**	**7,351**	**927,892**
Liabilities						
Shares	688,647	32,485	55,923	53,252	6,271	836,578
Amounts owed to credit institutions and other customers	21,714	-	-	-	67	21,781
Derivative financial instruments	-	-	-	-	3,387	3,387
Other liabilities	-	-	-	-	8,119	8,119
Reserves	-	-	-	-	58,027	58,027
Total liabilities	**710,361**	**32,485**	**55,923**	**53,252**	**75,871**	**927,892**
Off balance sheet items	290,602	(8,609)	(59,286)	(222,707)	-	-
Net interest rate gap	**90,770**	**(2,269)**	**(8,242)**	**(11,739)**	**(68,520)**	**-**

There are no material differences between the maturity profile for the Group and that for the Society..

Derivative financial instruments

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

	Nominal principal amount 2017 £000's	Credit risk weighted amount 2017 £000's	Replacement cost 2017 £000's	Nominal principal amount 2016 £000's	Credit risk weighted amount 2016 £000's	Replacement cost 2016 £000's
Interest rate contracts maturing:						
In less than one year	78,024	28	52	63,990	-	-
Between one year and five years	333,606	1,332	1,134	241,793	782	498
Total	**411,630**	**1,360**	**1,186**	**305,783**	**782**	**498**

27. Retirement benefit obligations

The Society operates a defined benefit scheme in the UK. This is a separate trustee administered fund holding the pension scheme assets to meet long term pension liabilities. A full actuarial valuation was carried out at 24 April 2015 and updated to 31 December 2017 by a qualified actuary, independent of the scheme's sponsoring employer. The major assumptions used by the actuary are shown below.

This most recent actuarial valuation showed a deficit of £3,814,000. The Society agreed with the trustees that it will aim to eliminate the deficit over a period of five years from 24 April 2015 by the payment of £765,000 before 31 March 2016 and thereafter annual contributions of £765,000 to be paid for four years until March 2020 in respect of the deficit. In addition, and in accordance with the actuarial valuation, the Society has agreed with the trustees that it will meet expenses of the scheme and levies to the Pension Protection Fund. The scheme closed to accrual, but retained salary linkage to accrued benefits, with effect from 24 April 2013.

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

Present values of defined benefit obligation, fair value of assets and defined asset (liability)

	2017 £000's	2016 £000's	2015 £000's
Fair value of scheme assets	38,266	38,721	32,976
Present value of scheme liabilities	(40,925)	(44,715)	(35,821)
Deficit in scheme	**(2,659)**	**(5,994)**	**(2,845)**

Reconciliation of opening and closing balances of the defined benefit obligation

	2017 £000's	2016 £000's
Defined benefit obligation at start of year	44,715	35,821
Current service cost	58	54
Interest expense	1,145	1,309
Actuarial (gains)/losses	(323)	8,461
Benefits paid and expenses	(4,670)	(930)
Defined benefit obligation at end of year	**40,925**	**44,715**

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

	2017 £000's	2016 £000's
Fair value of scheme assets at start of year	38,721	32,976
Interest income	1,006	1,227
Actuarial gains/(losses)	1,460	4,123
Contributions by Society	1,749	1,325
Benefits paid	(4,670)	(930)
Scheme assets at end of year	**38,266**	**38,721**

The actual return on the plan assets over the year ended 31 December 2017 was £2,466k (2016: £5,350k).

Notes to the Accounts for the year ended 31 December 2017

27. Retirement benefit obligations (continued)

Total defined benefit costs recognised in the Income Statement

	2017 £000's	2016 £000's
Current service cost	58	54
Net interest cost	139	82
Defined benefit cost recognised in profit and loss account	**197**	**136**

Defined benefit costs recognised in Other Comprehensive Income

	2017 £000's	2016 £000's
Return on plan assets (excluding amounts included in net interest cost) – gain	1,460	4,123
Experience gains and losses arising on the plan liabilities - gain	191	15
Effects of changes in the demographic and financial assumptions underlying the present value of the plan liabilities: gain/(loss)	132	(8,476)
Total amount recognised in Other Comprehensive Income – gain/(loss)	**1,783**	**(4,338)**

Assets

	2017 £000's	2016 £000's	2015 £000's
UK equities	-	-	4,176
Overseas equities	-	-	4,377
Corporate bonds	2,273	-	521
Diversified growth funds	9,414	12,047	11,342
Liability driven investment funds	5,774	2,055	-
Equity linked bond funds	6,462	10,286	-
Insured pensioners	14,127	14,269	12,558
Other	216	64	2
Total	**38,266**	**38,721**	**32,976**

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

27. Retirement benefit obligations (continued)

Assumptions	2017 % per annum	2016 % per annum	2015 % per annum
Rate of discount	2.50	2.70	3.70
Retail Price Index inflation	3.40	3.55	3.10
Consumer Price Index inflation	2.40	2.55	2.10
Salary growth	4.40	4.55	4.10
Allowance for revaluation of deferred pensions of CPI or 5% p.a. if less	2.40	2.55	2.10
Allowance for pension payment increases of RPI or 5% p.a. if less	3.40	3.55	3.10
Allowance for pension in payment increases of RPI or 2.5% p.a. if less	2.40	2.20	2.20
Allowance for commutation of pension for cash at retirement	80% of Post A Day on factors 15% higher than those currently in place	80% of Post A Day on factors 15% higher than those currently in place	80% of Post A Day on factors 15% higher than those currently in place

The mortality assumptions adopted at 31 December 2017 imply the following life expectancies:

Male retiring at age 60 in 2017	25.7 years (2016: 26.1 years)
Female retiring at age 60 in 2017	27.7 years (2016: 28.2 years)
Male at age 60 in 2037	26.9 years (2016: 27.9 years)
Female retiring at age 60 in 2037	29.0 years (2016: 30.2 years)

The best estimate of contributions to be paid by the Society to the scheme for the period commencing 1 January 2018 is £2,060,000. This assumes that the Society continues to pay contributions at a rate of £166,667 per month and includes £60,000 in respect of expected death in service premiums, which will be paid to the insurer directly by the Society.

28. Cash and cash equivalents

	Group £000's 2017	Group £000's 2016	Society £000's 2017	Society £000's 2016
Cash in hand and balances at Bank of England	128,520	101,263	128,520	101,263
Loans and advances to credit institutions	8,619	8,896	8,478	8,762
At 31 December	**137,139**	**110,159**	**136,998**	**110,025**

Notes to the Accounts for the year ended 31 December 2017

29. General reserve

	2017 Group £000's	2016 Group £000's	2017 Society £000's	2016 Society £000's
At 1 January	**56,894**	**57,771**	**56,789**	**57,364**
Profit for the financial year	3,725	2,781	3,740	3,083
Net gain/(loss) recognised directly in Other Comprehensive Income	1,480	(3,658)	1,480	(3,658)
At 31 December	**62,099**	**56,894**	**62,009**	**56,789**

As set out on page 10, the general reserves along with the revaluation reserve and available for sale reserve constitute the Society's Tier 1 Capital for regulatory purposes.

30. Revaluation reserve

	2017 Group £000's	2016 Group £000's	2017 Society £000's	2016 Society £000's
At 1 January	**1,007**	**967**	**1,007**	**967**
Tax on revaluation reserve	5	40	5	40
At 31 December	**1,012**	**1,007**	**1,012**	**1,007**

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. The resultant potential gain results in a capital gain for deferred tax purposes which is recognised under FRS 102.

31. Available for Sale reserve

	2017 Group £000's	2016 Group £000's	2017 Society £000's	2016 Society £000's
At 1 January	**126**	**(28)**	**126**	**(28)**
Net gains/(losses) from changes in fair value	(96)	148	(96)	148
Deferred tax on Available for Sale reserve	17	6	17	6
At 31 December	**47**	**126**	**47**	**126**

Notes to the Accounts for the year ended 31 December 2017

32. Country by Country Reporting

The Capital Requirements (Country by Country Reporting) Regulations 2013 introduce reporting obligations for institutions within the scope of the European Union's Capital Requirements Directive (CRD IV). The requirements aim to give increased transparency regarding the activities of institutions.

The information below has been audited in accordance with the standards required by Directive 2006/43/EC.

Nature of the Society's activities

Leek United Building Society's principal activity is the provision of mortgage and savings products and general insurance and financial services broking services. A list of all entities consolidated as part of the Society's results and their principal activities are set out below. All business is conducted within the United Kingdom.

Group member	Activity
Leek United Building Society	Provision of mortgage and savings products, and general insurance and financial services broking services
Leek United Home Loans Ltd (Wholly owned subsidiary of Leek United Building Society)	Purchase and administration of mortgage portfolios. No purchases of portfolios have taken place in the last ten years and none are planned
Leek United Financial Services Ltd (Wholly owned subsidiary of Leek United Building Society)	Provision of financial services up until 30 September 2016
The Mortgage Outlet Ltd (Wholly owned subsidiary of Leek United Building Society)	Ceased trading on 31 December 2009

Total turnover, profit before tax and average number of employees

Total turnover for the year ended 31 December 2017 was £13,145k (2016: £12,675k). Total turnover is defined as net interest income plus fees and commissions receivable (net of fees and commissions payable).

Profit before tax for the year ended 31 December 2017 was £4,500k (2016: £3,495k). Corporation tax paid during the year ended 31 December 2017 was £626k (2016: £339k).

All turnover, profits and tax resulted from business conducted in the United Kingdom.

The average monthly number of employees on a full-time equivalent basis during the year ended 31 December 2017 was 162 (2016: 160).

Public subsidies received

The Society received no public subsidies in the year ended 31 December 2017 (2016: nil).

Annual Business Statement

Annual Business Statement for the year ended 31 December 2017

	2017 %	2016 %	Statutory limit %
Statutory percentages			
Calculated in accordance with the Building Societies Act 1986 as amended by the Building Societies Acts 1997 and 2005			
Lending limit	0.32	0.60	25.0
Funding limit	13.09	2.54	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, amounts owed to credit institutions and amounts owed to other customers as shown in the Group balance sheet.

The amount of shares held by individuals is shown in note 19 of the notes to the accounts.

	2017 %	2016 %
Other Percentages		
Gross capital as a percentage of shares and borrowings	6.51	6.76
Free capital as a percentage of shares and borrowings	6.30	6.51
Liquid assets as a percentage of shares and borrowings	24.61	21.01
Profit on ordinary activities after taxation as a percentage of year end total assets	0.36	0.30
Management expenses as a percentage of mean total assets	0.93	0.96

Gross capital represents the sum of the general reserve, the revaluation reserve and the available for sale reserve as shown in the Group balance sheet.

Free capital represents the sum of the general reserve, the revaluation reserve, the available for sale reserve and collective loss provision 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 2016 and 2017 total assets. Management expenses represent the aggregate of administrative expenses and depreciation.

Annual Business Statement (continued)

Information relating to directors as at 31 December 2017

Name / Date of Birth	Occupation	Date of Appointment	Other Directorships
Keith Abercromby BSc, FIA 5/03/1964	Non Executive Director	23/03/2016	Argus Group Holdings Limited Argus Insurance Company (Europe) Limited Canada Life Limited
Rachel Court JP, BA 27/06/1966	Non Executive Director	26/11/2014	South West Yorkshire NHS Foundation Trust Invesco Perpetual Life Ltd Invesco UK Ltd Leek United Home Loans Ltd Leek United Financial Services Ltd The Mortgage Outlet Ltd
Richard Goddard MA, FCA 09/06/1957	Finance and Risk Consultant	23/11/2011	RCG Business Consultancy Ltd
John Kelly BA (Hons), ACA 14/09/1965	Building Society Operations Director	26/04/2017	Kelly Strategy Limited
Jane Kimberlin BA 25/09/1959	Non Executive Director	23/11/2016	Creaton Consultants Limited Creaton Community Benefit Society
Colin Kersley 20/10/1956	Non Executive Director	21/12/2016	Assurant plc
John Leveson MBA, FCIB 04/09/1959	Non Executive Director	19/05/2015	Queen Elizabeth Grammar School, Penrith
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 * BSc, ACA 02/04/1971	Building Society Finance Director	07/07/2014	None

** Paul Wilson resigned with effect from 31 December 2017*

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

Kevin Wilson and John Kelly have 12 months or less rolling service contracts. The Non Executive Directors do not have service contracts

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