2019

ANNUAL REPORT & ACCOUNTS

Leek United
BUILDING SOCIETY

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A member of the Building Societies Association.

Authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and Prudential Regulation Authority. Registered No: 100014

Established 1863

Registered Principal Office: 50 St. Edward Street, Leek, Staffordshire, ST13 5DL

Tel: 0800 093 0004
Email: finance@leekunited.co.uk
leekunited.co.uk

Registered Number 323B

Branches and Agencies in:
Ashbourne
Cheadle
Congleton
Derby
Hanley
Leek
Macclesfield
Market Drayton
Newcastle
Oakengates
Stone
Wirksworth
Uttoxeter

Key Financial Highlights

£2.4m Profit before tax (2018: £3.8m)

£2.6m Profit before hedging and tax (2018: £3.4m)

1.17% Net interest margin (2018: 1.23%)

£165m Gross mortgage advances (2018: £158m)

2.9% to £849m Mortgage balance growth (2018: £825m 3.7% growth)

23.4% of shares and borrowings Liquidity ratio (2018: 24.1%)

0.20% Number of mortgage accounts in arrears by three or more monthly repayments (2018: 0.08%)

17.4% Core tier 1 capital ratio (2018: 17.8%)

An explanation of some of the terms used here can be found on pages 10 to 19.

Five Year Highlights	**2019**	**2018**	**2017**	**2016**	**2015**
	£000's	**£000's**	**£000's**	**£000's**	**£000's**
Net interest income	12,616	12,969	12,685	11,884	12,168
Other income	496	408	460	791	832
Administrative expenses	(10,259)	(10,011)	(8,938)	(8,484)	(7,948)
Other expenses and charges	(240)	(252)	(240)	(234)	(187)
Provisions & other items[1]	-	281	(48)	(198)	(440)
Profit before tax pre hedging	**2,613**	**3,395**	**3,919**	**3,759**	**4,425**
Impact of hedging	(239)	424	581	(264)	91
Profit before tax	**2,374**	**3,819**	**4,500**	**3,495**	**4,516**
Liquid assets	239,563	241,172	238,834	180,328	171,800
Loans and advances	848,729	825,067	795,887	742,844	715,182
Other assets	3,140	5,117	4,695	4,720	3,665
Total assets	**1,091,432**	**1,071,356**	**1,039,416**	**927,892**	**890,647**
Shares and deposits	889,347	868,269	864,550	858,359	825,475
Bank of England funding	132,250	134,176	105,915	-	-
Other liabilities	3,275	3,247	5,793	11,506	6,462
Reserves	66,560	65,664	63,158	58,027	58,710
Total liabilities	**1,091,432**	**1,071,356**	**1,039,416**	**927,892**	**890,647**

[1]This includes FSCS levy, impairment gains/(losses) and pension scheme finance costs.

Directors and Officers

- **Directors**
  Keith Abercromby BSc, FIA
  Robert Broadbent BSc, ACA
  Rachel Court JP, BA Oxon
  Richard Goddard MA, FCA
  Andrew Healy MoB, BSc, MCIPD
  John Kelly BA, ACA
  Colin Kersley
  Jane Kimberlin BA
  John Leveson MBA, FCIB

- **Chair**
  Rachel Court JP, BA Oxon

- **Chief Executive**
  Andrew Healy MoB, BSc, MCIPD

- **Internal Auditor**
  Deloitte LLP
  Four Brindleyplace
  Birmingham
  B1 2HZ

- **Independent Auditor**
  KPMG LLP
  Chartered Accountants
  1 St. Peter's Square
  Manchester
  M2 3AE

RACHEL COURT
CHAIR

Board of Directors 2019.

Chair's Statement

I am delighted to introduce the Annual Report for 2019 and to advise of another very positive year for the Society. Against a backdrop of considerable political and economic uncertainty, the year saw a satisfactory financial performance with controlled loan book growth and a good increase in savings balances. It is particularly pleasing to report that we have embarked on a programme of prudent investment in the Society's future technology, processes and branch network and that notwithstanding the initial expenditure associated with this investment, costs were tightly controlled during the year. Leek United Building Society retains its robust financial position and is well placed to invest further for the future.

Economic and Market Conditions

The EU withdrawal process weighed heavily on the economy over the past year and indeed conditions were not helped by global political tensions. Confidence in the housing market suffered and manifested itself in a broadly flat level of year on year housing transactions as well as low house price growth.

The Bank of England's base rate stayed at 0.75% throughout the year and at time of writing, its likely direction over the course of the year ahead is unclear. However, please rest assured that your Society will, as always, continue to offer competitive mortgage and savings rates.

Competition in our core markets remained intense over the course of 2019 with ring-fenced banks deploying surplus liquidity in an effort to increase their market share. This resulted in fierce competition for new mortgage business, particularly in the low Loan to Value (LTV) residential mortgage market.

It is all the more satisfying to report the Society's solid performance in the context of such a challenging environment.

The Board considers that market conditions will remain challenging in 2020. While the outcome of the general election in December 2019 provided certainty regarding the timing of Brexit, the longer term economic impact will clearly depend on the extent and terms of the country's future relationship with the European Union and the success of trade negotiations with key non-EU nations.

Our Strategy

Leek United is a member-focussed, well-capitalised, financially secure, prudent and stable building society. While we are determined to retain these highly positive characteristics, it is vitally important that we do not stand still. During the year, we conducted a detailed strategic review of the steps needed to ensure the Society's long term sustainability in the face of increasing competition and growing customer expectations.

Our research has identified that both current and future customers expect easy-to-use online technology as well as the availability of a friendly and modern branch network which offers not only transactional services but also face-to-face advice on the products and services they need. To meet these expectations, the Society's Board has concluded that a significant investment programme is required to deliver step improvements in the organisation's systems, processes and branch network. This programme will provide significant enhancements to customer service standards as well as increased levels of operational resilience, thereby further strengthening our capacity to move forward with confidence over the long term.

"I am enormously grateful to you, our members, for your continued loyalty. I am delighted that we have had another strong year and that we are investing in ensuring the continued success of your Society."

As I mentioned above, we have already taken the first small steps on our journey with some initial investment in our technology platform and I look forward to keeping you advised of our progress over the coming years.

It is important to emphasise that we retain an unflinching commitment to the high customer service standards and values that have positively differentiated the Society from other institutions for more than 150 years. There have been more than 3,000 bank branch closures over recent years but we believe that a strong high street presence is essential if we are to deliver on our commitment to excel in meeting the mortgage and savings needs of our members. Your Society is fully committed to operating as a local, independent building society. We are confident and indeed excited about the future.

Our Board

At the end of 2018, Andrew Healy joined us as our new Chief Executive. Andrew has made a substantial positive impact in his first year in post, and has conducted a comprehensive review of the Society's strategy, people and culture. I am delighted that he has led the development of a future vision for the Society which builds on the best of our heritage and customer-focussed culture, whilst investing in the capabilities we will need to ensure we remain a successful and sustainable business for many years to come.

In the first half of 2019, we also welcomed Robert Broadbent to the Board as Finance Director. Robert has more than 20 years of senior management experience in financial services, including in the mutual sector, and he has further strengthened our executive team.

Thank You

The past year has been a busy one for the Society and I would like to thank my fellow Board members for their immense support and wise counsel. My thanks also to our management team and to our hard-working staff for their continued commitment and enthusiasm towards ensuring excellent service, risk management and performance standards.

Most of all, I am enormously grateful to you, our members, for your continued loyalty. I am delighted that we have had another strong year and that we are investing in ensuring the continued success of your Society. I look forward very much to meeting many of you at our AGM on Wednesday, 29 April.

Rachel Court,
26 February 2020

Chief Executive's Business Review

	2019	2018
Group profit before tax	£2.4m	£3.8m
Group profit before tax and hedging adjustments	£2.6m	£3.4m
Group reserves	£66.6m	£65.7m
Group assets	£1,091.4m	£1,071.4m
Mortgage assets	£848.7m	£825.1m
Core tier 1 ratio	17.4%	17.8%
Management expense ratio	0.97%	0.97%

Overview

I am pleased to report another year of significant progress for Leek United Building Society. In challenging market conditions, the Society continued to offer competitive products and excellent service to our members, leading to solid mortgage and savings growth as well as high levels of customer satisfaction. The profit outturn was very much in line with planned levels. As a mutual building society, our focus is not on maximising profitability but the year on year reduction in profit before tax was mostly due to hedging and other one-off benefits that arose in 2018. Most importantly, we finished the year in a strong capital position which gives us confidence for the future as well as the necessary financial platform for the extensive investment programme which our Chair has referenced.

Mortgages

Despite the flat level of mortgage activity across the market, the Society achieved satisfactory levels of mortgage business with new advances of £165m, £7m higher than the prior year. Mortgage balances increased by 2.9% to £849m.

It is very positive to advise that the performance of our mortgage portfolio remained particularly strong, with low levels of arrears being underpinned by our high quality underwriting and robust lending policies. As in 2018, no properties were taken into possession during the year and just 0.20% of mortgage accounts were in arrears at year end by the equivalent of three or more monthly repayments (2018: 0.08%). All lending over 80% LTV at inception continued to be covered by mortgage indemnity insurance against losses incurred if a property were to be taken into possession in the first seven years.

Our focus remained on residential lending, providing a range of fixed and discount mortgages to owner occupiers as well as, to a lesser extent, to Buy to Let (BTL) landlords.

In line with our building society ethos, we were especially proud to continue to support people to purchase their first home. We did this through our own mortgage products as well as through government initiatives such as Help to Buy and local authority-backed mortgages.

To support our members, we also offered interest only products where a credible repayment plan could be evidenced and we provided products suitable for members borrowing beyond their expected retirement date.

It is important to underline that in Leek United, we do not use automatic credit scoring to make our mortgage decisions. In line with our commitment to personal service and values, all our mortgages are individually reviewed and underwritten by our experienced credit team. This bespoke and focussed approach, coupled with our commitment to responsible lending, represents the key to the high quality of our mortgage book and also contributes to our high customer satisfaction ratings.

Our commitment, competitiveness and high standards were recognised during 2019 with a number of industry-level awards. These included Best Variable Rate Mortgage Lender in the Personal Finance Awards and we were highly commended for Best First Time Buyer Mortgage Provider in the Moneynet Awards, both for the second year in succession.

Savings

The Society continued to be very strongly funded by our members through a broad range of savings products. Notwithstanding the prevailing low interest rate environment, member balances grew by £21m during the year, boosted by a number of new product offerings. These included a new regular savings account and a five year fixed rate bond.

Cost Efficiency

The Society has previously acknowledged the need to become more efficient and to contain costs. It is therefore noteworthy that despite a range of technology, service, people and risk management investments during the year, total costs increased by just 2.3%. In fact, when initial investment programme costs are stripped out, underlying business costs actually reduced by 1.1%[1]. This focus on efficiency and cost containment will continue but will be carefully balanced with the need to invest in our infrastructure and future sustainability.

[1]Definition of underlying business costs can be found in Note 6 to our accounts on page 56.

Investing in our Infrastructure

One of the biggest challenges for building societies today is to twin the friendly personal service that members have enjoyed over the years with the increasing levels of demand from existing and potential new members for online technology. As noted by our Chair, we plan to augment our highly-valued branch presence with modern, easy-to-use, secure online technology. We have already taken the first steps on this journey and over the next five years, we plan to make significant investments in our technology, processes and branch network.

The Environment

We are aware of the need to develop our business in a socially responsible manner. We have taken steps to reduce our carbon footprint through ensuring that wherever possible, our waste is recycled, through installing LED lighting in our network of buildings and by purchasing advanced printers which have improved the efficiency of any printing activity we undertake. We have also commenced a review to streamline our operational processes and one of the outcomes of this work will be a reduction in the volume of paper that we use. We are reducing the amount of post we send to members through increased usage of emails where we have members' permission to do so as well as through our ongoing investment in online technology. We have furthermore appointed a senior executive, Robert Broadbent, Finance Director to lead our work on climate change and its impact on the Society. We will continue to step up our programme of work to support the environment.

Our Service

At Leek United, we take great pride in our focus on our members. Through our AGM and Members' Forum, we hear at first hand what it is that makes us who we are and how we can be even better for our members. We continue to have a branch manager in every one of our branches and through this presence, we proactively seek, and act upon, member feedback regarding our products and services.

We conduct regular surveys of our members to identify how satisfied they are with our products and services. We are extremely proud that 95% of our customers in 2019 stated they were satisfied with their overall experience of the Society.

Our People

We know that at the heart of great customer service are our people and that it is our exceptional staff who deliver outstanding service to our members. The Society continues to invest in delivering improvements to our ways of working and to our working environment.

We demonstrably value staff engagement through a culture of clear accountability, ownership and doing what is right for the Society. Our people are proud to work for us. We continue to support the development of local talent through our work with local schools and through our apprenticeship and work experience programmes.

Community

During 2019, we continued to support a broad range of charities and worthy causes in our heartland counties of Staffordshire, Cheshire, Derbyshire and Shropshire. Our affinity savings account range allowed our members to support local communities as they saved, through accounts which paid a percentage of the interest earned to a charity or club. We were delighted to donate more than £52,000 from this source to the County Air Ambulance Trust and in total, we raised over £58,000 for numerous wonderful causes - all made possible by the efforts of our staff and of course the tremendous generosity of our members as well as the general public.

The Society continued as the main sponsor of the Leek and District Show as well as the Market Drayton Ginger and Spice Festival. We also supported the Ashbourne, Manifold Valley and Ipstones shows, the Leek Schools Football Tournament, the East Cheshire Hospice 'Splash' event and Stoke City Community Trust's 'Big Sleep-Out' (in aid of homeless charities in the Stoke area).

We were once again the proud main sponsors of the Leek and District Show 2019.

Outlook

While market conditions are likely to remain challenging, the Society is well positioned for the future. We have a strong team from the front counter right the way through to our boardroom, together with an unflinching commitment to the highest standards of service, corporate governance, compliance and risk management.

The Bank of England has provided significant volumes of low cost funding to banks and building societies which must be repaid over the coming years. Given our highly liquid position, we are well placed to fulfil our repayment commitments which fall due in 2021 and 2022.

We continue to run stressed scenarios that cover events such as potential post-Brexit outcomes so that we can recognise the impacts they could have on the Society. Such impacts could of course include house price reductions, lower mortgage and savings levels and/or higher unemployment. However, we remain confident that we are in a robust position to withstand such shocks. We will at all times put first the safety and soundness of the Society, and the associated interests of our members, rather than prioritising the achievement of short-term profits.

While it is difficult to make economic predictions for 2020 and beyond, not least given the level of uncertainty regarding the UK's future trading arrangements with the EU and other nations, our robust balance sheet provides us with significant confidence in our future as a strong and independent building society.

Andrew Healy
26 February 2020

"Our commitment, competitiveness and high standards were recognised during 2019 with a number of industry-level awards. These included Best Variable Rate Mortgage Lender in the Personal Finance Awards and we were highly commended for Best First Time Buyer Mortgage Provider in the Moneynet Awards, both for the second year in succession."

Our Charities

During 2019 we were proud to support a range of charities and worthy causes. We have helped to donate more than £58,000 for wonderful causes, all made possible by the efforts of our staff and of course the tremendous generosity of our members as well as the general public.

Home Start
Support and friendship for families
Staffordshire Moorlands

East Cheshire Hospice
Where people come to live

County Air Ambulance Trust

the donna louise
Where every moment counts

The Rossendale Trust

TREETOPS HOSPICE CARE
where every day counts

GUIDE DOGS

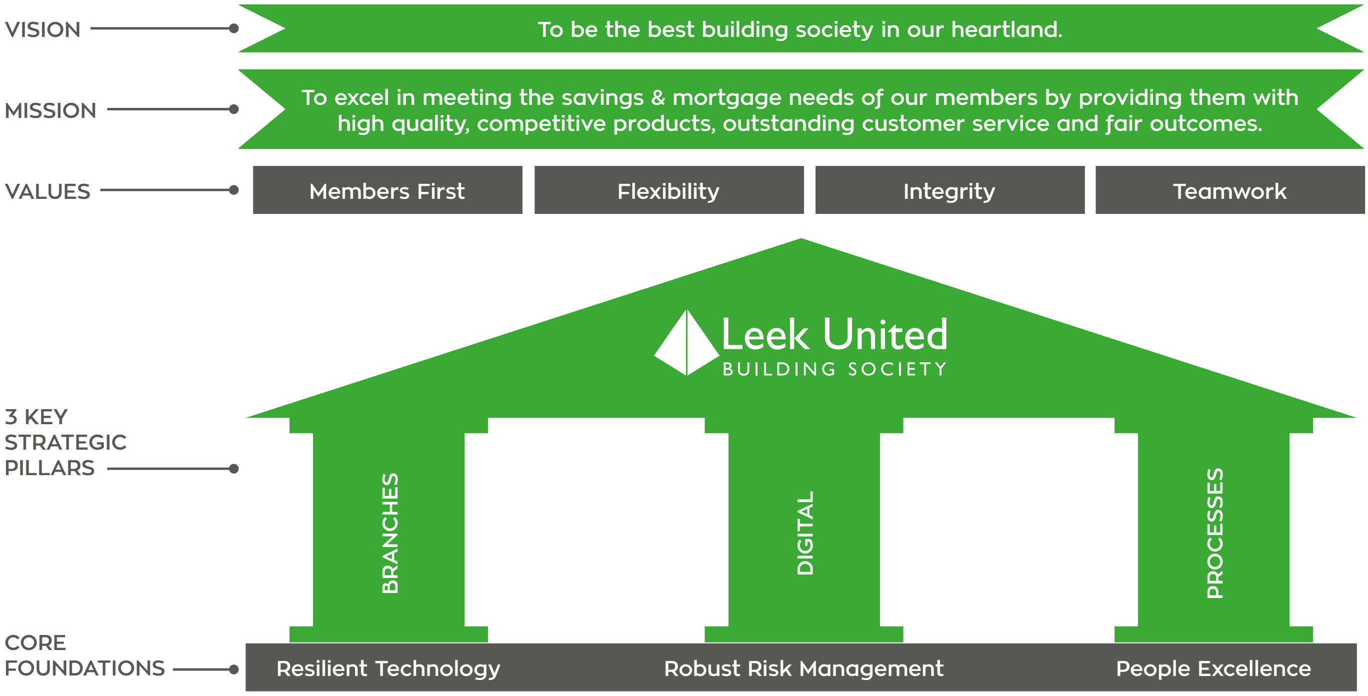
Severn Hospice
here and at home

British Heart Foundation

The Gingerbread Centre
'Supporting Vulnerable People'

Strategic Report

As set out in the Chair's statement, during the year we conducted a detailed strategic review. The key outputs from this review are outlined below:



Our values

Our values define how we behave, both as an organisation and individually. We have four values; they are:

- **Members First:** We ensure our members are our key focus. We always strive to exceed their expectations. We ensure fair customer outcomes.
- **Flexibility:** We make ourselves accessible by our members through whatever means they choose.
- **Teamwork:** We work together and collaborate for the good of our members and to make work more enjoyable. Working for Leek United and serving our members is a privilege. But it is also fun.
- **Integrity:** We adhere strictly to the highest standards of conduct, risk management, ethics and honesty in all that we do.

Key strategic objectives

The Society's primary objective remains the provision of mortgage finance for the purchase and improvement of residential property while funding such lending through a range of personal savings accounts. We also provide a range of other services such as general insurance, life insurance and long term investments, which are delivered through a number of business partners. These activities are undertaken through our twelve branches and two agencies across our four heartland counties.

As a mutual building society, we do not seek to maximise profits at the expense of our members. We strive to achieve a level of profitability that is sufficient to balance member value with the need to ensure the resilience of our capital position and to maintain high levels of member confidence.

Our strategic review identified three strategic pillars – modern branches, new digital technology and simplified processes – which represent the focus of the investment programme which is already under way. Over the last two years, we have conducted extensive research into what current and potentially new members/customers want from their local building society. The overwhelming message is that they expect flexible online and mobile technology in order to be able to manage their finances themselves while being simultaneously supported by the availability of a branch network which provides access to face-to-face advice when it is needed.

To meet these expectations, the Society's Board has determined that a significant investment programme is required which will deliver step improvements in the organisation's systems, processes and branch network. The programme will also deliver significant improvements to customer service standards as well as increased levels of operational resilience, thereby further strengthening our operational platform and capacity to move forward with confidence over the long term.

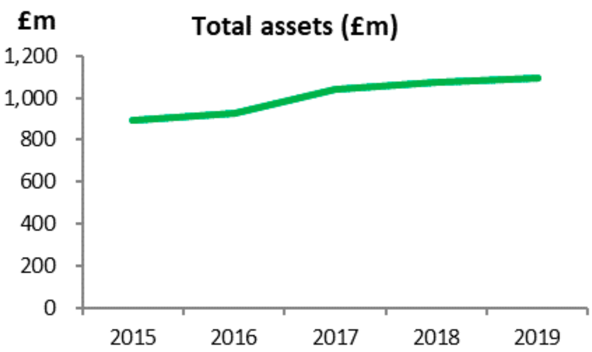
The investment programme will provide full online and mobile access to members. This will be facilitated by an online platform and a mobile app providing the capability to easily join the Society and to actively manage savings and mortgage facilities. To modernise and enhance the capability of branches to meet current and new member needs in terms of advice and support with their accounts, we have significant plans to invest in our network of branches.

Key Performance Indicators

The Society delivered a strong financial performance in 2019 in challenging market conditions. The Board uses key performance indicators to monitor the development and performance of the Society. A number of these performance indicators are included within this report to help provide a good understanding of the Society's performance and status.

Staff raised £1,500 for Cancer Research UK when they ran the Race For Life, 'Pretty Muddy' event.

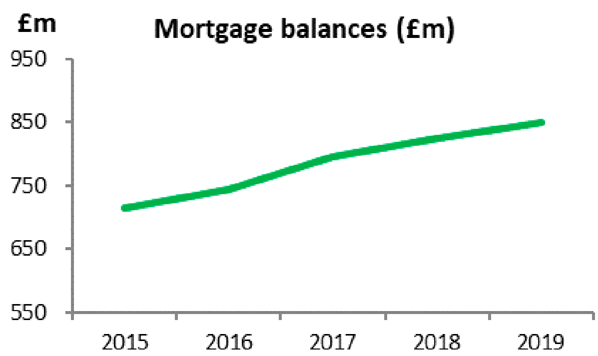
Total assets (£m)



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

The Society continued to grow as planned in a sustainable manner. Total assets increased by 2%, from £1,071m at the end of 2018 to £1,091m at the end of 2019. Sustainable growth in the mortgage book was funded by increased levels of customer deposits.

Mortgage balances (£m)

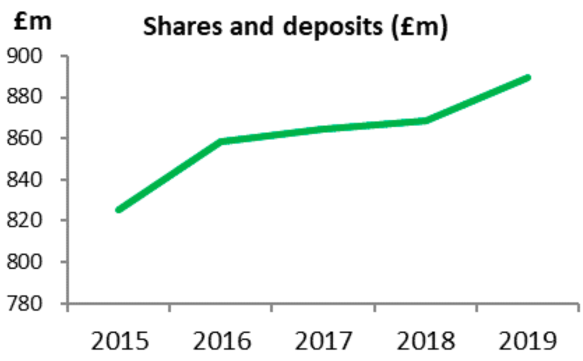


Mortgage balances: *the total amount owed to the Society for mortgages by customers.*

Net lending of £21m was achieved in the year, with total mortgage balances at the end 2019 of £849m (2018: £825m).

New lending amounted to £165m in 2019 (2018: £158m). Redemptions in the year were £107m (2018: £95m).

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.*

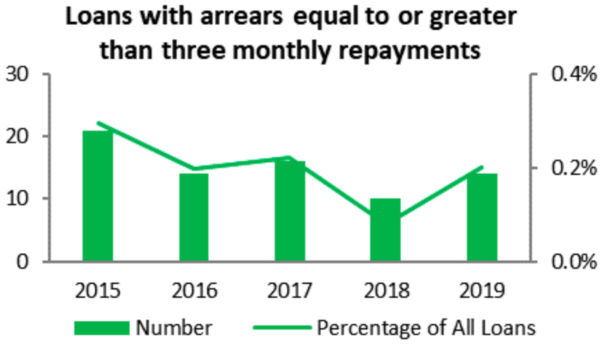
Savings balance growth of £21m was achieved during the year, with total balances at the end 2019 of £889m (2018: £868m).

The Society is, and will continue to be, primarily funded by individual retail savings (shares) via a range of savings and ISA products. During the year, a new 5 year fixed rate bond was launched to support customers seeking higher returns. We continued to reward our existing customers through preferential loyalty products.

The Society drew £132m from the Bank of England's Term Funding Scheme (TFS) in 2017 and 2018, which becomes repayable over the course of 2021 and 2022. We have robust plans in place to repay these funds, primarily through increases in member savings balances and the efficient management of our liquidity.

We remain committed to providing our savers with rates that are fair, consistent and sustainable despite the continued challenges presented by a low interest rate environment.

Mortgage arrears



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

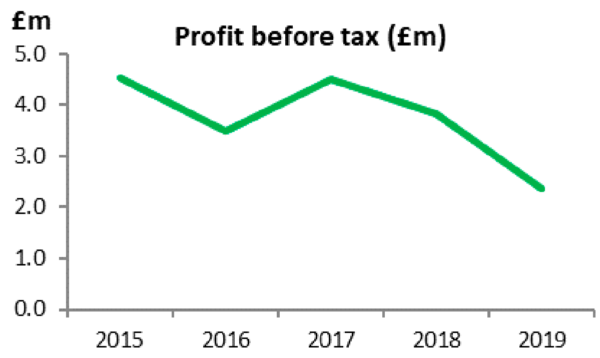
The Society is committed to responsible lending. Our mortgage book remains of high quality, as evidenced by the low level of arrears. The number of mortgages that are in arrears by the equivalent of three or more monthly repayments totalled 14 accounts as at 31 December 2019, representing 0.20% of mortgage accounts (2018: 10 accounts, 0.08%).

In certain circumstances, we may offer forbearance measures to support customers who are experiencing financial difficulty in order to help them get back on their feet.

An impairment allowance is held where appropriate and cases that do not have an individual impairment allowance are included within the collective impairment allowance. During the year, no properties were taken into possession, as was the case in 2018.

Strategic Report (continued)

Profit before tax (£m)

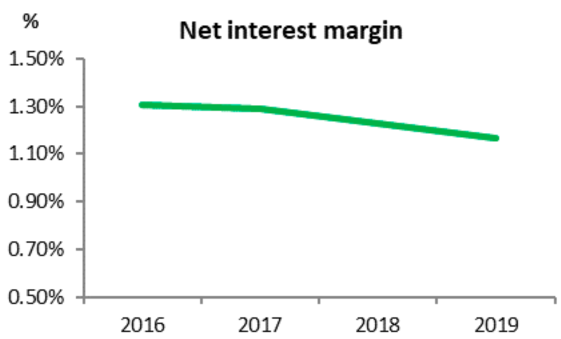


Profit before tax: *The surplus before tax, achieved from trading activity during the financial year.*

Pre-tax profit in 2019 was £2.4m compared to £3.8m in 2018, however the outturn in 2019 was very much in line with planned levels. Of the year on year reduction, £0.7m was due to hedging variation, whilst the 2018 profit also benefited from certain one off benefits such as the release of FSCS provision no longer required (£0.1m) and recovery of a mortgage loss (£0.2m). Additionally, market competition resulted in continued pressure on net interest margin, which is discussed in more detail below. The Society is committed to ensuring profit is maintained at a suitable level to protect capital but is not maximised at the expense of member value.

Based on the Society's investment plans and the margin compression impacts of competitive forces, it is inevitable that profitability will reduce over the coming years. However, we are confident that it will remain at a level sufficient to maintain our capital strength.

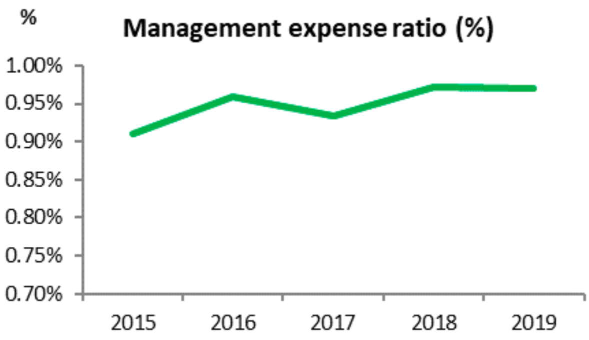
Net interest margin percentage



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

Net interest margin decreased during the year to 1.17% (2018: 1.23%), reflecting our commitment to offer value to members in both the mortgage and savings areas as well as increased market competition, particularly in the mortgage area. The Society will continue to offer consistently competitive products to both borrowers and savers and as a result, anticipates that margin will reduce further next year. This said, ongoing work to develop our product proposition to meet a broader range of customer needs is expected to positively support future margins without compromising our cautious approach to lending.

Management expense ratio (%)



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

The management expense ratio is a very simple measure of efficiency and it is pleasing to see this stabilise this year at 0.97% (2018: 0.97%).

The Society is committed to achieving cost efficiency to sustain the required level of profitability to protect members' interests. However, this must be carefully balanced with investing for the future to ensure we have the capacity to compete and grow - which of course is also in the interests of our members.

Despite a number of technology, process, people and risk management investments during the year, total costs increased by just 2.3%. When these investments are stripped out, underlying costs actually reduced by 1.1%.

Gross capital (£m)

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

The level of profit generated in 2019 has ensured that the Society's capital position remains robust, with reserves as at 31 December 2019 of £66.6m (2018: £65.7m). This outturn reflects the impact of profit for the year which has been partially offset by a net reduction in reserves due to movements in our defined benefit pension scheme obligations.

The ratio of gross capital as a percentage of total shares and borrowings was 6.5% at 31 December 2019 (2018: 6.6%) and the ratio of free capital as a percentage of total shares and borrowings was 6.3% at year end (2018: 6.4%). Free capital is the total reserves and collective loss provision less fixed assets. The core tier 1 ratio at year end stood at 17.4% (2018: 17.8%) and the leverage ratio (unaudited) stood at 6.0% (2018: 6.0%).

Capital Management

The Society's policy is to maintain a strong capital base to sustain member, creditor and market confidence and to support the future development of the business. The Board manages the Society's capital and risk exposure to ensure capital is maintained in line with regulatory requirements. Capital levels are subject to regular stress tests to ensure the Society maintains a sufficient amount to protect itself against possible future events.

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

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

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

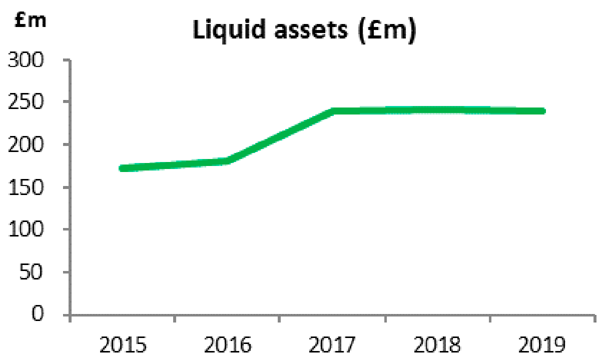
Capital requirements are assessed in line with the Capital Requirements Directive (CRD). This framework governs the amount of capital required to be held to provide security for members and depositors. The Society seeks to ensure that it protects members' savings by holding sufficient capital at all times. The minimum amount of capital the Society is required to hold is set by European and national regulators. The 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	**2019**	2018
Total Reserves (audited)	£66.6m	£65.7m
Prudent Valuation adjustment (audited)	(£0.1m)	(£0.1m)
Intangible Assets (audited)	(£0.1m)	(£0.1m)
Tier 1 Capital (audited)	£66.4m	£65.5m
Tier 2 Capital – collective impairment allowance (audited)	£0.4m	£0.4m
Capital Resources (audited)	£66.8m	£65.9m
Risk Weighted Assets (unaudited)	£380.7m	£366.8m
Pillar 1 and 2A requirement (unaudited)	£36.9m	£39.7m
Core Tier 1 Ratio (unaudited)	17.4%	17.8%
Assets for leverage purposes (unaudited)	£1,100.6m	£1,083.0m
Leverage Ratio (unaudited)	6.0%	6.0%

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

Strategic Report (continued)

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, we held levels well in excess of our regulatory requirements, partly as a result of our TFS drawdowns. As at the year end, we held £240m of liquidity (2018: £241m). The amount of liquidity repayable on demand is £113m (2018: £112m).

As we commence the repayment of TFS funding in 2021 and 2022, our liquidity will reduce to an appropriate level but will remain in excess of all regulatory requirements. We do not anticipate having to raise additional retail deposits to fund the repayment of our borrowings under the TFS.

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

As outlined by our Chair, economic and political uncertainty contributed to the sluggish performance of the housing market over the past year.

Competition in the mortgage market remained intense, particularly in the low LTV residential mortgage market where ring-fenced banks have been deploying their surplus liquidity in an effort to increase market share. Market competition for savings balances continued to be impacted by the low interest rate environment and the fact that banks and building societies had access to low cost Bank of England funding through the TFS. Notwithstanding the likelihood of interest rates remaining low, competition for deposits is likely to increase over the coming years as institutions seek to replace such funding. We expect the mortgage and savings markets to remain competitive.

While the outcome of the general election in December 2019 provided certainty regarding the timing of Brexit, the longer term economic impact will clearly depend on the extent and terms of the country's future relationship with the European Union as well as with key non-EU trading nations.

The cost of doing business continues to increase for all financial services businesses, in particular due to the need to strengthen risk management frameworks and to invest in technology. In terms of the latter, customer expectations are rising regarding online digital solutions to complement their branch/bricks and mortar needs.

The Society is not immune to these distribution trends and as advised by our Chair and Chief Executive, we have commenced a programme of prudent investment in our technology, processes and branches. We are also taking steps to improve the resilience of our technology, ensuring that our systems remain well placed to survive the challenges and risks posed by the modern world.

Leek United emerged victorious against The Donna Louise Trust in a football fundraiser for the North Staffordshire charity.

The Society has a proud history of resilience and prudent management in difficult market conditions and we do not intend to stray from our well-tested approach. All risks are monitored carefully through our Risk Management Framework. In addition, we perform regular stress testing as part of our Internal Capital Adequacy Assessment Process (ICAAP) and Individual Liquidity Adequacy Assessment Process (ILAAP) regulatory assessments as well as our forward looking corporate plan. Through these robust processes, we test a wide range of severe stresses across each of the Society's principal risks. These include house price reductions, reduced mortgage book quality, net interest margin compression, cost pressures, regulatory pressures, liquidity changes and operational events. Such testing continues to demonstrate that the Society is sufficiently strong to withstand the impacts of these stresses, which have been assessed as part of the Long Term Viability Statement (page 19).

In summary, the Board considers that market conditions will remain challenging in 2020. The Society has managed to successfully negotiate economic, competitive and other headwinds over recent years and continues to be well placed to do so.

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

Leek United Building Society has a well-established and embedded Risk Management Framework (RMF) that sets out the required approach to managing risk. Its aim is to ensure that there is a strong, robust risk management methodology and culture applied across the entire business. The key aspects of the RMF are:

- Risk Strategy – a clear articulation of the Society's risk management objectives and how it intends to achieve these. This includes defining the required 'tone from the top' and the desired risk culture.
- Risk Appetite Statements – these provide guidance with regard to the level of risk the Society is willing to take and are supported with quantifiable metrics.
- Risk Policies – individual documents that set out clear requirements for identifying, assessing, managing, monitoring and reporting risk.
- Business Area Controls & Operational Procedures – documented controls and procedures that ensure the requirements of the individual policies are embedded into day-to-day activities.
- Three Lines of Defence – a best practice model defining clear roles and responsibilities for the management of risk which is illustrated below.

ANDREW DAVIES

CHIEF RISK OFFICER

First / Management Line

BUSINESS

- Overall accountability and ownership for risk management
- Implementation of Risk Management Framework
- Establish strong risk management culture
- Promote strong risk management culture
- Set Risk Appetites

Second / Oversight Line

RISK MANAGEMENT

- Design Risk Management Framework
- Develop processes for implementation of, and monitoring of adherence to, the framework
- Promote strong risk management culture
- Challenge and Oversight

Third / Assurance Line

INTERNAL AUDIT

- Independent review of the design and implementation of Risk Management Framework

Strategic Report (continued)

RICHARD GODDARD
NON-EXECUTIVE DIRECTOR

The principal risks, their controls and the Board's appetite statements are set out in the table on the page opposite. In addition to these, the Society is also at risk from economic uncertainty including the potential implications following Brexit, which may affect 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 and/or savings markets could impact market pricing and customer demand. Higher interest rates or inflation could have a detrimental impact on the ability of our customers to repay their mortgages. Such impacts are considered as part of the Society's planning process and ongoing stress testing.

Climate change also poses a potential risk for the Society, in particular, the impact of flooding on the value of property taken as security. An initial assessment has indicated minimal exposure at present but this will be subject to ongoing monitoring. In line with regulatory requirements, and as noted in the Chief Executive's Business Review, a senior executive, Robert Broadbent, has been appointed to lead our work on climate change and its impact on the Society.

Risk Governance
Robust governance arrangements are fundamental to the effective management of risk. The Society's Board has ultimate responsibility for the effective management of risk and approves the RMF, risk appetites and governance arrangements. It is advised on risk related matters by the Board Risk Committee (BRC), a formal sub-committee of the Board. The BRC has explicit terms of reference and its membership is comprised solely of Non-Executive directors, with meetings routinely attended by executive and senior management.

The BRC receives formal updates from the Risk Oversight Committee, Asset & Liability Committee and Credit Risk Committee. Full details of the Society's governance arrangements are captured in the Corporate Governance Report on page 25.

Principal Risks and Uncertainties
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, while home insurance is underwritten by Royal & Sun Alliance Insurance plc. Wholesale financial instruments are used in the management of the balance sheet, with surplus liquidity invested and wholesale funding raised if necessary, though the latter is rarely required. Derivative financial instruments are solely used to manage and mitigate interest rate risk and not for trading activity or speculative purposes.

Andrew Healy hosted the Society's annual staff awards dinner.

	Principal Risk	Mitigants	Risk Appetite
Retail 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 or insufficient security value.	The Society operates within appropriate policies and risk appetites and performance is monitored closely. Our prudent lending policy means our mortgage book is of a high quality. Each application is individually underwritten to ensure that loans are affordable. This is evidenced by our low level of arrears.	The Society will adopt a prudent lending approach to our mortgage customers which will ensure that our default rates are low and do not impact on earnings or capital.
Wholesale Credit	The risk of losses due to the default of a wholesale Treasury counterparty who becomes unable to meet their financial obligations. The Society's exposure to wholesale credit risk results from investments in financial instruments, used to manage its liquidity portfolio, and from transactions to hedge its interest rate risk.	The Society's Treasury Policy Statement and operational limits set out the criteria and boundaries within which wholesale lending can be undertaken. Each counterparty is required to meet strict external ratings thresholds as well as satisfying internal assessments that consider balance sheet strength, reputational issues and the results of regulatory stress tests. The risk from hedging transactions is mitigated by the placing and receiving of cash collateral equal to the exposure.	The Society will adopt a prudent approach to lending to wholesale counterparties which will ensure that default rates are low and there is no impact on earnings or capital.
Strategic and Capital	The risk that the strategic direction of the Society and decisions made result in financial loss and have a detrimental impact on capital resources.	The Society has an established corporate planning process, which is subject to rigorous challenge and sets the overall direction for the Society. This is supported by conducting an Internal Capital Adequacy Assessment Process (ICAAP) at least annually to assess the Society's current and projected capital requirements. This demonstrates to the Board and regulators that the Society has sufficient capital for its business plans and the level of risk being taken. 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 rate risk resulting from funding fixed rate mortgages with variable rate savings products. Additionally, the Society is exposed to basis risk whereby the interest rate on assets and liabilities with similar re-pricing periods move by varying degrees, e.g. assets linked to industry benchmarks funded by variable savings products.	The Society has limited appetite for market risk but acknowledges that, as a mortgage lender, it is not possible or practical to eliminate all risk. To restrict market risk as much as possible the Society has set clearly defined limits within which risk must be managed. These are closely monitored and reported to senior management and the Board on a monthly basis. Interest rate risk is managed by utilising natural hedging opportunities that occur within the balance sheet or entering hedging transactions with external counterparties.	The Society will manage our interest rate and basis risk positions to ensure that losses due to adverse movements in market rates do not impact significantly over and above our 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 regulatory liquidity requirements. There is potential risk to the level of liquidity from an extreme scenario of depositors withdrawing their funds.	The Society's Board has set strict limits in respect of liquidity, which exceed regulatory requirements. These, along with key early warning indicators, are monitored on a daily basis in order to highlight potential issues and allow timely management action. Regular stress testing of severe, but plausible, scenarios is undertaken on a regular basis. This ensures that we remain prepared and have appropriate contingency measures in place.	The Society will maintain sufficient liquid resources, over and above the financial minimum, that give 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 demonstrate that it is putting the customer's interest at the very heart of the business. This can manifest itself through literature that is confusing or misleading and through product terms & conditions that are unnecessarily restrictive or penal.	The Society, being a member owned organisation, is committed to upholding the highest standards and treating all members & customers fairly. The Board has set out a clear set of values that drives a culture and behaviours that puts the customer first.	The Society will ensure that we put our customers at the heart of our business operations to deliver an excellent customer service.

Strategic Report (continued)

	Principal Risk	Mitigants	Risk Appetite
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 its contractual and regulatory requirements so that it can meet its existing and future liabilities.
Operational	This is the risk of a loss or reputational damage resulting from inadequate or failed internal processes, people and systems or from 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. Given the broad nature of operational risk, consideration has been given to each aspect of the risk. Those identified as particularly applicable to the Society are documented in the table below.	The Society will maintain efficient operational processes and controls to ensure that we can optimise our resources and reduce the impact of operational risks on the Society's performance and reputation.
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.	The Society, as a mutual organisation, is committed to fulfilling all its regulatory, legal and social obligations. A robust process to monitor all regulatory change is in place, with regular updates provided to senior management and Board committees. The Three Lines of Defence model also provides oversight, challenge and independent assurance.	The Society will maintain a robust process to ensure that regulatory and statutory requirements are met within agreed timeframes.

Further risks designated as a sub-set of operational risks are as follows:

Financial Crime	Losses resulting from criminal activity relating to fraud or dishonesty; misconduct in; or misuse of information relating to, a financial market, or the handling of the proceeds of crime.	The Society operates a wide range of controls, both within our customer facing areas and within the Customer Service Centre to mitigate financial crime. It is also committed to working closely with crime prevention authorities and supporting all initiatives that protect the Society and its members.	Financial crime is unethical and unacceptable. Leek United Building Society has no risk appetite for financial crime risk and is committed to take timely, proper and reasonable actions in order to minimise, manage and control financial crime risk.
Model and EUC	The risk that models and spreadsheets used in decision-making are not fit for purpose. This could be due to flawed assumptions or calculations or a breach of model integrity.	The Society uses a wide range of models and complex spreadsheets to derive management information and all such systems are subject to access controls and have detailed procedural documentation to enable recreation where required.	The Society will ensure that all financial models and EUC applications are governed robustly to ensure accuracy and security is maintained.
Financial Reporting	The risk that financial reporting internally, to members, to financial markets or to the Society's regulators is inaccurate, misleading or late.	The Society has a detailed schedule which stipulates all of the regulatory returns that need to be submitted during the year. All returns are subject to approval by an independent reviewer prior to final submission to the regulator meaning that appropriate checks are performed to ensure accuracy.	The Society will operate robust systems and controls to ensure that financial reporting is timely and accurate.
Product Governance	Failure of systems and controls relating to product design, management, distribution strategies, sales processes, quality and suitability of sales.	The Society has a Product Governance Committee which governs the development and launch of new/amended products.	All Society products will be designed, approved and launched using appropriate robust governance arrangements.
Information Technology	The risk that the Society or its members suffer financial loss or detriment due to inadequate management or controls of information security, physical security of IT assets, IT maintenance or delivery of IT applications and services.	The Society has robust mechanisms to ensure that IT operates effectively to deliver business performance. IT controls are subject to a quarterly attestation process that is independently challenged by the second line of defence and from regular reviews by Internal Audit.	The Society will maintain robust processes and controls to ensure that Society systems continue to deliver critical business activities and that security measures are appropriate to safeguard assets.

Data Governance	The risk that the Society does not meet both regulatory standards and its own requirements for ensuring the accuracy, integrity and security of confidential data relating to customers, staff, suppliers or the Society's business activities and performance.	The Society is committed to protecting its members' personal data. Comprehensive processes and procedures are in place that are fully aligned with General Data Protection Regulation (GDPR) and the Data Protection Act (DPA) 2018. This includes the requirement to provide all staff with comprehensive training on a regular basis and ensuring the rights and freedoms, in relation to data protection, of our members' remains at the fore.	The Society will maintain robust systems and controls to adhere to data protection legislation as it relates to UK financial services businesses and thus prevent legal action regarding non-compliance.
People	The risk that the Society does not select, engage, manage, reward and develop its people in such a way that delivers the organisation's core values, and supports that delivery of current and future business strategy.	The Society has a very detailed recruitment and selection process to ensure that appropriate staff are employed. There are detailed policies and procedures in place across the Society for the management of personnel. The Society recognises that in order to meet the needs of members it requires a skilled and motivated work force. To achieve this, detailed recruitment and selection processes are in place along with competitive remuneration packages. Having attracted the right individuals, there is a focus on training and development as a retention tool. A detailed succession plan is in place for all key roles to address potential vacancies over the short, medium and long term.	The Society will engage with and manage all members of staff in a way that will support the delivery of the objectives set out in the Corporate Plan.
Third Party Supplier	The risk of financial loss, regulatory fines, reputational damage or adverse operational impact due to the failure of a critical supplier to fulfil its contract.	The Society has a detailed Third Party Supplier risk policy which sets out the way in which third parties are to be managed. Critical third parties are subject to due diligence on an annual basis.	The Society does not have any appetite to enter into or remain in contract with critical third party suppliers that are unable to demonstrate financial probity, their ability to meet the appropriate levels of service as detailed in the contractual agreement, social responsibility, and adherence to legislative and regulatory obligations.
Change Management	Risk of ineffective and inefficient implementation of change within the Society which could lead to financial loss, failure to meet legal and regulatory requirements or customer service standards.	The Society operates both a Portfolio Investment Committee and Change Management Committee to ensure that change is managed appropriately. All projects are monitored through to completion and reviews undertaken after they have been completed.	The Society will manage all change projects in a structured and consistent manner to ensure that the defined benefits are realised.
Business Continuity	The risk that the Society is unable to operate business critical processes and provide business critical services in the event of an unplanned disruption to business as usual operations.	The Society has a Business Continuity Plan that is reviewed and updated annually. Tests are performed to ensure that if the plan needed to be invoked the Society would be able to operate effectively and meet customer needs.	The Society will operate systems and controls to ensure that business critical operations are supported in the event of unplanned disruption.

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

Long Term Viability

The Directors confirm that their assessment of the principal risks facing the Society is robust.

Based on the Board's assessment of the principal risks (as set out above), and the 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 2024. This is naturally 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 including the potential impact of a 'disorderly' Brexit. 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
26 February 2020

Directors' Profiles

Non-Executive Directors

01

Rachel Court JP, BA Oxon
Independent Non-Executive Director since October 2014 and Independent Chair since April 2016.

Skills and Experience
Rachel has 23 years of experience working in the Building Society sector including 7 years at Executive level. This has been followed by 6 years operating as a Non-Executive Director in the broader financial services sector as well as in the Public and Voluntary sectors.

After an 18 month period on the Board of Leek United, she was appointed as the Society's Independent Chair, and has overseen the reshaping of the Society's Board, including the appointment of a new Chief Executive and Finance Director in 2018/19.

Rachel has a career-long commitment to and understanding of the mutual sector and a passion for its ethos. She has a particular understanding of customer service transformation, operational efficiency and risk management, HR and remuneration, product development, sales, mortgage lending and the Intermediary market as a result of her previous roles, and has considerable experience of managing Regulatory engagement. As a leader, she brings a strong commitment to excellent team working and to building an open and constructive environment in which the interests of all stakeholders are fully considered in developing the Society's strategy and overseeing its performance.

As well as Chairing the Board, Rachel also Chairs the Board Nominations Committee and is a member of the Board Remuneration Committee.

Current external positions
Rachel currently holds the following external appointments:

- Independent Chair of Invesco Pensions Limited, where she is also a member of the Audit and Risk Committee.
- Non-Executive Director of Invesco UK Limited, where she is also Chair of the Risk and Compliance Committee and a member of the Audit Committee.
- Non-Executive Director of Invesco Fund Managers Ltd.
- Governor – Calderdale College.
- Chair – PRISM Youth Project and Independent School.
- Magistrate.

02

Keith Abercromby BSc, FIA
Independent Non-Executive Director since March 2016.

Skills and Experience
Keith has 35 years of experience in the financial services sector in the UK and internationally covering retail banking, insurance, investments and pensions. This includes 20 years at Board level in a variety of roles including Non-Executive Director, CEO and Finance Director across a range of companies including the Halifax, Clerical Medical, Aviva, Liverpool Victoria and 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.

Keith is Chair of the Board Audit Committee and is a member of the Board Risk Committee.

Current external positions
Keith currently holds the following external appointments:

- Independent Non-Executive Director of Canada Life Limited since 2017, where he is a member of the Audit, Risk and Nominations Committees and chairs the Audit Committee.
- Independent Non-Executive Director of Argus Group Holdings since 2017, where he is a member of the Audit Committee and chairs its subsidiary, Argus Insurance Company (Europe) Ltd.

03

Richard Goddard MA, FCA
Independent Non-Executive Director since November 2011 and Senior Independent Director since June 2016.

Skills and Experience
Richard is a Chartered Accountant with more than 30 years' experience in financial services including retail and corporate banking, general insurance, life assurance and pensions. As a former Finance Director and Financial Controller, Richard has the background to analyse and test the Society's Financial and Risk strategies.

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 was co-opted onto the Board during 2011. Richard serves as Senior Independent Director, Chair of the Board Risk Committee and Chair of the Pension Trustees Committee. Richard is also a member of the Board Audit Committee and the Board Nominations Committee.

Current external positions
Richard currently holds the following external appointments:

- Director of RCG Business Consultancy.

04

Colin Kersley
Independent Non-Executive Director since December 2016.

Skills and Experience
Colin began his career with Midland Bank in 1975 (bought by HSBC in 1992). Throughout his career Colin has held numerous senior roles in Commercial, Corporate and Retail, including UK Head of Wealth and Premier and his final role as Chief Executive Officer of M&S Bank plc, where he was responsible for launching the Bank in 2012.

Whilst he possesses an in-depth knowledge and experience of management and leadership skills, Colin also has a proven track record of successful strategic implementation and business growth in an ever more demanding regulatory environment.

Colin's belief that good team leadership and hands on approach to management bring increased standard, motivation and performance resonates with the success of Leek United.

Colin was co-opted onto the Board in December 2016 and is a member of the Board Audit Committee and Board Nominations Committee.

Current external positions
Colin currently holds the following external appointments:

- Independent Chair of Assurant plc, a global provider of risk management solutions.
- Independent Non-Executive Director of Assurant plc's European subsidiary based in Amsterdam.

05

Jane Kimberlin BA
Independent Non-Executive Director since November 2016.

Skills and Experience
Jane is an internationally experienced Board Chief Information Officer/ Information Technology Director with over 25 years of delivering significant transformation across a wide range of companies including financial services, retail and utilities. She led the successful merger of IT for several major companies following acquisitions.

With her experience in retail, Jane is a strong advocate of the customer at the heart of the business. Having managed large teams who were responsible for the development and performance of various major digital platforms, Jane is able to leverage her change and technical skills. Jane is passionate about the appropriate use and development of technology and works voluntarily encouraging children and adults to have a successful career in IT.

Jane is a former IT Director of BNP Paribas, a former IT Director of Domino's Pizza, a former IT Director of Scottish and Newcastle/Spirit Group and a former IT Director of PowerGen (now E.ON). Jane is a former Fellow of the Institute of Directors.

Jane is a member of the Board Risk Committee and Board Remuneration Committee.

Current external positions
Jane currently holds the following external appointments:

- Director and Society Secretary, Creaton Community Benefit Society.
- Director, Creaton Consultants.
- Liveryman, Worshipful Company of Information Technologists.

06

John Leveson MBA, FCIB
Independent Non-Executive Director since May 2015.

Skills and Experience
John has over 36 years experience in a wide range of roles within the Building Society sector including 17 years as an Executive Director and latterly Deputy Chief Executive of a regional building society. In addition to serving on a building society group Board, he served on and chaired the boards of subsidiary companies involved in estate agency, financial planning and car finance.

This has given John a strong understanding of the Building Society sector and he is a strong advocate of the benefits of mutual business model in financial services. During his career, he has developed skills and expertise across a broad range of areas including marketing, sales, product development, mortgage underwriting and customer services.

John is Chair of the Board Remuneration Committee and is a member of the Board Risk Committee.

Current external positions
John currently holds the follow external appointments:

- Non-Executive Director of H&H Group plc.
- Volunteer driver for a community bus service which serves the rural area where John lives.

Executive Directors

07

Andrew Healy MoB, BSc, MCIPD
Chief Executive and Executive Director since December 2018.

Skills and Experience
Andrew has more than 25 years of experience in the financial services sector in the UK and internationally, including over 10 years at CEO and Board level. In December 2018, he was appointed Chief Executive with responsibility for developing and proposing the Society's strategy, objectives and plans as well as for maintaining the Society's business model and culture.

Andrew has a very deep commitment to the ethos of mutuality and the responsibility of financial institutions to contribute tangibly to the communities they serve. With his values and experience, he is particularly well placed to help maintain the safety, soundness and success of the Society for many years to come.

Andrew is a former Chairman of the Northern Ireland Banking Association and a former Board Director of the Asian Banking Association. He is a Fellow of the Institute of Banking in Ireland and a Chartered Member of the UK Chartered Institute of Personnel and Development.

Andrew is a member of the Board Nominations Committee and he attends the Board Risk Committee, Board Audit Committee and Board Remuneration Committee. In terms of management committees, Andrew chairs the Executive Committee and Investment Programme Steering Committee and he is also a member of the Risk Oversight Committee, Asset and Liability Committee, Portfolio Investment Committee and Credit Committee.

Current external positions
None.

Directors' Profiles (continued)

08

Robert Broadbent BSc, ACA
Finance Director and Executive Director since April 2019.

Skills and Experience
Robert, a Chartered Accountant, has more than 20 years of experience in financial services, including positions at both Board and executive level. In April 2019, he was appointed Finance Director and is responsible for managing the Society's capital, funding and liquidity positions. An integral part of his role is ensuring the integrity of financial and regulatory reporting whilst ensuring the Society maintains an effective stress testing framework. He also holds executive responsibility for the Society's work in the area of climate change.

Robert has spent most of his professional career either working for, or providing advisory services to, the mutual sector with a particular focus on the building society sector. He passionately believes that a modern mutual has a key role to play in delivering financial services to members and supporting the local communities in which they are based.

Robert is a Chartered Member of the Institute of Chartered Accountants in England and Wales.

Robert attends the Board Risk Committee and Board Audit Committee. He chairs the Asset and Liability Committee and Credit Committee and is a member of the Risk Oversight Committee and Investment Programme Steering Committee.

Robert commenced his role as Finance Director of Leek United in April 2019 and a resolution to formally elect him to the Society's Board will go before members at the AGM in April 2020.

Current external positions
None.

09

John Kelly BA, ACA
Operations Director and Executive Director since February 2017.

Skills and Experience
John has 20 years of experience in the retail financial services sector in the UK. He joined the Society in October 2016 as Interim Operations Director and was appointed to the role on a permanent basis in February 2017. He has been responsible for marketing, mortgage sales, the branch network, customer operations, IT and change management at different times over the last three years. He is currently responsible for marketing, mortgage sales, IT and change management and for leading the Society's Investment Programme.

John has worked in executive and senior management positions within the building society sector for most of the last 20 years, displaying a strong commitment to the values that make building societies different in their strategic outlook and focus. This is particularly true of John's passion for putting the customer first in what and how the Society operates and in balancing this with the need for financial stability rather than profit maximisation.

John attends the Board Risk Committee and Board Audit Committee. In terms of management committees, John chairs the Product Governance Committee, Portfolio Investment Committee and Customer Conduct Forum. He is also a member of the Executive Committee, Risk Oversight Committee, Asset and Liability Committee, Investment Programme Steering Committee, Change Management Committee and Credit Committee.

Current external positions
None.

We continue to support our local football club Leek Town with a new sponsorship deal as our community partner.

Savers have helped Leek United Building Society to make its single biggest ever donation - £52,682 - to the County Air Ambulance Trust.

Directors' Report

The Directors have pleasure in presenting the Annual Report and Accounts for the year ended 31 December 2019.

Business Review

A full review of business performance, including key performance indicators, can be found within the Chief Executive's Business Review (page 6) and the Strategic Report (page 10).

Directors

- Keith Abercromby, Non-Executive Director
- Robert Broadbent, Finance Director (Appointed 25 Jun 2019)
- Rachel Court, Non-Executive Director
- Richard Goddard, Non-Executive Director
- Andrew Healy, Chief Executive
- John Kelly, Operations Director
- Colin Kersley, Non-Executive Director
- Jane Kimberlin, Non-Executive Director
- John Leveson, Non-Executive Director
- Andrew Morris, Finance Director (Resigned 24 Mar 2019)

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 the Society's staff for their role in delivering a strong performance in 2019. Their passion and dedication will serve to support the continued success of the Society over the years ahead and to protect the interests of members. Information is provided to employees through meetings, team briefings, circulars, newsletters and the Society's intranet to ensure they are aware of the Society's performance and objectives and the business environment in which it operates.

The Society is an equal opportunity employer, and has a policy for this purpose. The Society is committed to the elimination of discrimination and the promotion of equality in employment and service delivery to customers and in its dealings with service providers.

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

We donated £1,570 to Home-Start Staffordshire Moorlands (just before Christmas).

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 standards are not at the high level that is expected.

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.

Capital Ratios

The Society's capital ratios are detailed on page 13.

Principal Risks and Uncertainties

A detailed assessment of the Society's principal risks and uncertainties is set out on pages 16-19.

Financial Risk Management Objectives and Policies

Details related to the Society's use of financial instruments and its risk exposures are set out in note 25.

Interest Rates

The Society's standard variable mortgage interest rate was 5.69% throughout 2019.

"The Directors would like to express their sincere thanks to all the Society's staff for their role in delivering a strong performance in 2019. Their passion and dedication will serve to support the continued success of the Society over the years ahead..."

Independent Auditor

A resolution to reappoint KPMG LLP as auditors to the Society will be proposed at the Annual General Meeting in April 2020.

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
26 February 2020

Corporate Governance Report

The UK Corporate Governance Code (the Code) is a set of principles of good corporate governance predominantly aimed at listed companies. Whilst Leek United Building Society is not required to comply with the Code, as it is not a listed company, the Prudential Regulation Authority requires the Society to have regard to the Code in establishing and reviewing its corporate governance arrangements.

The Code does not set out a rigid set of rules, rather it offers flexibility through the application of its principles to 'comply or explain' with the Code's provisions. A revised UK Corporate Governance Code was issued by the Financial Reporting Council (FRC) in July 2018.

Leek United Building Society is committed to good practice in corporate governance and this report explains how the Society has regard to the Code.

Board Leadership & Company Purpose

Principle A - A successful company is led by an effective and entrepreneurial Board, whose role is to promote the long-term sustainable success of the company, generating value for shareholders and contributing to a wider Society.

The Society is led by an effective Board which meets at least nine times per year. In addition to its schedule of meetings, the Board held two strategy days during 2019 to review the Society's overall strategic aims and long term objectives.

It is the Board's responsibility to oversee the delivery of the Society's corporate plan. The Board is also responsible for ensuring that an effective framework of prudent and effective controls is in place to enable risk to be assessed and managed. The Society's Board is accountable to members for the careful direction of Society affairs, the 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 have been changes to the Board's Executive Directors in 2019, with Robert Broadbent, Finance Director, co-opted to the Board in June 2019. At the end of 2019, the Board consisted of six Non-Executive Directors and three Executive Directors. The Non-Executive Directors meet regularly without the Executive Directors present.

Certain responsibilities are delegated by the Board to the executives and management of the Society. The Board has agreed a management structure to create strong corporate governance and accountability in the Society. In line with the regulated Senior Managers and Certification Regime, the Society maintains a Management Responsibilities Map which sets out the individual, and overall, responsibilities of Board Members and Senior Management.

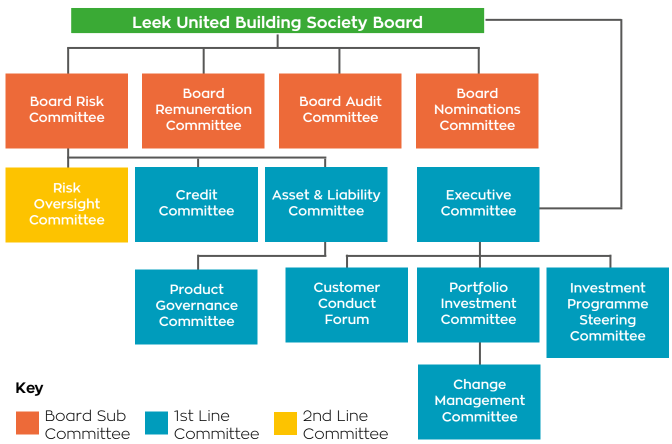
The Board ensures the effectiveness of systems, internal control and risk management through a combination of processes, including:

- Regular reports are provided to the Board and the Board Risk Committee by the Society's Chief Risk Officer (CRO) on the principal risks facing the Society and the adequacy of controls that are in place.
- Regular reports are provided to the Board and the Board Audit Committee by Internal Audit with respect to 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 is conducted by the CRO which is considered by the Board Risk Committee.
- The Board receives a monthly CRO Report which provides an independent assessment of current and emerging risks and the effectiveness of the controls and mitigating actions that are in place.
- An independent reporting line between the CRO and the Chair of the Board Risk Committee is maintained at all times.
- The review of 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 Board shall ensure these arrangements allow proportionate and independent investigation of such matters and appropriate follow up action.

The Board can confirm that during 2019, it carried out a review of the Society's risk management systems and the internal control framework and that it is satisfied these are adequate, taking into account the Society's size, risk profile and strategy.

The Society's governance structure includes both Non-Executive and Executive led committees. The Executive led committees comprise the Executive Committee, Credit Committee and Asset & Liability Committee. In addition, there is the Risk Oversight Committee which is led by the CRO. The Executive Directors who chair the aforementioned committees provide feedback to the main Board, or relevant Board sub-committee, following each meeting. The Non-Executive led committees are described in more detail below:

Governance Committee Structure



Board Risk Committee

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. It assists the Board in the oversight of the risk management framework to ensure there are adequate and effective controls in place for the identification, measurement, monitoring and reporting of risk in compliance with regulatory requirements.

Corporate Governance Report (continued)

BRC monitor the Society's key risk exposures against Board-approved risk appetites, in addition to reviewing current and emerging risks which could impact the delivery of the Society's corporate plan. The responsibilities of the BRC are as follows:

- To review the effectiveness of the Society's internal controls and risk management systems.
- To oversee and advise the Board on the current and emerging risk exposures of the Society and on future risk strategy.
- To oversee all the principal risks as defined in the Risk Management Framework (RMF), with the exception of pension risk which is directly overseen by the Board.
- To keep under review the Society's risk assessment processes which inform the Board's decision making, ensuring both qualitative and quantitative metrics are used and to review regularly and approve the parameters used in these measures as well as 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 the implications for the risk appetite and tolerance of the Society, taking independent external advice where appropriate and available.
- To review reports on any material breaches of risk limits and the adequacy of proposed actions.

  To review the Society's procedures for detecting fraud and the prevention of bribery.
- To review promptly all reports on the Society from the CRO.
- To review and monitor management's responsiveness to the findings and recommendations of the CRO.
- To ensure the CRO is given the right of unfettered direct access to the Chair of the Board as well as to the BRC.
- To give due consideration to laws and regulations, as well as other applicable rules, as appropriate.

During 2019, the Society continued to review and strengthen its risk and control environment, with the BRC overseeing the effectiveness of the RMF and reviewing the Operational Risk Framework (ORF). Operational Resilience has been a key focus for 2019, including the identification of key business services and any associated impact tolerances. During the year, the BRC reviewed the Society's principal risk policies of Liquidity & Funding Risk, Market Risk, Wholesale Credit Risk and Retail Credit Risk. It also reviewed the Society's Management Responsibilities Map to ensure this met the requirements of the Senior Managers & Certification Regime.

At 31 December 2019, the BRC comprised Richard Goddard (Chair), Keith Abercromby, Jane Kimberlin and John Leveson. The Executive Directors and CRO attend by invitation.

The BRC is supported by the Risk Oversight Committee (ROC), the Asset and Liability Committee (ALCO) and the Credit Committee (CC).

ROC's main responsibility is to assess the management of operational and conduct risk, together with legal and regulatory risk across the Society. The responsibilities of the ROC also include ensuring that both the RMF and the ORF are embedded and that a robust risk culture exists across the Society.

The ALCO supervises the Society'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 balance sheet risks and the overview and monitoring of relevant risk control frameworks. The management of market, liquidity, strategic and wholesale credit risk has been delegated to the ALCO.

The CC oversees the effective credit risk management of the mortgage portfolio and ensures the credit risk appetite framework is adhered to in line with the agreed risk appetites.

Board Audit Committee

The Board Audit Committee (BAC), a sub-committee of the Board, has the following responsibilities:

- To review the effectiveness of the Society's first and second lines of defence and the internal controls and risk management systems which are used to identify, assess, manage and monitor financial and non-financial risks, and to ensure compliance with the regulatory environment in which the Society operates.
- To review management's reports, 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 services and to monitor the effectiveness of the supplier 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 if it is fair, balanced and understandable and if it provides the information necessary for users to assess the Society's performance, business model and strategy.
- To review the Pillar 3 disclosure and recommend this to the Board for approval.
- To make recommendations on the appointment, reappointment and removal of the External Auditor, via the Board, to the Society's members for consideration at the Annual General Meeting (AGM).
- To ensure that at least once every ten years, the external audit services contract is put out to tender to enable the BAC to compare the quality and effectiveness of the services provided by the incumbent auditor with those of other firms.
- 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.

During 2019, the BAC reviewed the accuracy and completeness of the annual accounts in addition to reviewing reports from the Internal Auditor and satisfied itself on the independence and objectivity of the assurance provided. The Committee reviewed assurance plans from both the Risk & Compliance unit and Internal Audit along with the outcomes of their assurance work.

At 31 December 2019, the BAC comprised Keith Abercromby (Chair), Richard Goddard and Colin Kersley. The Executive Directors, CRO and representatives from the internal and external auditors attend by invitation.

Board Remuneration Committee
The Board Remuneration Committee, a sub-committee of the Board, has a number of responsibilities which are set out in the Directors' Remuneration Report on page 31.

During 2019, the Committee reviewed the Society's remuneration policy and approved the Directors' Remuneration Report. The committee also approved the overall increase in respect of the annual review of salaries, approved the design of the 2020 incentive scheme, set the fees payable to the Chair of the Board (who was not present when this matter was decided), and recommended to the board the fees for other Non-Executive Directors and travel and associated expenses for all Non-Executive Directors.

The Committee makes an annual report to members which can be found on page 31. The report for the year ended 31 December 2019 considers the areas set out in the UK Corporate Governance Code relating to remuneration in so far as they are considered relevant to building societies and the FCA Remuneration Code. A revised Corporate Governance Code was issued in July 2018 which applies to accounting periods beginning on or after 1 January 2019.

The Committee is composed entirely of Non-Executive Directors and as at 31 December 2019, comprised John Leveson (Chair), Rachel Court and Jane Kimberlin. The Chief Executive, Finance Director and HR Director attend the Committee by invitation.

Board Nominations Committee
The Board Nominations Committee (BNC), a sub-committee of the Board, has a number of responsibilities which are set out in the Board Nominations Committee Report on page 33.

During 2019, the BNC assessed the balance of diversity of skills, knowledge and experience of the Board. It appointed Robert Broadbent as the Society's Finance Director with effect from April 2019. Robert met fitness and propriety requirements under the Senior Managers and Certification Regime and received regulatory approval from the Prudential Regulation Authority (PRA). Robert was co-opted to the Board in June 2019, following regulatory approval.

During 2019, the Nominations Committee was involved in the recruitment for the Senior Executive positions of HR Director and Director of Customer Services, in addition to the Board role of Finance Director as well as the promotion of the Head of Risk to Chief Risk Officer.

The BNC reviewed the requirements of the new UK Corporate Governance Code and recommended the annual election of all Directors in line with the Code. The Board ratified the Committee's recommendation.

At 31 December 2019, the BNC comprised Rachel Court (Chair), Richard Goddard, Colin Kersley and Andrew Healy. The HR Director and Finance Director attend the Committee by invitation.

The Terms of Reference for the Board and Board sub-committees are available on the Society's website. Proceedings of all committees are formally minuted. These minutes are distributed to all Board members and the Chair of each Committee also reports on key matters covered at the following Board meeting.

Board Audit Committee and Auditors
The role of the Board Audit Committee is set out on page 26. 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 on 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 Board Audit Committee has relevant financial experience.

The Board Audit Committee is responsible for providing oversight of the external audit process by monitoring the relationship with the External Auditor, agreeing its remuneration and terms of engagement, and making recommendations to the Board on the appointment, re-appointment or removal of the External Auditor as appropriate. In 2019, to support it in discharging this responsibility, the Audit Committee undertook an internal review of the effectiveness of the external auditor and their independence. In reviewing the 2019 External Audit plan, the Committee obtained written confirmation from the External Auditor of their independence. The Committee also reviewed the External Auditors' approach to ensuring audit effectiveness including details of their own audit quality framework. In order to retain independence and objectivity the Society's policy is to tender for external audit services at least once every ten years. The current External Auditor is KPMG LLP who were appointed in April 2017. The Society has a Board Audit Committee approved policy on the provision of non-audit services 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.

RACHEL COURT
CHAIR

> **"During 2019, the Society continued to review and strengthen its risk and control environment, with the BRC overseeing the effectiveness of the RMF and reviewing the Operational Risk Framework (ORF)."**

Corporate Governance Report (continued)

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 2019 provided assurance that there were no material breaches of control and that the Society maintained an adequate internal control framework. The Board 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 Society's management. In 2019 the Audit Committee undertook an internal review of the effectiveness of the Internal Auditor and their independence by completing a gap analysis against best practice. The Committee is satisfied that throughout 2019 the Internal Auditor had an appropriate level of resource to deliver its plan of work and that it discharged its duties effectively.

Principle B - The Board should establish the company's purpose, values and strategy, and satisfy itself that these and its culture are aligned. All Directors must act with integrity, lead by example and promote the desired culture.

The Board has defined the Society's purpose, values and strategy and reviews the Society's culture to ensure its alignment with these. The management information reviewed by the Board at each meeting includes the reporting of various performance measures that are considered reflective of the Society's culture and values. This information is contained within the CRO's report which is provided to the Board and Board Risk Committee.

Principle C - The Board should ensure that the necessary resources are in place for the company to meet its objectives and measure performance against them. The Board should also establish a framework of prudent and effective controls, which enable risk to be assessed and managed.

The Board reviews matters of strategic importance throughout the year both at its regular meetings and at strategy days which are convened with the Executive Directors to identify, debate and assess the strategic options available to the Society. Two such strategy days were held in 2019.

A five-year corporate plan is prepared by the Society's management which is subject to rigorous challenge by the Non-Executive Directors.

The Society uses the Board approved RMF as part of its strategy to manage risk proactively in accordance with its Board-approved risk appetites. The Board is provided with reports on the performance of each area of the business as well as on the effectiveness of the RMF.

Principle D - In order for the company to meet its responsibilities to shareholders and stakeholders, the Board should ensure effective engagement with, and encourage participation from, these parties.

As a mutual organisation, the Society has members rather than shareholders. The Society seeks the views of its members in a number of ways, including via customer satisfaction surveys. Members are invited to attend the Society's AGM, where they can ask questions. All members of the Board attend the AGM. The Chair of the Board and the Chairs of all Board sub-committees are also available to answer any questions from members. The Board also convened a Members' Forum in 2019 which all Board members attended.

Principle E - The Board should ensure that workforce policies and practices are consistent with the company's values and support its long-term sustainable success. The workforce should be able to raise any matters of concern.

The Board engages (and did throughout 2019) directly with employees in a number of ways, including through visits to branches and departments where a mechanism for two-way feedback is provided. In addition, a schedule is maintained whereby Board members regularly attend internal committee and operational meetings. A log summarising feedback and actions to be taken on the back of Board members' interactions with employees is also maintained and actively managed.

The Board reviews the adequacy and security of the Society's arrangements for its employees to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters. The Board ensures these arrangements allow proportionate and independent investigation of such matters and appropriate follow up action. The Society has a Board approved Whistleblowing Policy and the Society's Whistleblowing Champions are Rachel Court, Chair, and Richard Goddard, Senior Independent Director.

Division of Responsibilities

Principle F - The Chair leads the Board and is responsible for its overall effectiveness in directing the company. They should demonstrate objective judgement throughout their tenure and promote a culture of openness and debate. In addition, the Chair facilitates constructive Board relations and the effective contribution of all Non-Executive Directors, and ensures that Directors receive accurate, timely and clear information.

The Chair sets the direction of the Board and promotes a culture of openness and fairness by facilitating effective debate and the contribution of Non-Executive Directors whilst maintaining constructive relationships between Executive and Non-Executive Directors. The Chair also ensures that Directors receive accurate, timely and clear information.

The Society's Chair, Rachel Court, was appointed as a Non-Executive Director in 2014 and became Chair in April 2016. Rachel has never held the position of Chief Executive of the Society, nor has she ever been an employee of the Society.

Principle G - The Board should include an appropriate combination of Executive and Non-Executive (and, in particular, independent Non-Executive) Directors, such that no one individual or small group of individuals dominates the Board's decision making. There should be a clear division of responsibilities between the leadership of the Board and the Executive leadership of the company's business.

The Board is comprised of six Non-Executive Directors and three Executive Directors. All of the Non-Executive Directors are considered to be independent under the Code. Richard Goddard is the Society's Senior Independent Director. Richard acts as a sounding board for the Chair and serves as an intermediary for the other Non-Executive Directors where necessary. He also has responsibility for leading Non-Executive Directors in the performance appraisal of the Chair and acts as a contact for any Non-Executive Director who may feel that contact with the Chair or Chief Executive would not be appropriate.

Principle H - Non-Executive Directors should have sufficient time to meet their Board responsibilities. They should provide constructive challenge, strategic guidance, offer specialist advice and hold management to account.

On appointment, Non-Executive Directors receive a formal letter 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 at Board and Board sub-committee meetings in 2019, including the attendance of Executive Directors, is set out below. The figure in brackets represents the number of meetings the Director attended.

	Name	Board	Board Audit Committee	Board Risk Committee	Board Nominations Committee	Board Remuneration Committee
Non-Executive Directors	Keith Abercromby	11 (11)	5 (5)	6 (6)		
	Rachel Court	10 (11)			6 (6)	7 (7)
	Richard Goddard	11 (11)	5 (5)	6 (6)	6 (6)	
	Colin Kersley	11 (11)	5 (5)		6 (6)	
	Jane Kimberlin	11 (11)		6 (6)		7 (7)
	John Leveson	11 (11)		6 (6)		7 (7)
Executive Directors	Robert Broadbent from 15/04/2019	8 (8) 2 of which 'A'	3 (3) 'A'	4 (4) 'A'	3 (4) 'A'	3 (6) 'A'
	Andrew Healy	11 (11)	5 (5) 'A'	6 (6) 'A'	6 (6)	7 (7) 'A'
	John Kelly	11 (11)	4 (5) 'A'	6 (6) 'A'		
	Andrew Morris to 24/03/2019	2 (2)	1 (1) 'A'	1 (1) 'A'		1 (1) 'A'

( ) = number of meetings eligible to attend
'A' = attendee at the meeting

Where the Society's directors have other significant commitments, these are set out in the information relating to Directors on page 83.

The Non-Executive Directors meet without the Executive Directors present on a regular basis.

Principle I - The Board, supported by the company secretary, should ensure that it has the policies, processes, information, time and resources it needs in order to function effectively and efficiently.

Following a review of governance, the Society established a Board Secretariat position during 2019. This position is held by the Head of Compliance & Secretariat who ensures that the Non-Executive Directors have appropriate access to information, resources and support services. Should it be required, the Directors can take independent legal advice at the Society's expense.

Composition, Succession & Evaluation

Principle J - Appointments to the Board should be subject to a formal, rigorous and transparent procedure, and an effective succession plan should be maintained for Board and senior management. Both appointments and succession plans should be based on merit and objective criteria and within this context, should promote diversity of gender, social and ethnic backgrounds, cognitive and personal strengths.

The role of the Board Nominations Committee is set out on page 33 of the Board Nominations Committee Report. This includes appointments to the Board and succession planning.

Principle K - The Board and its committees should have a combination of skills, experience and knowledge. Consideration should be given to the length of service of the Board as a whole and membership regularly refreshed.

The role of the Board Nominations Committee is set out on page 33 of the Board Nominations Committee Report.

Corporate Governance Report (continued)

Principle L - Annual evaluation of the Board should consider its composition, diversity and how effectively members work together to achieve objectives. Individual evaluation should demonstrate whether each Director continues to contribute effectively.

The role of the Board Nominations Committee is set out on page 33 of the Board Nominations Committee Report and includes the annual evaluation process of the Board.

Audit, Risk & Internal Control

Principle M - The Board should establish formal and transparent policies and procedures to ensure the independence and effectiveness of internal and external audit functions and satisfy itself on the integrity of financial and narrative statements.

The Board Audit Committee's responsibilities are set out on page 26 and include to monitor the effectiveness of the suppliers of internal and external audit services as well as to ensure the integrity of financial and narrative statements. Formal policies and procedures are in place to ensure the independence and effectiveness of the internal and external audit functions.

Principle N - The Board should present a fair, balanced and understandable assessment of the company's position and prospects.

The Board and the Audit Committee believe 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 is on page 35 and sets out the Board's responsibilities for the preparation of the Society and Group's annual report and accounts. Business performance is reviewed in detail in the Strategic Report and a statement that the Group's business is a going concern is included in the Directors' Report.

The Audit Committee has considered the Annual Report and Accounts and considered the key estimates and judgments in relation to the Annual Accounts for 2019 including:

- The impairment allowance required for both individual and collective mortgage impairment allowance. This is assessed based on the level of arrears and forbearance on customer accounts. The key estimates are the level of loans expected to default as well as expected levels of loan exposure compared to expected levels of security including mortgage indemnity insurance where relevant.
- The assumptions utilised in the valuation of the defined benefit pension scheme. This valuation 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 sensitivity of those assumptions. Having reviewed the sensitivities applied after benchmarking against external data and other organisations, the Committee was satisfied that the pension assumptions were within an appropriate range.

Further information regarding the sensitivities of these assumptions is included on page 54 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.

Principle O - The Board should establish procedures to manage risk, oversee the internal control framework, and determine the nature and extent of the principal risks the company is willing to take in order to achieve its long term strategic objectives.

The Society uses the RMF, which is approved by the Board, as part of its strategy to manage risk proactively in accordance with its prudent risk appetite. The Board owns and approves the risk appetite for the Society. The RMF identifies the processes, ownership, responsibilities and risk oversight required to support its effective implementation across the Society. The Society operates a 'three lines of defence' governance model as shown on page 15, to ensure appropriate responsibility is allocated for the management, reporting and escalation of risks.

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 they are mitigated, are included within the 'Principal Risks and Uncertainties' section of the Strategic Report.

The CRO provides assurance to the Board on the effectiveness of the RMF through reporting to, and attendance at, the Board Risk Committee and Board Audit Committee.

Remuneration

Principle P – Remuneration policies and practices should be designed to support strategy and promote long term sustainable success. Executive remuneration should be aligned to company purpose and values, and be clearly linked to the successful delivery of the company's long term strategy.

The remuneration policies for both Executive and Non-Executive Directors are considered to be fully compliant with this principle. The role of the Remuneration Committee is set out in the Directors' Remuneration Report on page 31.

Principle Q – A formal and transparent procedure for developing policy on Executive remuneration and determining Director and senior management remuneration should be established. No Director should be involved in deciding their own remuneration outcome.

The remuneration policies for both Executive and Non-Executive Directors are considered to be fully compliant with this principle. The role of the Remuneration Committee is set out in the Directors' Remuneration Report on page 31.

Principle R – Directors should exercise independent judgement and discretion when authorising remuneration outcomes, taking account of company and individual performance, and wider circumstances.

The remuneration policies for both Executive and Non-Executive Directors are considered to be fully compliant with this principle. The role of the Remuneration Committee is set out in the Directors' Remuneration Report on page 31.

On behalf of the Board of Directors.

Rachel Court, Chair
26 February 2020

Directors' Remuneration Report

The report on remuneration for the year ended 31 December 2019 considers the areas set out in the UK Corporate Governance Code relating to remuneration in so far as they are considered relevant to building societies and the FCA Remuneration Code. A revised Corporate Governance Code was issued in July 2018 which applies to accounting periods beginning on or after 1 January 2019. The code is addressed to companies with a premium listing. However, the relevant Building Society regulator (The Prudential Regulation Authority) expects building societies 'to have regard to' the code.

Against this background the Board has undertaken a review of the code's requirements as they apply to building societies and this remuneration report addresses the remuneration elements of the code.

The Society's Remuneration Committee is comprised solely of Non-Executive Directors. There were no changes to the Committee membership during 2019. Chair of the Committee is John Leveson and the other members are Rachel Court (Chair of the Board) and Jane Kimberlin. The Chief Executive, Finance Director and HR Director also attend meetings (except for items relating to their remuneration) but are not members. Prior to his appointment as Chair of the Committee, John Leveson had served on the committee for 13 months. The Committee met seven times during 2019.

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 policy for Executive Director remuneration and to approve the total individual remuneration package for each Executive Director and member of senior management. The attending members of management are not present when this matter is decided.
- To approve the overall increase that is appropriate in respect of the annual review of salaries.
- To set the fees payable to the Chair of the Board. The Chair of the Board is not present when this matter is decided.
- To recommend to the Board fees for other Non-Executive Directors and travel and associated expenses for all Non-Executive Directors.
- To approve the design of any incentive scheme proposed by the Chief Executive.
- To review contractual payments made to material risk takers on termination and any non-contractual payments made to other staff on termination.

Non-Executive Directors receive fees for the provision of their services including additional fees for Chairmanship of the Board or Board Committees. They do not have service contracts and do not receive any other benefits, bonus or pension entitlement.

The fees are set to reflect the time commitment and responsibilities of the roles. Non-Executive Directors are also reimbursed for relevant expenses.

The fees payable to the Chair of the Board are determined by the Remuneration Committee. The Chair of the Board is a member of the Remuneration Committee. However, she takes no part in the discussion of her own fees and is not present when this matter is decided. The fees payable to all other Non-Executive Directors, including additional fees for Chairmanship of committees, are recommended to the Board by the Remuneration Committee for approval by the Board. The policy for travel and associated expenses payable to Non-Executive Directors is also recommended to the Board by the Remuneration Committee for approval by the Board.

Fees are reviewed annually and take account of fees payable to Non-Executive Directors and Chairs of building societies that are similar in size and complexity to Leek United Building Society. The review also takes into consideration the principles underpinning the annual Society salary review. In addition, every 3 years the fees are benchmarked against similar UK financial services businesses of a similar size and complexity outside the building society sector.

The main elements of each Executive Director's remuneration package are basic salary, pension benefits, private medical insurance and car allowance.

Only basic salary is pensionable. As at 31 December 2019, the Chief Executive and Finance Director are members of the defined contribution pension scheme. The Board have agreed that any future changes in the percentage contribution rates for Executive Directors will address the issue of alignment between Executive Directors and the wider workforce.

The remuneration of Executive Directors is determined by the Remuneration Committee. It reflects their skills, experience and roles within the Society together with their responsibility in respect of the Society's long term future.

Remuneration is set to enable the Society to recruit, retain and motivate high calibre individuals to run the Society successfully. It is reviewed annually and is benchmarked against building societies that are similar in size and complexity. The Remuneration Committee also take account of individual performance and any general increase awarded to staff.

The review of Non-Executive Director fees and Executive Director salaries applicable for 2019 resulted in percentage increases in fees and salaries which were the same or lower than the standard percentage pay increase awarded to staff.

Directors' Remuneration Report (continued)

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 performance measures based on key elements of the Society's performance and in 2019 enabled a maximum payment of £1,000 regardless of salary. A payment of £750 has been awarded to all qualifying staff for 2019, which is payable in March 2020. The Executive Directors and the other members of senior management who comprise the Executive Committee qualified to receive the payment of £750. Whilst this payment was deserved and justified, they waived their right to the payment. In the view of the Remuneration Committee, the scale of the bonus payment is unlikely to lead to any behavioural risks that can arise from target-based incentive plans.

The Chief Executive is the Society's most highly paid employee and no employee earns more than any Executive Director.

The Corporate Governance Code recommends that an Executive Director's notice period should be one year or less. All Executive Directors have a service contract with the Society which is terminable by either party giving six months' notice.

Relevant remuneration schemes and policies enable the Remuneration Committee to override formulaic outcomes. They also include provisions which enable the recovery and/or withholding of payments in specified circumstances.

The Remuneration Committee did not appoint any external consultants during 2019.

The table in note 6 to the Annual Report and Accounts summarises Directors' pay and benefits for the year ended 31 December 2019.

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

John Leveson
Chair of the Remuneration Committee
26 February 2020

Our Stoke City Football Club 'Save and Support' affinity account raised £19,504 in 2019.

Staff who have worked with the Society for more than 15 years celebrated their service at our Long Service Dinner.

Board Nominations Committee Report

The Board Nominations Committee is responsible for ensuring the Society has appropriately skilled individuals to carry out key senior roles. The Committee is responsible for succession planning for Directors, Non-Executive Directors and other key Senior Executives in the course of its work, taking into account the challenges and opportunities facing the Society, and the skills and expertise needed on the Board today and in the future. The Committee meets at least twice per year with additional meetings arranged, when necessary, to fulfil its responsibilities.

The Chair of the Committee, Rachel Court, has extensive experience within the financial services sector and brings a wealth of experience to the committee. Other members of the committee are independent Non-Executive Directors', Richard Goddard and Colin Kersley, along with the Chief Executive, Andrew Healy, who provide a wide range of experience on the make-up, skill set and experience of what makes a good Board composition.

Board Composition, Skills and Experience

The Committee ensures that collectively, the Board has sufficient breadth and depth of experience to meet the requirements of the business. The Committee uses a skills matrix to identify the competencies, skills and experience of Board members. This informs the skills profile sought from new appointees as well as determining a timeline for future planned appointments to the Board. All Board members undertake an annual self-evaluation against this skills matrix to ensure any gaps are identified and the necessary action taken to address such gaps through additional training or recruitment, ensuring that the overall Board succession plan remains fit for purpose.

During 2019, the Committee reviewed the Board skills matrix to consider whether there were any significant gaps. In the Committee's view, there was a good blend of skills across the Board as a whole, with no immediate critical gaps. The key area of succession identified was the need to plan for the replacement of Richard Goddard as Chair of the Risk Committee and Senior Independent Director in the short to medium term.

Appointment of Directors

The Committee ensures that appropriate arrangements are in place for the recruitment and selection of suitably qualified persons to act as Directors of the Society. The Committee identifies any role, other than a Board Director, for which it deems it appropriate to assume responsibility for recruitment and selection - usually key Senior Executive positions. During 2019, the Board Nominations Committee was involved in the recruitment for the Senior Executive positions of HR Director and Director of Customer Services, in addition to the Board role of Finance Director as well as the promotion of the Head of Risk to Chief Risk Officer.

There is a formal and rigorous approach to the appointment of Directors, with the Nominations Committee leading the process and making a recommendation to the Board. This ensures that all Directors meet the fitness and propriety standards of the Prudential Regulation Authority and Financial Conduct Authority and that they have the capabilities and experience to discharge their responsibilities under the Senior Managers & Certification Regime. Candidates are considered on merit and objective criteria, with due regard to the benefits of diversity, including gender, social and ethnic backgrounds, cognitive and personal strengths. Recruitment processes are designed to ensure access to a diverse range of talent pools, to maximise the opportunity to enhance the quality and diversity of applicants. The Committee also considers whether appointees have sufficient time available to devote to the position.

The Society may use independent executive search and selection agencies to support the recruitment of Board Members. During 2019 the Committee used the services of Warren Partners to appoint Robert Broadbent as Finance Director. The Society's only connection with Warren Partners is for recruitment and selection. Robert met the tests of fitness and propriety, as prescribed by the regulators, prior to taking up his role. In addition, the Society's Rules require that new Directors must stand for election no later than at the Annual General Meeting in the year following the financial year in which they are appointed. Robert Broadbent will therefore stand for election at the AGM in April 2020.

Diversity

Diversity and inclusion are core considerations in both the appointment of Board members and the continuing development of the Board. The Board is committed to building a diverse and inclusive workforce across the Society and embraces diversity and the promotion of equal opportunities in all forms. Appointments continue to be made based on the merit, skills and experience that the individual can bring to the Society, with the Committee being supportive of the recruitment, development and retention of a diverse range of individuals at all levels of the Society. The Board is comprised of 22% women; the Executive team is 20% female.

The Board is committed to ensuring that all policies and procedures are cognisant of the benefits of having a clear direction of travel around Diversity and Inclusion. The Society has an Inclusion and Diversity Policy which is approved by the Nominations Committee.

Succession Planning

Under the 2018 UK Corporate Governance Code, there was an extension of the role of the Nominations Committee to include succession planning for senior management, as well as Board positions, and the need to develop a diverse pipeline for succession. Senior management roles are defined as those roles that report directly to the Chief Executive, including the Company Secretary.

The Committee has considered succession planning during 2019 and a key focus for 2020 is to ensure that there is appropriate succession planning for Executive Directors and Senior Management. During 2020, the Committee will also focus on enhancing the succession plans for Non-Executive Directors to help inform and manage the long-term succession strategy.

"The Board is committed to building a diverse and inclusive workforce across the Society and embraces diversity and the promotion of equal opportunities in all forms."

Board Nominations Committee Report (continued)

Board Evaluation

The Board undertakes a formal and rigorous annual evaluation of its own performance and that of its committees and individual Directors. This evaluation encompasses composition, committee structure, dynamics, administration, agenda, development and performance. In addition to these, it seeks feedback as to whether each Director continues to contribute effectively in their role. The feedback for individual Directors is incorporated into their annual performance appraisal. The annual performance appraisal for Non-Executive Directors also includes an assessment of their time commitment for Board and sub-committee meetings and any other duties. The performance evaluation of the Chair is conducted by Non-Executive Directors, led by the Senior Independent Director and takes into account the views of Executive Directors. It is the Nominations Committee's responsibility to review the results of the Board performance evaluation process that relate specifically to the composition of the Board. Other aspects of the Board Evaluation are considered by the Board as a whole.

In line with the UK Corporate Governance Code, the Board's effectiveness is also evaluated by external consultants – normally on a three yearly basis. The last external review was carried out by Deloitte LLP during 2015. Due to the change in Chief Executive, the external review due at the end of 2018 was deferred to the end of 2019. The Board commenced its external review in December 2019, and results will be available for its consideration during Q1 2020.

Action plans are developed based on both internal and external Board effectiveness reviews, with regular monitoring of progress to ensure satisfactory conclusion of agreed actions. This regular review process has resulted in significant enhancements in the efficiency and effectiveness of Board Governance over the course of the last 4 years, and the Board is committed to continually reviewing its performance to identify areas for further improvement.

Rachel Court
Chair of the Board Nominations Committee
26 February 2020

The Society presented £2,000 to Leek Cricket Club to provide facilities for junior players.

Statement of Directors' Responsibilities

Directors' Responsibilities for Preparing the Annual Report and Accounts

The Directors are responsible for preparing the Annual Report, Annual Business Statement, Directors' Report and the Financial Statements in accordance with applicable law and regulations.

The Building Societies Act 1986 ("the Act") requires the Directors to prepare Group and Society financial statements for each financial year. Under that law, they have elected to prepare the Group and Society financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 the Financial Reporting Standard applicable in the UK and Republic of Ireland.

The Group and Society financial statements are required by law to give a true and fair view of the state of affairs of the Group and of the Society as at the end of the financial year and of the income and expenditure of the Group and of the Society for the financial year.

In preparing each of the Group and Society financial statements, 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 financial statements;
- assess the Group and Society's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the Society or to cease operations, or have no realistic alternative but to do so.

In addition to the financial statements, the Act requires the Directors to prepare, for each financial year, an Annual Business Statement and a Directors' Report, each containing prescribed information relating to the business of the Group.

Directors' Responsibilities for Accounting Records and Internal Controls

The Directors are responsible for ensuring that the Group:

- keeps proper accounting records that disclose with reasonable accuracy at any time the financial position of the Group and Society, in accordance with the Act;
- takes reasonable care to establish, maintain, document and review such systems and controls as are appropriate to its business in accordance with the rules made by the Financial Conduct Authority and Prudential Regulation Authority under the Financial Services and Markets Act 2000.

Sarah Oakes, from our Congleton Branch helped to restore footpaths and walkways on The Bosley Cloud.

The Directors are responsible for such internal control as they determine is necessary to enable the preparation of financial statements 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 Group and to prevent and detect fraud and other irregularities.

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

Rachel Court
Chair
26 February 2020

Independent auditor's report

to the members of Leek United Building Society

1. Our opinion is unmodified

We have audited the group and society annual accounts of Leek United Building Society for the year ended 31 December 2019 which comprise the group and society Income Statements, Statements of Comprehensive Income, Statements of Financial Position, Statements of Changes in Members' Interests, Statements of Cash Flows 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 affairs of the group and of the society as at 31 December 2019 and of the income and expenditure of the group and of the society 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 and regulations made under it.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities 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 first appointed as auditor by the directors on 26 April 2017. The period of total uninterrupted engagement is for the 3 financial years ended 31 December 2019. 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 applicable to public interest entities. No non-audit services prohibited by that standard were provided.

Overview	
Materiality: Group annual accounts as a whole	£325k (2018:£187k) 0.48% of net assets (2018: 4.8% of profit before tax)
Coverage	13.6% (2018:4.8%) of group profit before tax

Key audit matters		vs 2018
Event driven	The impact of uncertainties due to the UK exiting the European Union on our audit	◀▶
Recurring risks	Impairment of loans and advances to customers	◀▶
	Valuation of defined benefit liabilities	◀▶

2. Key audit matters: including 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 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 our opinion thereon, and consequently are incidental to that opinion, procedures undertaken, in the context of, and solely for the purpose of, our audit of the annual accounts as a whole, and in forming and we do not provide a separate opinion on these matters.

	The risk	Our Response
The impact of uncertainties due to the UK exiting the European Union on our audit **Parent society risk** *Refer to page 16 (principal risks), page 27 (Audit Committee Report).*	**Unprecedented levels of uncertainty:** All audits assess and challenge the reasonableness of estimates, in particular as described in Impairment of loans and advances to customers and the valuation of defined benefit liabilities below, and related disclosures and the appropriateness of the going concern basis of preparation of the annual accounts (see below). All of these depend on assessments of the future economic environment and the society's future prospects and performance. In addition, we are required to consider the other information presented in the Annual Report including the principal risks disclosure and to consider the directors' statement that the annual report and annual accounts taken as a whole are fair, balanced and understandable and provides the information necessary for members to assess the society's position and performance, business model and strategy. Brexit is one of the most significant economic events for the UK and its effects are subject to unprecedented levels of uncertainty of consequences, with the full range of possible effects unknown.	We developed a standardised firm-wide approach to the consideration of the uncertainties arising from Brexit in planning and performing our audits. Our procedures included: — **Our Brexit knowledge:** We considered the directors' assessment of Brexit-related sources of risk for the society's business and financial resources compared with our own understanding of the risks. We considered the directors' plans to take action to mitigate the risks; — **Sensitivity analysis:** When addressing Impairment of loans and advances to customers and the Valuation of defined benefit liabilities, we compared the directors' sensitivity analysis to our assessment of the worst reasonably possible, known adverse scenario resulting from Brexit uncertainty and, where forecasts cash flows are required to be discounted, considered adjustments to discount rates for the level of remaining uncertainty; — **Assessing transparency:** As well as assessing individual disclosures as part of our procedures on Impairment of loans and advances to customers and the Valuation of defined benefit liabilities, we considered all of the Brexit related disclosures together, including those in the strategic report, comparing the overall picture against our understanding of the risks. **Our results** — As reported under Impairment of loans and advances to customers and the Valuation of defined benefit liabilities, we found the resulting estimates and related disclosures of Impairment of loans and advances to customers and the Valuation of defined benefit liabilities, and disclosures in relation to going concern to be acceptable. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

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

	The risk	Our response
Impairment of loans and advances to customers **Parent society risk** (Group and society impairment: £415 thousand; 2018: £405 thousand) *Refer to page 27 (Audit Committee Report), page 51 (accounting policy) and page 58 (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, product type and other indicators of impairment identified. The completeness of identified cases of individual impairment is subject to risk of error. The collective impairment is derived from a model that uses a combination of the society's historical experience and directors' judgement, due to the society's limited loss experience, increased judgement is required in the estimate. In particular, judgement is required on the probability of default used in the collective impairment model. The impairment model is most sensitive to movements in the forced sale discount. The effect of these matters is that, as part of our risk assessment, we determined that impairment of loans and advances to customers has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the annual accounts as a whole. The annual accounts (note 1) disclose the sensitivity estimated by the Society.	Our procedures included: — **Benchmarking assumptions:** We compared the key assumptions used in the collective model of probability of default and forced sale discounts with externally available data, including KPMG's building society database. — **Sensitivity analysis:** We assessed the collective model and specific individual impairments for their sensitivities to changes in the key assumptions of probability of defaults and forced sale discounts by performing stress testing to help us assess the reasonableness of the assumptions and identify areas of potential additional focus. — **Historical comparison:** We assessed the key assumptions used in the collective and individual models, being probability of default and forced sale discounts, against the society's historical experience. — **Tests of detail:** We identified a selection of loans using risk based sampling which includes specific items identified based on risk characteristics of current or historical arrears, forbearance flagging, size 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 property type and valuation to challenge the completeness and accuracy of the society's specific impairment provision estimate. — **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 impairment to be acceptable.(2018: acceptable)

	The risk	Our response
Valuation of defined benefit liabilities **Parent society risk** (Group and society £ 40.2 million; 2018: £39.7 million) *Refer to page 27 (Audit Committee Report), page 54 (accounting policy) and page 77 (financial disclosures)*	**Subjective valuation:** The society has a material obligation in respect of its defined benefit pension scheme, which is currently in a deficit position. Actuarial assumptions used in the determination of the defined benefit obligation are inherently subjective and requires expertise and judgement. There is a significant degree of estimation uncertainty in respect of certain of these key assumptions, being the discount rate, inflation rate and mortality/life expectancy and small changes in the assumptions could have a significant effect on the value of the society's defined benefit liabilities. The effect of these matters is that, as part of our risk assessment, we determined that Valuation of defined benefit liabilities has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the annual accounts as a whole. The annual accounts (note 26) disclose the sensitivity estimated by the Society.	Our procedures included: — **Evaluation of actuary:** We evaluated the competence, independence and objectivity of the society's actuary in assessing management's reliance upon their expert valuation services. — **Evaluation of scheme administrator:** We evaluated the operating effectiveness of relevant controls, through an inspection and assessment of the administrator's internal controls report, to determine the reliance upon this party as a service organisation. — **Benchmarking assumptions:** We challenged, with the support of our own actuarial specialists, the key assumptions applied to the pension liability, being the discount rate, inflation rate and mortality/life expectancy against externally derived data; — **Assessing transparency:** Considering the adequacy of the group's disclosures in respect of the sensitivity of the defined benefit obligation to these assumptions. **Our results** — We found the resulting estimate of pension liabilities to be acceptable. (2018: acceptable)

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 £325k (2018: £187k), determined with reference to a benchmark of net assets (of which it represents 0.48% (2018:4.8% of Profit before tax)).

We have changed the selected benchmark for calculating materiality to net assets from profit before tax. This reflects the fact that the Society does not seek to maximise profits as its primary objective, and that net assets more closely reflects regulatory capital which is a key area of focus for the stakeholders.

Materiality for the parent company annual accounts as a whole was set at £325k (2018: £185k), determined with reference to a benchmark of 0.48% of net assets (2017: 4.8% of Profit before tax).

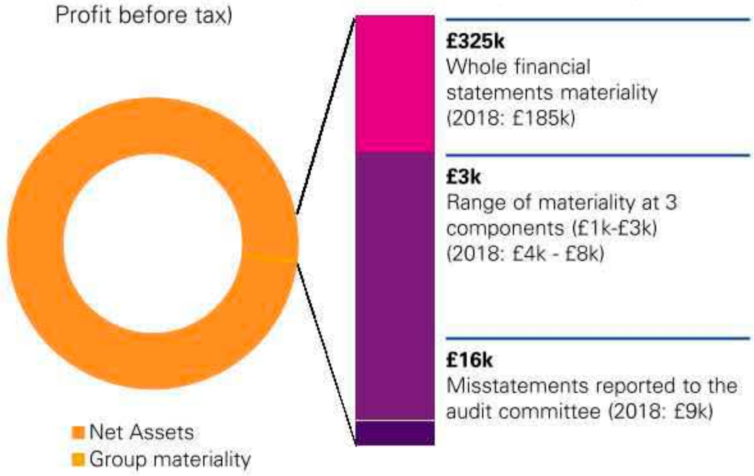
We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £16k, in addition to other identified misstatements that warranted reporting on qualitative grounds

Of the group's 3 (2018: 3) reporting components, we subjected 3 (2018: 3) to full scope audits for group purposes and these audits were performed at component material levels for the statutory audits of the components.

The components within the scope of our work accounted for the percentages illustrated opposite.

Net Assets
£66.5m (2018: £187k, 4.8% of Profit before tax)

Group Materiality
£325k (2018: £187k)



Group revenue

Group profit before tax

Group total assets

Full scope for group audit purposes 2019

Full scope for group audit purposes 2018

4. We have nothing to report on going concern

The Directors have prepared the annual accounts on the going concern basis as they do not intend to liquidate the Society or the Group or to cease their operations, and as they have concluded that the Society's and the Group's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the annual accounts ("the going concern period").

Our responsibility is to conclude on the appropriateness of the Directors' conclusions and, had there been a material uncertainty related to going concern, to make reference to that in this audit report. However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Group and the Society will continue in operation.

In our evaluation of the Directors' conclusions, we considered the inherent risks to the Group's and Society's business model and analysed how those risks might affect the Group's and Society's financial resources or ability to continue operations over the going concern period. The risks that we considered most likely to adversely affect the Group's and Society's available financial resources over this period were:

— The impact on collateral values and availability and cost of funding should the trade agreement not be agreed before the 31 December 2020 deadline;

— The impact of Brexit on unemployment and the impact on borrowers ability to repay debt;

As these were risks that could potentially cast significant doubt on the Group's and the Society's ability to continue as a going concern, we considered sensitivities over the level of available financial resources indicated by the Group's financial forecasts taking account of reasonably possible (but not unrealistic) adverse effects that could arise from these risks individually and collectively and evaluated the achievability of the actions the Directors consider they would take to improve the position should the risks materialise. We also considered less predictable but realistic second order impacts, such as the impact of Brexit and the erosion of customer or supplier confidence, which could result in a rapid reduction of available financial resources.

Based on this work, 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 a year from the date of approval of the annual accounts.

We have nothing to report in these respects, and we did not identify going concern as a key audit matter

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 35, 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 group and 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 group or the society or to cease operations, or have no realistic alternative but to do so.

7. Respective responsibilities (cont.)

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

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the annual accounts from our general commercial and sector experience, through discussion with the directors and other management (as required by auditing standards), and from inspection of the group's regulatory and legal correspondence and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations. We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit. This included communication from the group to component audit teams of relevant laws and regulations identified at group level.

The potential effect of these laws and regulations on the annual accounts varies considerably.

Firstly, the group is subject to laws and regulations that directly affect the annual accounts including financial reporting legislation (including related building society legislation), pension legislation and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the group is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the annual accounts, for instance through the imposition of fines or litigation or the loss of the group's licence to operate. We identified the following areas as those most likely to have such an effect: anti-bribery, employment law, regulatory capital and liquidity and certain aspects of building society legislation recognising the financial and regulated nature of the group's activities and its legal form. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any.

These limited procedures did not identify actual or suspected non-compliance.

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the annual accounts, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations (irregularities) is from the events and transactions reflected in the annual accounts, the less likely the inherently limited procedures required by auditing standards would identify it. In addition, 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. We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

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 Katsouris (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
1 St Peter's Square
Manchester
M2 3AE
26 February 2020

Our Branch Manager in Market Drayton, Dan Nutt, helped open the 2019 Ginger & Spice Festival, an award-winning event that we are proud main sponsors of.

Staff leapt 10,000 feet from a plane to raise £1,880 to support The Donna Louise Hospice for Children & Young People.

Income Statements for the year ended 31 December 2019

	Notes	Group 2019 £000's	Group 2018 £000's	Society 2019 £000's	Society 2018 £000's
Interest receivable and similar income	2	21,483	21,193	21,480	21,191
Interest payable and similar charges	3	(8,867)	(8,224)	(8,867)	(8,224)
Net interest receivable		12,616	12,969	12,613	12,967
Fees and commissions receivable	4	841	631	841	630
Fees and commissions payable		(345)	(223)	(345)	(223)
Net (losses)/gains from derivative financial instruments	5	(239)	424	(239)	424
Total net income		12,873	13,801	12,870	13,798
Administrative expenses	6	(10,259)	(10,011)	(10,239)	(10,004)
Depreciation	15	(240)	(252)	(240)	(252)
		2,374	3,538	2,391	3,542
Net finance credit on pension scheme	26	(12)	(41)	(12)	(41)
Impairment (charge)/credit on loans and advances to customers	7	(8)	173	(8)	173
Provisions for liabilities – FSCS levy	24	20	149	20	149
Profit on ordinary activities before tax		2,374	3,819	2,391	3,823
Tax on profit on ordinary activities	8	(425)	(673)	(425)	(674)
Profit for the financial year	**28**	1,949	3,146	1,966	3,149

The notes on pages 49 to 81 form part of these accounts.

The above results are all derived from continuing operations. There is no material difference in the current or previous year between the results above and the results which would have been reported on an unmodified historical basis.

Statements of Comprehensive Income for the year ended 31 December 2019

	Notes	Group 2019 £000's	Group 2018 £000's	Society 2019 £000's	Society 2018 £000's
Profit for the financial year		1,949	3,146	1,966	3,149
Items that will not be reclassified to the Income Statement					
Actuarial (loss) recognised in pension scheme	26	(1,405)	(627)	(1,405)	(627)
Taxation on items that will not be reclassified to the Income Statement	16	239	107	239	107
Items that may subsequently be reclassified to the Income Statement					
Available for sale reserve	30	107	(130)	107	(130)
Tax on items that may subsequently be reclassified to the Income Statement	30	3	5	3	5
Tax on revaluation reserve	29	3	5	3	5
Other comprehensive (expense)/income for the year net of income tax		(1,053)	(640)	(1,053)	(640)
Total comprehensive income for the financial year		**896**	**2,506**	**913**	**2,509**

The notes on pages 49 to 81 form part of these accounts.

Statements of Financial Position as at 31 December 2019

	Notes	Group 2019 £000's	Group 2018 £000's	Society 2019 £000's	Society 2018 £000's
ASSETS					
Liquid assets:					
Cash in hand and balances with the Bank of England	**9**	102,588	104,033	102,588	104,033
Loans and advances to credit institutions	**10**	11,311	8,189	11,170	8,046
Debt securities	**11**	125,664	128,950	125,664	128,950
		239,563	241,172	239,422	241,029
Derivative financial instruments	**12**	276	2,035	276	2,035
Loans and advances to customers	**13**	848,729	825,067	848,687	825,021
Investments in subsidiary undertakings	**14**	-	-	24	24
Fixed assets	**15**	2,208	2,234	2,208	2,234
Other assets	**16**	198	274	273	347
Prepayments and accrued income	**17**	458	574	458	574
Total assets		**1,091,432**	**1,071,356**	**1,091,348**	**1,071,264**
LIABILITIES					
Shares	**18**	873,194	850,096	873,194	850,096
Amounts owed to credit institutions	**19**	132,250	134,176	132,250	134,176
Amounts owed to other customers	**20**	16,153	18,173	16,153	18,173
Derivative financial instruments	**12**	1,326	540	1,326	540
Other liabilities	**21**	425	578	426	579
Accruals and deferred income	**22**	613	731	598	725
Provisions for liabilities	**23**	-	71	-	71
Retirement benefit obligations	**26**	911	1,327	911	1,327
Total liabilities		**1,024,872**	**1,005,692**	**1,024,858**	**1,005,687**
RESERVES					
General reserve	**28**	65,508	64,725	65,438	64,638
Revaluation reserve	**29**	1,020	1,017	1,020	1,017
Available for sale reserve	**30**	32	(78)	32	(78)
Total reserves attributable to members of the Society		66,560	65,664	66,490	65,577
Total reserves and liabilities		**1,091,432**	**1,071,356**	**1,091,348**	**1,071,264**

The notes on pages 49 to 81 form part of these accounts.

These accounts were approved by the Board of Directors on 26th February 2020 and were signed on its behalf by:

Rachel Court	**Andrew Healy**	**Robert Broadbent**
Chair	Chief Executive	Finance Director

Statements of Changes in Members' Interest as at 31 December 2019

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 2019		64,725	1,017	(78)	65,664
Profit for the financial year		1,949			1,949
Other comprehensive income/(expense) for the year (net of tax)					
Re-measurement of defined benefit scheme obligations		(1,166)			(1,166)
Net loss from changes in financial assets				110	110
Net gains from changes in land and building			3		3
Total comprehensive Income for the year		783	3	110	896
Balance as at 31 December 2019	**28, 29, 30**	**65,508**	**1,020**	**32**	**66,560**

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 2018		62,099	1,012	47	63,158
Profit for the financial year		3,146			3,146
Other comprehensive (expense)/income for the year (net of tax)					
Re-measurement of defined benefit obligations		(520)			(520)
Net loss from changes in financial assets				(125)	(125)
Net gains from changes in land and building			5		5
Total comprehensive income/(expense) for the year		2,626	5	(125)	2,506
Balance as at 31 December 2018	**28, 29, 30**	**64,725**	**1,017**	**(78)**	**65,664**

Statements of Changes in Members' Interest as at 31 December 2019 (continued)

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 2019		**64,638**	**1,017**	**(78)**	**65,577**
Profit for the financial year		1,966			1,966
Other comprehensive income/(expense) for the year (net of tax)					
Re-measurement of defined benefit obligations		(1,166)			(1,166)
Net gains from changes in financial assets				110	110
Net gains from changes in land and building			3		3
Total comprehensive income for the year		800	3	110	913
Balance as at 31 December 2019	**28, 29, 30**	**65,438**	**1,020**	**32**	**66,490**

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 2018		**62,009**	**1,012**	**47**	**63,068**
Profit for the financial year		3,149			3,149
Other comprehensive income/(expense) for the year (net of tax)					
Re-measurement of defined benefit obligations		(520)			(520)
Net gains from changes in financial assets				(125)	(125)
Net gains from changes in land and building			5		5
Total comprehensive income/(expense) for the year		2,629	5	(125)	2,509
Balance as at 31 December 2018	**28, 29, 30**	**64,638**	**1,017**	**(78)**	**65,577**

Statements of Cash Flows for the year ended 31 December 2019

	Notes	Group 2019 £000's	Group 2018 £000's	Society 2019 £000's	Society 2018 £000's
Cash flows from operating activities					
Profit on ordinary activities before tax		2,374	3,819	2,391	3,823
Depreciation		240	252	240	252
Decrease/(increase) in fair value of derivative financial instruments and hedged items		239	(424)	239	(424)
(Increase) in effective interest rate adjustment		(263)	(438)	(263)	(438)
Increase/(decrease) in impairment on loans and advances		8	(173)	8	(173)
Amounts recovered in respect of loans previously written off		2	100	2	100
Net gains on disposal and amortisation of debt securities		-	(3)	-	(3)
(Profit) on sale of tangible fixed assets		(8)	(13)	(8)	(13)
Non cash pension losses		56	100	56	100
Total cash flow from operating activities		**2,648**	**3,220**	**2,665**	**3,224**
Changes in operating assets and liabilities					
Increase in loans and advances to customers		(21,103)	(30,131)	(21,107)	(30,142)
(Decrease) in accruals and deferred income		(118)	(153)	(127)	(145)
Increase in prepayments and accrued income		(977)	(565)	(977)	(565)
(Decrease)/increase in amounts owed to credit institutions and other customers		(3,946)	25,303	(3,946)	25,303
(Increase)/decrease in loans and advances to credit institutions		(876)	911	(876)	911
(Increase) in other assets		(57)	(3)	(59)	(5)
(Increase)/decrease in other liabilities		(80)	159	(80)	159
Increase in shares		23,098	6,677	23,098	6,677
Decrease in provisions for liabilities		(71)	(176)	(71)	(176)
Pension contributions		(1,877)	(2,059)	(1,877)	(2,059)
Taxation paid		(121)	(263)	(121)	(264)
Net cash generated from operating activities		**(3,480)**	**2,920**	**(3,478)**	**2,918**
Cash flows from investing activities					
Proceeds from sale of fixed assets		8	42	8	42
Purchase of fixed assets		(214)	(103)	(214)	(103)
Purchase of debt securities		(122,887)	(149,566)	(122,887)	(149,566)
Maturities and disposal of debt securities		127,374	121,270	127,374	121,270
Net cash used in investing activities		**4,281**	**(28,357)**	**4,281**	**(28,357)**
Net increase/(decrease) in cash and cash equivalents		**801**	**(25,437)**	**803**	**(25,439)**
Cash and cash equivalents at 1 January		111,702	137,139	111,559	136,998
Cash and cash equivalents at 31 December	**27**	112,503	111,702	112,362	111,559
Net cash generated from operating activities		**801**	**(25,437)**	**803**	**(25,439)**

Notes to the Accounts for the year ended 31 December 2019

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 they 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, with the elimination of intercompany balances and transactions. All entities have accounting periods ending 31 December.

Exemptions
The Group has taken the 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 6 for disclosure of the Directors' remuneration.

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, free legal fees, broker fees and Mortgage Indemnity Guarantee (MIG) costs. The effect of this is to spread the impact of relevant costs and fees directly attributable and incremental to setting up the mortgage over its effective life.

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 12 and 25.

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 requirements or 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 25 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. Currently, there are no financial assets or liabilities offset on the balance sheet.

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 Mortgage Indemnity Guarantee.

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 25.

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.

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 scheme 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 factors such as age and length of service.

On 24 April 2013, the Society closed its 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 2018. The charge to the income and expenditure account over the financial year in relation to the defined benefit scheme is shown in note 26.

The pension scheme deficit on the closed scheme at 31 December 2019 has been recognised as a liability on statement of financial position.

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.

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 and estimates
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, management make 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 assess 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 2019 by £346k. The impact of a 5% increase in the forced sale discount affecting the LGD would impact the provision in 2019 by £219k.

1. Principal accounting policies (continued)

b) Employee benefits
The Group operates a defined benefit pension scheme. Significant estimates 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. For the year ending December 2019 the Society has added an additional 0.2% inflation risk premium to its Retail Price Index (RPI) inflation assumption, to reflect the uncertainty created by the UK Statistics Authority Statement on the future of the RPI released on 4th September 2019. This is estimated to have caused a c£100k reduction in the valuation of the Society's defined benefit obligation. The assumptions are outlined in note 26. 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. £804k reduction
Inflation (RPI/CPI)	0.1%	c. £239k increase
Life expectancy	1 year	c. £804k increase

A decrease in each of the sensitivities above would have an equal and opposite impact on pension scheme liabilities.

c) 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. £3.5m, before allowing for any mitigating change of hedged items in fair value hedge accounting relationships

2. Interest receivable and similar income

	Group 2019 £000's	Group 2018 £000's	Society 2019 £000's	Society 2018 £000's
On loans fully secured on residential property	20,071	20,490	20,068	20,488
On other loans	9	9	9	9
On debt securities – interest and other income	1,288	910	1,288	910
On other liquid assets – interest and other income	686	901	686	901
Net (expense) on derivative financial instruments	(571)	(1,117)	(571)	(1,117)
	21,483	**21,193**	**21,480**	**21,191**

3. Interest payable and similar charges

	Group 2019 £000's	Group 2018 £000's	Society 2019 £000's	Society 2018 £000's
On shares held by individuals	7,790	7,343	7,790	7,343
On deposits and other borrowings	1,077	881	1,077	881
	8,867	**8,224**	**8,867**	**8,224**

4. Fees and commissions receivable

	Group 2019 £000's	Group 2018 £000's	Society 2019 £000's	Society 2018 £000's
Insurance commission	710	527	710	527
Other fees	131	104	131	103
	841	**631**	**841**	**630**

5. Net (losses)/gains from derivative financial instruments

	Group 2019 £000's	Group 2018 £000's	Society 2019 £000's	Society 2018 £000's
(Losses)/gains on hedging instruments	(2,413)	1,727	(2,413)	1,727
Gains/(losses) on hedged items attributable to the hedged risk	2,306	(1,461)	2,306	(1,461)
Net matched position	**(107)**	**266**	**(107)**	**266**
(Losses)/gains on derivatives not in designated fair value relationships	(132)	158	(132)	158
Total net (loss)/gain on derivatives	**(239)**	**424**	**(239)**	**424**

The net fair value (FV) loss from matched derivative financial instruments of £107k (2018: gain of £266k) 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. In managing the exposure to interest rate risk, the Society transacts derivatives when there is sufficient confidence in the volume 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, 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 £45k in 2019 (2018: FV Gain £225k). 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 £132k (2018: FV gain of £158k) on unmatched derivatives.

6. Administrative expenses

	Group 2019 £000's	Group 2018 £000's	Society 2019 £000's	Society 2018 £000's
Staff costs (including Executive Directors):				
Wages and salaries	5,189	5,008	5,189	5,008
Social security costs	538	553	538	553
Other pension costs	375	336	375	336
	6,102	**5,897**	**6,102**	**5,897**
Other expenses:				
Remuneration of auditors				
Audit of Group and Society accounts	181	109	181	109
Audit of subsidiaries	20	6	-	-
Other services	8	25	8	25
Total auditor remuneration	**209**	**140**	**189**	**134**
Other administrative expenses	3,948	3,974	3,948	3,973
Total administrative expenses	**10,259**	**10,011**	**10,239**	**10,004**

Included within administrative expenses above is £348k of costs relating to the initial investment programme. This is excluded in determining underlying business costs.

In addition to the auditor remuneration as shown above, the Society also paid audit fees in relation to the defined benefit pension scheme of £12k (2018: £19k).

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

	Group 2019	Group 2018	Society 2019	Society 2018
(i) At principal office:				
Full-time staff	92	89	92	89
Part-time staff	32	30	32	30
(ii) At branch offices:				
Full-time staff	35	44	35	44
Part-time staff	35	31	35	31
Total staff	**194**	**194**	**194**	**194**
(iii) Total full-time equivalents	172	173	172	173

6. 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 24 April 2020 and at the Annual General Meeting. The total loans outstanding at 31 December 2019, in respect of 2 (2018: 2) people amounted to £709k (2018: £534k). 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:

	2019					2018				
	Salary/ Fees	Benefits /Other (iii)	Sub Total	Pensions	Total	Salary/ Fees	Benefits /Other (iii)	Sub Total	Pensions	Total
Non-Executive Directors (NEDs)	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's
Rachel Court	44	1	45	-	45	43	1	44	-	44
Keith Abercromby	30	3	33	-	33	29	3	32	-	32
Richard Goddard	35	1	36	-	36	34	1	35	-	35
Colin Kersley	25	1	26	-	26	24	-	24	-	24
Jane Kimberlin	25	2	27	-	27	24	2	26	-	26
John Leveson	30	3	33	-	33	27	3	30	-	30
Executive Directors										
Andrew Healy (ii) (from 17/12/2018)	216	29	245	32	277	9	-	9	-	9
Robert Broadbent (ii) (from 25/06/2019)	67	5	72	10	82	-	-	-	-	-
John Kelly (ii)	146	12	158	22	180	142	13	155	21	176
Andrew Morris (ii) (iii)	39	3	42	6	48	120	11	131	18	149
Kevin Wilson (i) (ii) (to 31/12/2018)	-	-	-	-	-	234	47	281	-	281
	657	**60**	**717**	**70**	**787**	**686**	**81**	**767**	**39**	**806**

(i) Kevin Wilson, with agreement from the Society, took his pension contribution as cash allowance in 2018.

(ii) The Executive Directors waived their bonus entitlement in 2019 (2018: £1,000 each); further details are included on page 32.

(iii) Andrew Morris was appointed on 21 March 2018 and left the Society on 24 March 2019.

7. 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 2019	**15**	**390**	**405**
Amounts utilised in the year	-	-	-
Charge in the year	7	3	10
At 31 December 2019	**22**	**393**	**415**

Group and Society

	Loans fully secured on residential property		
	Individual Impairment £000's	**Collective Impairment £000's**	**Total £000's**
At 1 January 2018	**102**	**376**	**478**
Amounts utilised in the year	-	-	-
(Release)/charge in the year	(87)	14	(73)
At 31 December 2018	**15**	**390**	**405**

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

Group and Society	**2019 £000's**	**2018 £000's**
Change in loan impairment allowance	10	(73)
Amounts recovered in respect of loans previously written off	(2)	(100)
Income and expenditure account	**8**	**(173)**

The impairment allowance as at 31 December 2019 and 2018 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.

8. Tax on profit on ordinary activities

	Group 2019 £000's	Group 2018 £000's	Society 2019 £000's	Society 2018 £000's
(a) UK corporation tax at 19% (2018: 20%):				
Current tax	47	255	47	256
UK deferred tax at 17% (2018: 17%):				
Deferred tax – current year (see note 16)	378	418	378	418
Total	**425**	**673**	**425**	**674**

The tax assessed for the year is lower (2018: lower) than the standard rate of corporation tax in the UK of 19% (2018: 19%). The differences are explained below:

	Group 2019 £000's	Group 2018 £000's	Society 2019 £000's	Society 2018 £000's
(b) Factors affecting current tax charge in year:				
Profit on ordinary activities before tax	2,374	3,819	2,391	3,823
Tax on profit at UK standard rate of 19% (2018: 19%)	451	726	454	726
Expenses not deductible for tax purposes	49	11	49	11
Adjustment re: prior year	(34)	(21)	(34)	(19)
Group relief claimed	-	-	(3)	(1)
Impact of change in rate – deferred tax	(44)	(48)	(44)	(48)
Changes to treatment of debt securities	3	5	3	5
Total tax charge	**425**	**673**	**425**	**674**

A reduction in the UK Corporation tax rate from 19% 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% (2018: 19%). The deferred tax asset at 31 December 2019 has been calculated based on the rate of 17% (2018: 17%) substantively enacted at that date.

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

	Note	Group 2019 £000's	Group 2018 £000's	Society 2019 £000's	Society 2018 £000's
Cash in hand		668	736	668	736
Balances at the Bank of England		101,920	103,297	101,920	103,297
Included in cash and cash equivalents	**27**	**102,588**	**104,033**	**102,588**	**104,033**

10. Loans and advances to credit institutions

	Group 2019 £000's	Group 2018 £000's	Society 2019 £000's	Society 2018 £000's
Maturity analysis:				
Repayable on demand	9,915	7,669	9,774	7,526
In more than one year but not more than five years	1,396	520	1,396	520
	11,311	**8,189**	**11,170**	**8,046**

Amounts outstanding in more than one year but not more than five years of £1,396k (2018: £520k) fully reflect amounts placed as collateral with counterparties in respect of derivative contracts.

11. Debt securities

	Group 2019 £000's	Group 2018 £000's	Society 2019 £000's	Society 2018 £000's
Available for sale securities				
Issued by UK Government	14,955	15,454	14,955	15,454
Issued by other borrowers - listed	17,201	17,215	17,201	17,215
Issued by other borrowers - unlisted	93,508	96,281	93,508	96,281
	125,664	**128,950**	**125,664**	**128,950**
Available for sale securities				
Maturity analysis				
In not more than one year	108,463	111,735	108,463	111,735
In more than one year	17,201	17,215	17,201	17,215
	125,664	**128,950**	**125,664**	**128,950**

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	2019 £000's	2018 £000's
At 1 January	**128,950**	**100,264**
Additions	122,887	149,566
Maturities and disposals	(127,374)	(121,267)
Movement in premium and accrued interest	1,094	517
Gains/(loss) in fair value recognised in Other Comprehensive Income	107	(130)
At 31 December	**125,664**	**128,950**

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.

12. Derivative 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 2019				
Unmatched derivatives – interest rate swaps	41,084	8	(79)	(71)
Derivatives designated as fair value hedges interest rate swaps	353,098	268	(1,247)	(979)
Total recognised derivative assets/(liabilities)	**394,182**	**276**	**(1,326)**	**(1,050)**
At 31 December 2018				
Unmatched derivatives – interest rate swaps	12,237	67	(6)	61
Derivatives designated as fair value hedges interest rate swaps	364,191	1,968	(534)	1,434
Total recognised derivative assets/(liabilities)	**376,428**	**2,035**	**(540)**	**1,495**

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

13. Loans and advances to customers

	Group 2019 £000's	Group 2018 £000's	Society 2019 £000's	Society 2018 £000's
Loans and advances to customers comprise:				
Loans fully secured on residential property	847,675	826,288	847,633	826,242
Loans fully secured on land	166	197	166	197
Fair value adjustment for hedged risk	888	(1,418)	888	(1,418)
	848,729	**825,067**	**848,687**	**825,021**

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 £888k (2018: (£1,418k)) have been made to certain fixed rate mortgages that are in fair value hedging relationships.

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

	Group 2019 £000's	Group 2018 £000's	Society 2019 £000's	Society 2018 £000's
Repayable on demand	250	207	250	207
In not more than three months	6,763	6,645	6,762	6,644
In more than three months but not more than one year	20,514	20,436	20,512	20,434
In more than one year but not more than five years	135,581	131,465	135,547	131,453
In more than five years	684,311	667,563	684,306	667,532
	847,419	**826,316**	**847,377**	**826,270**
Loan impairment allowance	(415)	(405)	(415)	(405)
Fair value adjustment for hedged risk	888	(1,418)	888	(1,418)
Effective interest rate adjustment	837	574	837	574
	848,729	**825,067**	**848,687**	**825,021**

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

14. Investments in subsidiary undertakings

	Society 2019 £000's	Society 2018 £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.

14. 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, of £22k, relates to an intercompany balance with The Mortgage Outlet Limited.

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

15. Fixed assets

Group	Freehold land and buildings £000's	Equipment, fixtures and fittings £000's	Totals £000's
Cost			
At 1 January 2019	2,583	5,091	7,674
Additions	-	214	214
Disposals	-	(145)	(145)
At 31 December 2019	2,583	5,160	7,743
Accumulated depreciation			
At 1 January 2019	729	4,711	5,440
Charge for the year	38	202	240
Disposals	-	(145)	(145)
At 31 December 2019	767	4,768	5,535
Net book value			
At 31 December 2019	**1,816**	**392**	**2,208**

Society	Freehold land and buildings £000's	Equipment, fixtures and fittings £000's	Totals £000's
Cost			
At 1 January 2019	2,583	5,091	7,674
Additions	-	214	214
Disposals	-	(145)	(145)
At 31 December 2019	2,583	5,160	7,743
Accumulated depreciation			
At 1 January 2019	729	4,711	5,440
Charge for the year	38	202	240
Disposals	-	(145)	(145)
At 31 December 2019	767	4,768	5,535
Net book value			
At 31 December 2019	**1,816**	**392**	**2,208**

15. Fixed assets (continued)

Group	Freehold land and buildings £000's	Equipment, fixtures and fittings £000's	Totals £000's
Cost			
At 1 January 2018	2,583	5,070	7,653
Additions	-	103	103
Disposals	-	(82)	(82)
At 31 December 2018	2,583	5,091	7,674
Accumulated depreciation			
At 1 January 2018	690	4,551	5,241
Charge for the year	39	213	252
Disposals	-	(53)	(53)
At 31 December 2018	729	4,711	5,440
Net book value			
At 31 December 2018	**1,854**	**380**	**2,234**

Society	Freehold land and buildings £000's	Equipment, fixtures and fittings £000's	Totals £000's
Cost			
At 1 January 2018	2,583	5,061	7,644
Additions	-	103	103
Disposals	-	(73)	(73)
At 31 December 2018	2,583	5,091	7,674
Accumulated depreciation			
At 1 January 2018	690	4,542	5,232
Charge for the year	39	213	252
Disposals	-	(44)	(44)
At 31 December 2018	729	4,711	5,440
Net book value			
At 31 December 2018	**1,854**	**380**	**2,234**

Equipment, fixtures and fittings include intangible assets with a net book value of £58k (2018: £74k).

The net book value of land and buildings occupied by the Society for its own activities is £1,816k (2018: £1,854k).

15. Fixed assets (continued)

Under FRS 102, the Society and Group 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:

	2019 £000's	2018 £000's
Cost	1,470	1,470
Aggregate depreciation based on cost	(437)	(415)
	1,033	**1,055**

16. Other assets

	Group 2019 £000's	Group 2018 £000's	Society 2019 £000's	Society 2018 £000's
Deferred tax asset	135	268	135	268
Amounts due from subsidiary undertakings	-	-	75	72
Other	63	6	63	7
	198	274	273	347

The elements of deferred taxation are as follows:	Group 2019 £000's	Group 2018 £000's	Society 2019 £000's	Society 2018 £000's
Difference between accumulated depreciation and capital allowances	(27)	11	(27)	11
Capital gains on revalued land and building	(93)	(96)	(93)	(96)
Other timing differences	255	353	255	353
	135	268	135	268
Deferred taxation at 1 January	**268**	**569**	**268**	**569**
Deferred tax charge	(378)	(418)	(378)	(418)
Items in relation to the Statement of Comprehensive Income				
Movements in relation to pension scheme	239	107	239	107
Movements in relation to debt securities	3	5	3	5
Movements in relation to revalued land and buildings	3	5	3	5
At 31 December	**135**	**268**	**135**	**268**

17. Prepayments and accrued income

	Group 2019 £000's	Group 2018 £000's	Society 2019 £000's	Society 2018 £000's
Prepayments	394	527	394	527
Accrued income	64	47	64	47
	458	**574**	**458**	**574**

18. Shares

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

	Group 2019 £000's	Group 2018 £000's	Society 2019 £000's	Society 2018 £000's
Repayable on demand	720,018	704,670	720,018	704,670
In not more than three months	22,681	31,369	22,681	31,369
In more than three months but not more than one year	47,992	83,087	47,992	83,087
In more than one year but no more than five years	82,503	30,970	82,503	30,970
	873,194	**850,096**	**873,194**	**850,096**

19. 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 2019 £000's	Group 2018 £000's	Society 2019 £000's	Society 2018 £000's
Repayable in more than one year but no more than five years	132,250	134,176	132,250	134,176

20. 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 2019 £000's	Group 2018 £000's	Society 2019 £000's	Society 2018 £000's
Repayable on demand	16,153	18,173	16,153	18,173

21. Other liabilities

	Group 2019 £000's	Group 2018 £000's	Society 2019 £000's	Society 2018 £000's
Amounts falling due within one year:				
Corporation tax	2	75	2	75
Other taxation and social security costs	149	161	149	161
Other creditors	274	342	275	343
	425	**578**	**426**	**579**

22. Accruals and deferred income

	Group 2019 £000's	Group 2018 £000's	Society 2019 £000's	Society 2018 £000's
Accrued interest on derivatives	64	60	64	60
Accruals	539	641	524	635
Deferred income	10	30	10	30
	613	**731**	**598**	**725**

23. Provisions for liabilities

Group and Society	Regulated Business £000's	FSCS Levy £000's	Total £000's
1 January 2019	**56**	**15**	**71**
Amount charged during the year	(13)	(3)	(16)
Amount utilised during the year	(43)	(12)	(55)
31 December 2019	-	-	-

The regulated business provision brought forward related to prior year claims that have settled during the year ending 31 December 2019. There are no unsettled claims requiring compensation at the end of the year 31 December 2019 so no provision is required. The movement in the FSCS Levy is discussed in Note 24.

24. Financial Services Compensation Scheme levy

The Financial Services Compensation Scheme (FSCS) is the United Kingdom's statutory compensation scheme for customers of authorised financial services firms. The FSCS will pay compensation if a firm is unable, or likely to be unable, to pay claims against it. The scheme is funded by levies on firms authorised by the Prudential Regulation Authority and the Financial Conduct Authority, therefore the Society is subject to this levy.

There is an annual levy to cover the management expenses of the scheme, payable in advance. In addition, the Specified Deposits Default Levy seeks to recover costs that the scheme has incurred in relation to firms which have defaulted.

The Specified Deposits Default levy is allocated to firms based on their share of protected deposits and is applied to the interest payable on the loan balance which funds the scheme. This interest amount seeks to recover from banks and building societies on an annual basis the interest payable on the loan undertaken by the FSCS to fund the cost of compensating or transferring the accounts of consumers in the failure of five banks plus Dunfermline Building Society. The interest levy is charged in July each year for the previous levy year.

Historically, capital repayments have also been recovered through the annual invoice, however the last capital instalment was invoiced in 2015 and no further capital repayments are expected. In May 2018, the final balance outstanding on the Bradford & Bingley loan was repaid in full and the 2018 invoice included all interest payable on this balance to the date of repayment. There is therefore no further exposure in relation to the original bank failures.

In August 2019, the remaining claim in Kaupthing Singer & Friedlander Ltd was sold for £15m, net of tax. This, in addition to additional levy receipts from prior years, has led to a surplus of £34m and this is due to be refunded in early 2020. The Society has recognised an income accrual in the 2019 accounts of £23k which is expected to be received in early 2020 (2018: surplus provision release of £149k).

The 2019 total levy provision is £nil (2018: £15k). In the year to 31 December 2019, £18k was paid for the Dial-A-Cab Credit Union supplemental levy utilising the £15k provision and charging £3k to the Income Statement.

25. Financial instruments

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

The Group has a formal structure for managing risk, including established risk limits, reporting lines, mandates and other control procedures. This structure is reviewed regularly by the Board, which is charged with the responsibility for managing and controlling the balance sheet exposures and the use of financial instruments for risk management purposes. The Board Risk Committee (BRC) is supported by the Risk Oversight Committee (ROC), Credit Committee (CC) and the Asset and Liability Committee (ALCO).

ROC's main responsibility is to assess the management of operational and conduct risk together with legal and regulatory risk across the Group. Responsibilities of the ROC also include ensuring the detailed application of the risk management framework and the development of key risk policies and indicators.

The CC exists to oversee and ensure effective credit risk management of the mortgage portfolio, to challenge relevant management information and other credit risk related matters and ensure that the Credit Risk Appetite Framework is being adhered to and the level of risk within the portfolio is within the agreed risk appetite measures.

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 funding, strategic and capital risk and wholesale credit 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.

25. Financial instruments (continued)

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 2019 is shown in note 12.

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

The 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 or variable 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 between 5 and 40 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

25. Financial instruments (continued)

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 2019	**Loans and receivables £000's**	**Financial assets and liabilities at amortised cost £000's**	**Available for sale £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	-	102,588	-	-	-	102,588
Loans and advances to credit institutions	11,311	-	-	-	-	11,311
Debt securities	-	-	125,664	-	-	125,664
Derivative financial instruments	-	-	-	268	8	276
Loans and advances to customers	847,841	888	-	-	-	848,729
Total financial assets	**859,152**	**103,476**	**125,664**	**268**	**8**	**1,088,568**
Total non-financial assets						2,864
Total Group assets						**1,091,432**
Financial liabilities						
Shares	-	873,194	-	-	-	873,194
Amounts owed to credit institutions	-	132,250	-	-	-	132,250
Amounts owed to other customers	-	16,153	-	-	-	16,153
Derivative financial instruments	-	-	-	1,247	79	1,326
Total financial liabilities	**-**	**1,021,597**	**-**	**1,247**	**79**	**1,022,923**
Total non-financial liabilities						1,949
General and other reserves						66,560
Total Group reserves and liabilities						**1,091,432**

25. Financial instruments (continued)

Carrying values as at 31 December 2018	Loans and receivables £000's	Financial assets and liabilities at amortised cost £000's	Available for sale £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	-	104,033	-	-	-	104,033
Loans and advances to credit institutions	8,189	-	-	-	-	8,189
Debt securities	-	-	128,950	-	-	128,950
Derivative financial instruments	-	-	-	1,968	67	2,035
Loans and advances to customers	826,485	(1,418)	-	-	-	825,067
Total financial assets	**834,674**	**102,615**	**128,950**	**1,968**	**67**	**1,068,274**
Total non-financial assets						3,082
Total Group assets						**1,071,356**
Financial liabilities						
Shares	-	850,096	-	-	-	850,096
Amounts owed to credit institutions	-	134,176	-	-	-	134,176
Amounts owed to other customers	-	18,173	-	-	-	18,173
Derivative financial instruments	-	-	-	534	6	540
Total financial liabilities	**-**	**1,002,445**	**-**	**534**	**6**	**1,002,985**
Total non-financial liabilities						2,707
General and other reserves						65,664
Total Group reserves and liabilities						**1,071,356**

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

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 2019					
Financial assets					
Available for sale					
Debt securities	**11**	125,664	-	-	**125,664**
Derivative financial instruments					
Interest rate swaps	**12**	-	276	-	**276**
		125,664	**276**	**-**	**125,940**
Financial liabilities					
Derivative financial instruments					
Interest rate swaps	**12**	**-**	**1,326**	**-**	**1,326**
As at 31 December 2018					
Financial assets					
Available for sale					
Debt securities	**11**	128,950	-	-	**128,950**
Derivative financial instruments					
Interest rate swaps	**12**	-	2,035	-	**2,035**
		128,950	**2,035**	**-**	**130,985**
Financial liabilities					
Derivative financial instruments					
Interest rate swaps	**12**	**-**	**540**	**-**	**540**

25. 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 long term ratings published by external credit rating agencies, which are an indication of a company's creditworthiness.

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

	Group 2019 £000's	Group 2018 £000's	Society 2019 £000's	Society 2018 £000's
Cash in hand and balances with the Bank of England	102,588	104,033	102,588	104,033
Loans and advances to credit institutions	11,311	8,189	11,170	8,046
Debt securities	125,664	128,950	125,664	128,950
Derivative financial instruments	276	2,035	276	2,035
Loans and advances to customers	848,729	825,067	848,687	825,021
Total statement of financial exposure *(1)*	**1,088,568**	**1,068,274**	**1,088,385**	**1,068,085**
Off balance sheet exposure - mortgage commitment *(2)*	35,528	38,199	35,528	38,199
Total	**1,124,096**	**1,106,473**	**1,123,913**	**1,106,284**

(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 ALCO 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 ALCO.

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

25. Financial instruments (continued)

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

	Group			
Industry sector	**2019 £000's**	**2019 %**	**2018 £000's**	**2018 %**
Banks	87,496	70%	87,228	68%
Building societies	6,012	5%	9,053	7%
Central Government	14,955	12%	15,454	12%
Supranationals'	17,201	13%	17,215	13%
Total	**125,664**	**100%**	**128,950**	**100%**

Geographic region	**2019 £000's**	**AAA %**	**AA %**	**A %**
United Kingdom	108,463	-	14%	86%
Supranationals'	17,201	100%	-	-
Europe		-	-	-
Australia		-	-	-
Canada		-	-	-
Total	**125,664**			

Geographic region	**2018 £000's**	**AAA %**	**AA %**	**A %**
United Kingdom	83,664	-	18%	82%
Supranationals'	17,215	100%	-	-
Europe	15,049	-	100%	-
Australia	8,019	-	100%	-
Canada	5,003	-	100%	-
Total	**128,950**			

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

Geographic region	**2019 £000's**	**AA %**	**A %**	**F**	**2018 £000's**	**AA %**	**A %**
United Kingdom	226	-	82%		1,236	-	61%
Europe	50	-	18%		799	-	39%
Total	**276**				**2,035**		

There are no impairment charges against any of the Group's treasury assets at 31 December 2019 or 31 December 2018.

25. Financial instruments (continued)

b) Loans and advances to customers

All mortgage loan applications are assessed with reference to the Group's Board approved retail credit risk appetite statement and credit risk policy and are assessed for potential fraud risk. 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 Credit Risk Forum and the Board Risk Committee 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.

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 Retail Credit Risk 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 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 Credit Risk Forum 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 70. Loans and advances to customers are predominantly made up of retail loans fully secured against UK property of £847m (2018: £826m) 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**	**2019 £000's**	**2019 %**	**2018 £000's**	**2018 %**
West Midlands		192,935	22%	190,800	23%
North		140,529	17%	143,271	17%
London		134,172	16%	121,983	15%
East Midlands		90,700	11%	94,104	11%
South West		82,847	10%	80,542	10%
Outer South East		81,907	10%	77,392	9%
Yorkshire & Humberside		54,728	6%	53,855	7%
Wales and Northern Ireland		36,737	4%	33,251	4%
East Anglia		32,698	4%	30,921	4%
Total		**847,253**	**100%**	**826,119**	**100%**
Other loans (see below)		166		197	
	13	**847,419**		**826,316**	

Other loans represent commercial loans secured on land.

25. Financial instruments (continued)

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:

	2019	2018
Repayment – Residential mortgage	59%	59%
Interest Only – Residential mortgage	11%	11%
Repayment – Buy to Let	4%	4%
Interest Only – Buy to Let	26%	26%

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 42% (2018: 43%). All residential loans above 80% (2018: 80%) LTV are insured.

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

	Group	
LTV analysis	**2019 %**	**2018 %**
Residential		
0% - 30%	14%	13%
30% - 60%	35%	34%
60% - 80%	31%	33%
80% - 90%	13%	16%
90%-100%	7%	4%
>100%	-	-
Average loan to value of residential mortgage loans	**42%**	**43%**
Average loan to value of new business in the year	**56%**	**51%**

	Group	
LTV analysis	**2019 %**	**2018 %**
Buy to Let		
0% - 30%	5%	4%
30% - 60%	52%	48%
60% - 80%	43%	48%
80% - 90%	-	-
90%-100%	-	-
>100%	-	-
Average loan to value of Buy to Let mortgage loans	**51%**	**53%**
Average loan to value of new business in the year	**46%**	**52%**

The quality of the Group's retail mortgage book is reflected in the number and value of accounts in arrears, by value this is 0.7% (2018: 0.7%), of which only 0.2% (2018: 0.1%) is greater than three months in arrears.

25. Financial instruments (continued)

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	2019 £000's	2019 %	2018 £000's	2018 %
Not impaired				
Neither past due or impaired	841,208	99%	820,512	99%
Past due up to three months but not impaired	4,427	1%	5,162	1%
Impaired				
Past due three to six months	1,573	<=0.1%	422	<=0.1%
Past due six to 12 months	211	<=0.1%	134	<=0.1%
Past due over 12 months	-	-	86	<=0.1%
Total	**847,419**	**100%**	**826,316**	**100%**

Value of collateral held	2019 Indexed £000's	2019 Unindexed £000's	2018 Indexed £000's	2018 Unindexed £000's
Neither past due or impaired	1,889,532	1,672,467	1,781,473	1,581,093
Past due up to three months but not impaired	9,838	8,251	12,658	10,160
Past due over three months and impaired	5,127	4,306	1,732	1,174

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 from 1st December 2017, it has been taken out for all residential loans where the borrowing exceeded 80% of the value of the property at the point of application. During 2018 the length of time for the Mortgage Indemnity Guarantee period was reduced from 10 years to 7 years, with the option to purchase a further 3 years, if required. 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 2019, the Group and Society had no (2018: nil) properties in possession with an outstanding balance of £nil (2018: £nil) and related collateral of £nil (2018: £nil).

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.

25. Financial instruments (continued)

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 CC on a monthly basis. The table below details the number of forbearance cases within the 'Not impaired' category:

Type of forbearance	31 December 2019 Number	31 December 2018 Number
Reduced payment including interest only concessions	4	6
Arrangements	11	12
Payment holidays	3	3
Total	**18**	**21**

In total £1.3m (2018: £1.5m) of loans are subject to forbearance. There is a requirement for a collective impairment allowance in 2019 of £5k (2018: £8k) in relation to forbearance accounts.

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 ALCO. 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 £101.4m at 31 December 2019 (2018: £102.7m) on deposit with the Bank of England to ensure ready access to liquid funds should the need arise.

The table below sets out the maturity analysis for financial liabilities showing the remaining contractual maturities at undiscounted amounts separated between derivative and non-derivative financial liabilities. This is not representative of the Group's management of liquidity as retail deposits repayable on demand generally remain on balance sheet much longer.

31 December 2019	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
Shares	720,018	22,762	21,507	26,943	85,485	-	876,715
Amounts owed to credit institutions	-	250	247	499	133,003	-	133,999
Amounts owed to other customers	16,153	-	-	-	-	-	16,153
Derivative financial instruments	-	189	177	354	706	-	1,426
Total liabilities	**736,171**	**23,201**	**21,931**	**27,796**	**219,194**	**-**	**1,028,293**
31 December 2018							
Shares	704,670	31,451	32,118	51,442	31,381	-	851,062
Amounts owed to credit institutions	-	306	191	499	135,920	-	136,916
Amounts owed to other customers	18,173	-	-	-	-	-	18,173
Derivative financial instruments	-	154	118	205	140	-	617
Total liabilities	**722,843**	**31,911**	**32,427**	**52,146**	**167,441**	**-**	**1,006,768**

25. 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 series of stress tests reflecting changes in interest rates on a monthly basis and the results are measured against the risk appetite and operating limits. The Society's exposure to a 2% change in interest rates was 3.0% of capital (£2.0m) on a net present value basis and £0.2m on profit at 31 December 2019 (2018: 1.9%, £1.3m, £0.2m). 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.

Derivative financial instruments
The Society uses derivatives to assist in its management of interest rate risk. Interest rate swaps are used to hedge exposure to changes in fair value exposure to market interest rates on fixed rate loans and advances. The fair values of derivatives designated as fair value hedges are as follows:

	2019 Assets £000's	2019 Liabilities £000's	2018 Assets £000's	2018 Liabilities £000's
Instrument type:				
Interest rate swaps	276	1,326	2,035	540
Total	**276**	**1,326**	**2,035**	**540**

In September 2019, the IASB issued amendments to IAS 39, IFRS 9 and IFRS 7 Financial Instruments: Disclosures to address uncertainties related to the market wide reform of interbank offered rates (LIBOR reform). The amendments provide targeted relief for financial instruments qualifying for hedge accounting under IAS 39 or IFRS 9. They are effective for periods beginning on or after 1 January 2020. The Group has taken the option in chapters 11 and 12 of FRS 102 to apply IAS 39 hedge accounting and therefore the IAS 39 / IFRS 7 amendments are relevant.

Under the reforms, LIBOR will not be sustained after the end of 2021. Historically, the variable rate paid or received on interest rate swap contracts used by the Group has been 3 month LIBOR. The Group has therefore commenced a project to transition away from LIBOR to using Sterling Overnight Index Average ("SONIA") as the reference rate for the variable leg of swaps. This transition will be achieved through the cessation of the use of LIBOR swaps for new hedges, the attrition of existing LIBOR swaps that mature before the end of 2021 and, where necessary, the replacement of existing LIBOR swaps that extend beyond 2021.

It is not anticipated that the Group will have to rely on the fall back clauses within swap contracts that extend beyond 2021 when the LIBOR market becomes illiquid, rather action will be taken well in advance of this to contractually replace the LIBOR legs of the swaps with SONIA.

The Group's exposure to Libor designated in a hedging relationship is £394.2m nominal amount at 31 December 2019, attributable to the interest rate swap hedging fixed rate cash flows on its mortgage products.

26. Retirement benefit obligations

The Society operates a defined benefit pension 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 2018 and this has been updated to 31 December 2019 by a qualified actuary, independent of the scheme's sponsoring employer. The major assumptions used by the actuary are shown below.

This most recent completed actuarial valuation at 24 April 2018 showed a deficit of £2,484,000. The Society agreed with the trustees that it would aim to eliminate the deficit over a period of 15 months from 24 April 2018 to 24 July 2019 by the payment of £166,667 per month (in addition to agreed contributions payable under the previous valuation). 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 is closed to accrual, but retains salary linkage to accrued benefits, with effect from 24 April 2013.

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

	2019 £000's	2018 £000's	2017 £000's
Fair value of scheme assets	39,308	38,408	40,725
Present value of scheme liabilities	(40,219)	(39,735)	(43,384)
Deficit in scheme	**(911)**	**(1,327)**	**(2,659)**

Reconciliation of opening and closing balances of the defined benefit obligation

	2019 £000's	2018 £000's
Defined benefit obligation at start of year	39,735	43,384
Current service cost	44	59
Interest expense	1,006	1,043
Actuarial losses/(gains)	7,144	(1,388)
Benefits paid and expenses	(7,710)	(3,363)
Defined benefit obligation at end of year	**40,219**	**39,735**

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

	2019 £000's	2018 £000's
Fair value of scheme assets at start of year	38,408	40,725
Interest income	994	1,002
Actuarial gains/(losses)	5,739	(2,015)
Contributions by Society	1,877	2,059
Benefits paid	(7,710)	(3,363)
Scheme assets at end of year	**39,308**	**38,408**

The actual return on the plan assets over the year ended 31 December 2019 was £6,733k (2018: (£1,013k)).

26. Retirement benefit obligations (continued)

Total defined benefit costs recognised in the Income Statement

	2019 £000's	2018 £000's
Current service cost	44	59
Net interest cost	12	41
Defined benefit cost recognised in profit and loss account	**56**	**100**

Defined benefit costs recognised in Other Comprehensive Income

	2019 £000's	2018 £000's
Return on plan assets (excluding amounts included in net interest cost) – gain/(loss)	5,739	(2,015)
Experience gains and losses arising on the plan liabilities – (loss)	(1,491)	(1,098)
Effects of changes in the demographic and financial assumptions underlying the present value of the plan liabilities: (loss)/gain	(5,653)	2,486
Total amount recognised in Other Comprehensive Income – (loss)	**(1,405)**	**(627)**

Assets

	2019 £000's	2018 £000's	2017 £000's
Multi asset credit funds	1,635	2,001	-
Corporate bonds	2,468	2,340	2,273
Diversified growth funds	8,291	9,457	9,414
Liability driven investment funds	9,253	8,685	5,774
Equity linked bond funds	-	-	6,462
Insured pensioners	17,510	15,762	16,586
Other	151	163	216
Total	**39,308**	**38,408**	**40,725**

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.

26. Retirement benefit obligations (continued)

Assumptions	2019 % per annum	2018 % per annum	2017 % per annum
Rate of discount	2.10	2.80	2.50
Retail Price Index inflation	3.00	3.45	3.40
Consumer Price Index inflation	2.20	2.45	2.40
Salary growth	4.00	4.45	4.40
Allowance for revaluation of deferred pensions of CPI or 5% p.a. if less	2.20	2.45	2.40
Allowance for pension payment increases of RPI or 5% p.a. if less	3.00	3.45	3.40
Allowance for pension in payment increases of RPI or 2.5% p.a. if less	2.20	2.20	2.40
Allowance for commutation of pension for cash at retirement	80% of Post A Day on current factors	80% of Post A Day on current factors	80% of Post A Day on factors 15% higher than those currently in place

The mortality assumptions adopted at 31 December 2019 imply the following life expectancies:

Male retiring at age 60 in 2019	26.2 years (2018: 25.6 years)
Female retiring at age 60 in 2019	28.2 years (2018: 27.6 years)
Male at age 60 in 2039	27.3 years (2018: 26.8 years)
Female retiring at age 60 in 2039	29.5 years (2018: 28.9 years)

The best estimate of deficit contributions to be paid by the Society to the scheme for the period commencing 1 January 2020 is £nil. The Society will however pay the insurance premium for death in service benefits.

27. Cash and cash equivalents

	Group 2019 £000's	Group 2018 £000's	Society 2019 £000's	Society 2018 £000's
Cash in hand and balances at Bank of England	102,588	104,033	102,588	104,033
Loans and advances to credit institutions	9,915	7,669	9,774	7,526
At 31 December	**112,503**	**111,702**	**112,362**	**111,559**

28. General reserve

	Group 2019 £000's	Group 2018 £000's	Society 2019 £000's	Society 2018 £000's
At 1 January	**64,725**	**62,099**	**64,638**	**62,009**
Profit for the financial year	1,949	3,146	1,966	3,149
Net (loss) recognised directly in Other Comprehensive Income	(1,166)	(520)	(1,166)	(520)
At 31 December	**65,508**	**64,725**	**65,438**	**64,638**

As set out on page 13, the general reserves along with the revaluation reserve and available for sale reserve constitute the Society's Tier 1 Capital for regulatory purposes.

29. Revaluation reserve

	Group 2019 £000's	Group 2018 £000's	Society 2019 £000's	Society 2018 £000's
At 1 January	**1,017**	**1,012**	**1,017**	**1,012**
Tax on revaluation reserve	3	5	3	5
At 31 December	**1,020**	**1,017**	**1,020**	**1,017**

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.

30. Available for Sale reserve

	Group 2019 £000's	Group 2018 £000's	Society 2019 £000's	Society 2018 £000's
At 1 January	**(78)**	**47**	**(78)**	**47**
Net gains/(losses) from changes in fair value	107	(130)	107	(130)
Deferred tax on available for sale reserve	3	5	3	5
At 31 December	**32**	**(78)**	**32**	**(78)**

31. 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 2019 was £13,112k (2018: £13,377k). 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 2019 was £2,374k (2018: £3,819k). Corporation tax paid during the year ended 31 December 2019 was £121k (2018: £263k).

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 2019 was 172 (2018: 173).

Public subsidies received
The Society received no public subsidies in the year ended 31 December 2019 (2018: nil).

Annual Business Statement

Annual Business Statement for the year ended 31 December 2019

Statutory percentages	2019 %	2018 %	Statutory limit %
Calculated in accordance with the Building Societies Act 1986 as amended by the Building Societies Acts 1997 and 2005			
Lending limit	0.23	0.20	25.0
Funding limit	14.5	15.2	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 provision for loan impairment, 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 provision for loan impairment.

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

The amount of shares held by individuals is shown in note 18 of the notes to the accounts.

Other percentages	2019 %	2018 %
Gross capital as a percentage of shares and borrowings	6.52	6.55
Free capital as a percentage of shares and borrowings	6.34	6.37
Liquid assets as a percentage of shares and borrowings	23.45	24.06
Profit on ordinary activities after taxation as a percentage of year end total assets	0.18	0.29
Management expenses as a percentage of mean total assets	0.97	0.97

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 2018 and 2019 total assets. Management expenses represent the aggregate of administrative expenses and depreciation.

Information relating to directors as at 31 December 2019:

Name/ Date of Birth	Occupation	Date of Appointment	Other Directorships
 **Keith Abercromby** BSc, FIA 05/03/1964	Non-Executive Director	23/03/2016	Argus Group Holdings Limited Argus Insurance Company (Europe) Limited Canada Life Limited
 **Robert Broadbent** BSc, ACA 10/12/1976	Building Society Finance Director	25/06/2019	Leek United Home Loans Ltd Leek United Financial Services Ltd The Mortgage Outlet Ltd
 **Rachel Court** JP, BA Oxon 27/06/1966	Non-Executive Director	26/11/2014	Invesco Pensions Ltd Invesco UK Ltd Invesco Fund Managers Ltd Leek United Home Loans Ltd Leek United Financial Services Ltd The Mortgage Outlet Ltd
 **Richard Goddard** MA, FCA 09/06/1957	Non-Executive Director	23/11/2011	RCG Business Consultancy Ltd
 **Andrew Healy** MoB, BSc, MCIPD 10/11/1966	Building Society Chief Executive	17/12/2018	Leek United Home Loans Ltd Leek United Financial Services Ltd The Mortgage Outlet Ltd
 **John Kelly** ACA, BA 14/09/1965	Building Society Operations Director	26/04/2017	None
 **Colin Kersley** 20/10/1956	Non-Executive Director	21/12/2016	Assurant plc Assurant plc (European Subsidiary)
 **Jane Kimberlin** BA 25/09/1959	Non-Executive Director	23/11/2016	Creaton Consultants Limited Creaton Community Benefit Society
 **John Leveson** MBA, FCIB 04/09/1959	Non-Executive Director	19/05/2015	H & H Group plc
 **Andrew Morris*** MPhil, FCA, MBA 31/07/1972	Building Society Finance Director (until 24/03/2019)	21/03/2018	None

**Andrew Morris left the Society on 24/03/2019*

Leek United Building Society,
Head Office, 50 St. Edward Street, Leek,
Staffordshire ST13 5DL.

t: 0800 093 0004

Branches and agencies throughout Staffordshire,
Cheshire, Shropshire and Derbyshire.

finance@leekunited.co.uk
leekunited.co.uk

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