



2018

**BUSINESS REVIEW
AND SUMMARY
FINANCIAL
STATEMENT**



Leek United
BUILDING SOCIETY



LEEK



WIRKSWORTH



ASHBOURNE



DERBY

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Leek United sponsored the Congleton Harriers Cloud 9 Hill race with proceeds going to **East Cheshire Hospice**

Business Review

I am delighted to introduce the Annual Report for 2018 and to advise of another successful year for the Society. As addressed in more detail in the business review provided by our new Chief Executive, Andrew Healy, the year saw a solid performance in terms of financials, business volumes, service standards and community support. We have continued to generate sustainable levels of profit and to maintain our strong capital and liquidity positions whilst growing our mortgage book at controlled levels as planned. It is satisfying that notwithstanding challenging market conditions, the Society remains in a highly robust position.



Rachel Court
Chair

Economic and Market Conditions

The past year has seen sluggish economic conditions impacted by global political developments and in particular, the uncertainty surrounding the EU withdrawal process. The latter has appeared to undermine confidence in the housing market, with the pace of house price growth slowing compared to recent years. Higher inflation has squeezed household incomes and this has taken the edge off consumer-led growth.

Interest rates remain low by historic standards despite the Monetary Policy Committee increasing Bank Base Rate by 0.25% to 0.75% in August. It is anticipated that rates will rise over the next few years, albeit increases are expected to be gradual and to involve small increments.

As large and 'challenger' banks seek to increase their market share, competition has continued to intensify, particularly in the low LTV residential mortgage market.

In light of these challenging circumstances, to deliver such a good performance represents an excellent achievement.

Our Strategy

We are committed to operating as a local, independent building society. While announcements of bank branch closures remain commonplace, we are proud to retain our commitment to the high street with a branch manager in every branch and specialist staff available to provide face to face advice across our product range. In tandem, we are placing renewed focus on process and technology improvements in order to optimise service standards and to make it easier to do business with us.

Ever-increasing levels of competition, European and Global uncertainty and reduced availability of low cost Government funding represent factors that will place pressure on financial institutions going forward and we will not be immune to these pressures. As I emphasised to you in my report last year, this ongoing period of slower growth must be negotiated prudently and safely by the Society in order to preserve our financial strength. We are doing just this and we remain confident that the future outlook for Leek United is very positive.



(From left) Curtis Kenny and Bill Fox, of **The Macari Centre Street Retreat**, take delivery of bags of winter clothing from Leek United's Simon Round, Hannah Sergeant and Dan Tabbinor

Our Board

I would like to welcome Andrew Healy to the Board as Chief Executive, following Kevin Wilson's recent retirement. Andrew brings with him more than 25 years of experience in financial services, including significant experience at CEO and Board level. I am sure his expertise and skills coupled with his commitment to mutual values and excellent customer service will help to build further on the Society's success.

I would also like to extend my thanks to Kevin Wilson, who retired in December 2018 after 14 years as Chief Executive. On behalf of the Board, our staff and members, I would like to thank Kevin for successfully leading the Society over many years.

Finally, Andrew Morris, our current Finance Director, will leave the Society in March 2019. On behalf of the Board, I would like to thank Andrew for his contribution and to wish him well for the future. We expect to make a formal announcement regarding his successor very soon.

Thank You

I would like to express my gratitude to my fellow Board members for their ongoing support and commitment. I would also like to acknowledge all of the hard-working employees throughout the Society whose immense dedication and enthusiasm has ensured that members' interests have been to the forefront at all times.

Most of all, I am enormously grateful to you, our members, for your continued loyalty – I assure you we never take this for granted and we are more committed than ever to supporting you. I look forward very much to meeting many of you at our AGM on 24 April 2019.

Rachel Court
27 February 2019

Review of the Year

	2018	2017
Group profit before tax	£3.8m	£4.5m
Group profit before tax and hedging adjustments	£3.4m	£3.9m
Group reserves	£65.7m	£63.2m
Group assets	£1,071.4m	£1,039.4m
Mortgage assets	£825.1m	£795.9m
Core tier 1 ratio	17.8%	17.6%
Management expense ratio	0.97%	0.93%



Andrew Healy
Chief Executive

Overview

It is a great privilege to present my first report as Chief Executive.

During 2018, the Society delivered a strong financial performance with profit before tax and hedging of £3.4m (profit before tax £3.8m) and a strong capital outturn to facilitate future lending and investment. We are well placed to continue to positively support members' interests over the years ahead.

Mortgages

Mortgage balances rose by 3.7% during the year to £825m, with new advances of £158m. This satisfactory level of business was achieved despite the challenges presented by the increased economic and competitive pressures which our Chair, Rachel Court, referred to in her statement.

Our primary focus remains on residential lending, providing a range of fixed and discount mortgages for owner occupiers as well as, to a lesser extent, for Buy to Let (BTL) landlords. The Society is proud to be able to support people to get a foot on the housing ladder, through our own mortgage products including 95% loan to

value and through government initiatives such as Help to Buy. In conjunction with local authorities, we also offer 95% First Time Buyer mortgages for customers in our heartland.

We offer interest only mortgage products to members who can demonstrate a credible repayment plan and we also offer products to those who need support beyond their expected retirement date. As anticipated, the BTL market has been impacted by regulatory changes in this area, however we continue to offer a range of products to support BTL lending, including 'portfolio' lending.

All mortgages are individually underwritten and reviewed for affordability by an experienced team. This, coupled with our commitment to responsible lending, is the key to the high quality of our mortgage book, evidenced by our low level of arrears. I am pleased to be able to say that no properties were taken into possession during 2018 (3 properties in 2017) and just 0.14% of mortgage accounts were in arrears at year end by the equivalent of three or more monthly repayments (2017: 0.22%).

All lending over 80% LTV at inception is insured through a mortgage indemnity



Launch of new **East Cheshire Hospice** savings account
13 July 2018 at Macclesfield branch attended by the town's MP, David Rutley

policy, which protects the Society from losses incurred if a property is taken into possession in the first seven years.

The Society is honoured to have been named as Britain's Best Variable Rate Mortgage Lender in the Personal Finance Awards 2018/19 and have been Highly Commended as the Best First Time Buyer Mortgage Provider by Money.net.co.uk, as well as being shortlisted for two other national finance industry awards.

Savings

The Society continues to be very strongly funded by its members and I am pleased to report that, notwithstanding a range of challenges in the savings market, we were able to maintain our level of savings balances in 2018. The year saw interest rates remain at low levels and with lenders having access to low cost Bank of England funding schemes, the savings market was subdued. We are very mindful of the need to give our savers rates that are both fair and sustainable and we continue to offer preferential loyalty products to existing members. However, as a regional building society, it must be appreciated that we are unable to shape rates in isolation of the market. Following the increase in Bank Base Rate in August, the Society was able to pass on some increases to the majority of savings accounts. The full increase was passed on to our junior accounts to help encourage the next generation's savings habits.

Cost Efficiency

Costs have grown year on year through enhancements to our risk and control framework, as well as investment in people and technology. It is acknowledged that the Society needs to become more efficient and that cost control will be important going forward in order to deliver the required level of profitability to protect members' interests. This focus on efficiency and cost containment will be carefully balanced alongside the need to continue to invest for the future prosperity of the Society.

Financial Investment Advice

Through our relationship with Wren Sterling, the Society offers whole of market financial advice, giving our members the opportunity to consult with independent advisers on all aspects of financial planning. This service includes savings protection and investments as well as retirement and inheritance tax planning. Advice is primarily available in-branch on a face to face basis but there is also support available over the phone.

We continue to offer buildings and contents home insurance for our members via our longstanding relationship with Royal & Sun Alliance Insurance plc.

Review of the year (continued)

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



Our People & Our Service

It is of course our staff and the service they offer that stands Leek United apart from other financial services providers. We have a branch manager in every branch and our teams are enormously committed to providing exceptional service to our members. Furthermore, we proactively seek, and act upon, member feedback regarding our products and service. In 2018, we achieved an overall Net Promoter Score of 84, which tells us that a very high percentage of our members would recommend us to their friends, family and colleagues.

The Society demonstrably values people development, for example by investing in talent for future management roles through in-house training programmes and by supporting colleagues to gain relevant qualifications. Among many investments in such development, we are currently sponsoring two employees who are participating in a bespoke master's programme, developed in conjunction with the Building Societies Association, at the School of Business and Economics, Loughborough University. In addition, we continue to run a highly successful apprenticeship programme to attract and develop local talent.

Community

As a mutual organisation, we are committed to going the extra mile to support the local communities within our heartland, through a wide range of fundraising activities and sponsorship programmes. In addition to supporting a vast array of charities, in 2018 we were proud to be named as a "Donna Louise Hero" by virtue of having raised over £10,000 for a local hospice that provides respite and end-of-life care for children and young adults with life-limiting conditions.

Our affinity savings account range has been extended to include East Cheshire Hospice and Totally Locally Leek, to sit alongside the County Air Ambulance Trust and of course, Stoke City Football Club. These accounts allow our members to support their local communities through savings accounts which pay a percentage of interest earned to the relevant charity or club.

Our staff continue to support local schools through attendance at careers events to highlight opportunities, as well as providing work experience placements for school children, with seven students supported this year.



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

Outlook

As our Chair has highlighted, house price growth slowed during 2018. However, the Society's mortgage book is well diversified across the UK and is not unduly exposed to any one particular region. Our prudent approach to lending will continue to ensure that our loan book remains of the highest quality in order to protect the Society from potential adverse impacts and shocks, including any negative fallout from the EU withdrawal/Brexit process.

We have run stressed scenarios to cover events such as a disorderly Brexit so that we can recognise the impacts they could have on the Society through, for example, house price reductions and/or rising unemployment. Having done so, we are confident that we are in a robust position to withstand such macro-economic shocks. We will at all times put the safety and soundness of the Society, and the associated interests of our members, first rather than prioritising the achievement of short term profits.

The Bank of England has provided significant volumes of low cost funding to banks and building societies which must be repaid over the next three years. It is acknowledged that this is likely to put pressure on the profitability of lenders, including the Society. However, we have a clear plan in place to repay these funds

while at the same time ensuring that our position of financial strength is retained.

While it is difficult to make economic predictions for 2019 and beyond, not least given the level of uncertainty around Brexit at the time of writing, our robust balance sheet positions us well for the future as a strong and independent building society.

Andrew Healy

27 February 2019

Corporate Governance Report

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

The Board

The Board sets the overall strategic aims, long term objectives and commercial strategy for the Society. As such, it is the Board's responsibility to ensure that the necessary financial and human resources are in place to enable the Society to meet these objectives, as well as to review management performance and oversee the delivery of the Corporate Plan. The Board also has responsibility to ensure 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 is a schedule of decisions which can only be made by the Board. The Board meets monthly, with no planned meeting



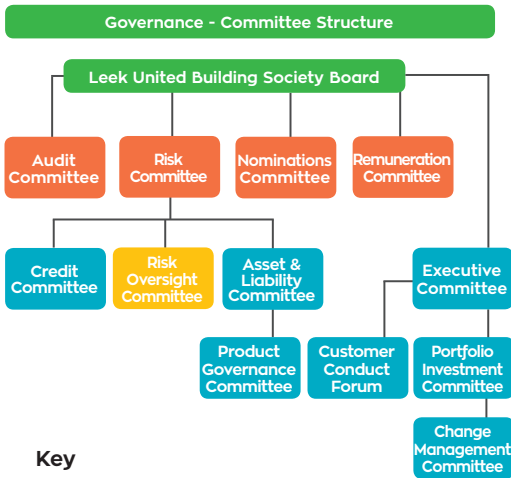
A team of intrepid Leek United staff taking part in the **Cancer Research 'Pretty Muddy' Run**

in August, and must meet a minimum of ten times per year. There are also additional days focussed specifically on strategy. The Non-Executive Directors meet regularly without the Executive Directors present.

There have been changes to the Executive Directors in 2018 with Andrew Morris co-opted to the Board in March 2018. Andrew Healy was co-opted to the Board in December 2018 as Kevin Wilson retired from the Board at the end of December 2018. At the end of 2018, the Board consisted of six Non-Executive Directors and four Executive Directors including Kevin Wilson.

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

of Reference and the minutes of the committee meetings are reported to the Board. The structure is shown below:



Key

- Board Sub Committee
- 1st Line Committee
- 2nd Line Committee

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

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

- Regular reports to the Board and Board Risk Committee from the Head of Risk and Compliance on the principal risks facing the Society and the adequacy of the controls in place.
- Maintaining an independent reporting line between the Head of Risk and Compliance and the Chair of the Board Risk Committee.

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

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

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. These responsibilities 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 except pension risk which is not overseen by the BRC, as it is overseen directly by the Board.
- To keep under review the Society's risk assessment processes which



Corporate Governance Report (continued)

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 and the methodology adopted.

- To set a standard for the accurate and timely monitoring of large exposures and certain risk types of critical importance.
- To advise the Board on proposed strategic transactions, ensuring that a due diligence appraisal of the proposition is undertaken, focussing in particular on risk aspects and implications for the risk appetite and tolerance of the Society and taking independent external advice where appropriate and available.
- To review reports on any material breaches of risk limits and adequacy of the proposed action.
- To review the Society's procedures for detecting fraud and the prevention of bribery.
- To review promptly all reports on the Society from the Head of Risk and Compliance.
- To review and monitor management's responsiveness to the findings and recommendations of the Head of Risk and Compliance.
- To ensure the Head of Risk and Compliance is given the right of unfettered direct access to the Chair of the Board as well as to the Committee.
- To give due consideration to laws and regulations, as well as other applicable rules, as appropriate.

At 31 December 2018, the BRC comprised Richard Goddard (Chair), Keith Abercromby, Jane Kimberlin and John Leveson.

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

The 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 both the Risk Management Framework and the Operational Risk Framework are embedded across the organisation and that a robust risk culture exists across the Society.

The ALCO supervises the Group's treasury and financial risk management activities and advises and supports the Finance Director in carrying out his responsibilities, including the identification, management and control of the balance sheet risks and the overview and monitoring of relevant risk control frameworks. 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 that the credit risk appetite framework is adhered to, in line with the agreed risk appetite.

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 established by management as well as to identify, assess, manage and monitor financial and non-financial risks, to ensure compliance with the regulatory environment in which the Society operates.

- To review the adequacy and security of the Society's arrangements for its employees and contractors to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters. The Committee shall ensure that these arrangements allow proportionate and independent investigation of such matters and appropriate follow up action.
- To review management's and the Internal Auditor's reports on the effectiveness of systems for internal financial control, financial reporting and risk management, including all aspects of the first and second lines of defence.
- To approve the appointment or removal of the supplier of Internal Audit 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 whether it is fair, balanced, and understandable and provides the information necessary for users to assess the Society's performance, business model and strategy.
- To review the Pillar 3 disclosure and recommend to the Board for approval.
- To make recommendations on the appointment, reappointment and removal of the Society's External Auditor, via the Board, to members for consideration at the AGM.

- To develop and implement policy on the supply of non-audit services by the External Auditor to avoid any threat to auditor objectivity and independence, taking into account any relevant ethical guidance on the matter.
- To ensure that at least once every ten years, the external audit services contract is put out to tender to enable the Committee to compare the quality and effectiveness of the services provided by the incumbent auditor with those of other firms.

At 31 December 2018, the Committee comprised Keith Abercromby (Chair), Richard Goddard and Colin Kersley.

Remuneration Committee

The Remuneration Committee, a sub-committee of the Board, has the following responsibilities:

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

Corporate Governance Report (continued)

termination and any non-contractual payments made to other staff on termination.

The Committee makes an annual report to members which can be found on page 22. The Committee is composed entirely of Non-Executive Directors and as at 31 December 2018, comprised John Leveson (Chair), Rachel Court and Jane Kimberlin.

Nominations Committee

The Nominations Committee, a sub-committee of the Board, has the following responsibilities:

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

At 31 December 2018, the Committee comprised Rachel Court (Chair), Richard

Goddard, Colin Kersley, Andrew Healy and Kevin Wilson.

Division of Responsibilities

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


The Chair

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

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

Non-Executive Directors

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



the Society's management and Executives which is subject to rigorous challenge by the Non-Executive Directors.

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

The Senior Independent Director for the Society is Richard Goddard.

The Composition of the Board

At the end of 2018, the Board consisted of six Non-Executive Directors and four Executive Directors, including Kevin Wilson who retired on 31 December 2018.

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

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

The Board considers that all Non-Executive Directors are independent and carry out their duties with complete objectivity. Subject to satisfactory

performance, a Director may hold office for up to nine years, after which period they must be re-elected on an annual basis. The Board has no Non-Executive Directors whose service exceeds nine years.

Appointments to the Board

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

The Society uses independent executive search and selection agencies, to support the recruitment of Non-Executive Directors. In 2018, the Society used Warren Partners for the recruitment of Executive Directors. The Society's only connection with Warren Partners is for recruitment and selection. Careful consideration is given to the combined skills, experience and diversity of existing Board members in making new appointments to the Board. As relevant to their individual role, all Directors conform to the requirements of the Senior Managers & Certification Regime governed by the Financial Conduct Authority and Prudential Regulation Authority. All Directors who fall within the Senior Managers & Certification Regime are not permitted to take up their role before approval by the PRA/FCA and must pass the associated 'fit and proper' test specified. All Directors are also subject to election by members at the AGM following their appointment.

Corporate Governance Report (continued)

The search for Board candidates is conducted, and appointments made, on merit against objective criteria and with due regard for the further protected characteristics and the benefits of diversity on the Board.

Commitment

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

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

Development

The Society provides all new Directors with a full, formal and tailored induction on joining the Board. All Directors participate in a programme of training and professional development designed to keep their knowledge and skills up to date to enable them to fulfil their role both on the Board and on any Board sub-committees on which they sit. Training and development needs are also identified as part of the annual appraisal process.

Information and Support

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

Name	Board	Audit	Risk	Nominations	Remuneration
Keith Abercromby	11 (11)	5 (5)	6 (6)		
Rachel Court	11 (11)			7 (7)	6 (6)
Richard Goddard	11 (11)	5 (5)	6 (6)	7 (7)	
Andrew Healy from 17/12/18	1 (1)	1 (1)		1 (1)	
John Kelly	11 (11)				
Colin Kersley	11 (11)	5 (5)		7 (7)	
Jane Kimberlin	11 (11)		6 (6)		6 (6)
John Leveson	11 (11)		6 (6)		6 (6)
Andrew Morris from 21/03/18	8 (9)				
Kevin Wilson to 31/12/18	10 (11)			6 (7)	

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

Performance 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 and to demonstrate commitment to the 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 the Executive Directors.

In line with the Code, the Board effectiveness is normally evaluated by external consultants on a three yearly basis. The last external review was carried out by Deloitte LLP during 2015. The external review due at the end of 2018 has been deferred until the end of 2019 in light of the recent change in Chief Executive.

Re-election

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

Financial and Business Reporting

The Board and 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 sets out the Board's responsibilities in relation to the preparation of the Annual Report and Accounts. Business performance is reviewed in the Chair's Statement, the Chief Executive's Business Review and the Strategic Report. The accounts have been prepared under the going concern principle.

The Audit Committee has considered the Annual Report and Accounts and considered the key estimates and judgements in relation to the Annual Accounts for 2018 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 underpinning the Effective Interest Rate (EIR) calculation. The interest and fees earned and incurred on loans are spread over the expected life of the relevant product. The key judgements and estimates are to assess the cashflows to be included and the expected life of the product to determine the EIR period.
- The assumptions utilised in the valuation of the defined benefit pension scheme. This 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



Corporate Governance Report (continued)

the valuation of the defined benefit pension scheme which included advice on the assumptions to use and the sensitivities 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.

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.

Risk Management and Internal Control

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

As at 31 December 2018, the Society's Principal Risks were managed through the following Committees:

Board	Board Risk Committee		
	Risk Oversight Committee	Asset & Liability Committee	Credit Committee
Pension Risk	Operational Risk	Market Risk	Mortgage Credit Risk
	Conduct Risk	Liquidity & Funding Risk	
	Legal & Regulatory Risk	Strategic Risk	
		Wholesale Credit Risk	

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

The Society operates a 'three lines of defence' governance model, as shown below to ensure appropriate responsibility is allocated for the management, reporting and escalation of risks. Supervision and direction is facilitated by the operation of a number of Board Committees, which meet regularly.

First / Management Line	Second / Oversight Line	Third / Assurance Line
Business	Risk Management	Internal Audit
Overall Accountability & Ownership	Design Risk Management Framework	Independent review of the design and implementation of Framework
Implementation of Framework	Develop processes for implementation of, and monitoring of adherence to, the framework	
Establish strong risk management culture	Promote strong risk management culture	
Promote strong risk management culture	Challenge & Oversight	
Set Risk Appetite		

The Board has identified a number of principal risks and uncertainties that could threaten its business model, future performance, solvency or liquidity.



Audit Committee and Auditors

The role of the Audit Committee is set out on pages 12-13. The Committee comprises three members, all of whom are Non-Executive Directors, and meets at least four times a year, and where appropriate, this coincides with key dates in the Society's financial reporting cycle. At least annually, the Committee meets with the external and internal auditors without the Executive Directors present. The Board are satisfied that at least one member of the Audit Committee has recent and relevant financial experience. The Society has an Audit Committee approved policy on the provision of non-audit 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.

The 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 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.

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 2018 provided assurance that there were no material breaches of control and that the Society maintained an adequate internal control framework. The Audit Committee receives and approves, on an annual basis, a Strategic Audit Plan covering a period of five years. Deloitte LLP provide the Committee with reports summarising the results and its recommendations as well as the response from the Society's management. The Committee is satisfied that, throughout 2018, the Internal Auditor had an appropriate level of resource to deliver its plan of work and that it discharged its duties effectively.

Remuneration

The Directors' Remuneration Report is set out on page 22-25.

Dialogue with Shareholders

As a mutual organisation, the Society has members rather than shareholders. The views of new and existing members are sought by individual questionnaires during the year. Member Forums are held each year when the Chief Executive supported by other Executive Directors and a number of Non-Executive Directors gives a presentation on the main business developments. The members present at the forum are given the opportunity to raise questions to the Directors and senior management.

The Society also has a Senior Independent Director, Richard Goddard, who is pleased to provide a further means by which members can communicate with the Society.

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

On behalf of the Board of Directors

Constructive use of the Annual General Meeting (AGM)

The Society sends details of the AGM to all members who are eligible to vote. Members are encouraged to vote or appoint a proxy vote if they cannot, or choose not to, attend the AGM. For wider customer choice, the Society has provided access to members to be able to vote online. A donation to charity is made for each vote cast.

Rachel Court
Chair

27 February 2019



The County Air Ambulance Trust is one of the main beneficiaries of Leek United's commitment to its surrounding communities. During 2018 a cheque for £39,939.81 was presented to the charity on behalf of our savers

Edward from
Rossendale Trust came
for a "WorkTaste" day in
the Society 1 day a week
for a month



Staff from Leek United took
part in a '**Rudyard Ramble**' by
taking the long scenic route
into work to raise money for
the British Heart Foundation

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Directors' Remuneration Report

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

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

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

The Level and Components of Remuneration

Executive Directors

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

A performance related pay scheme is in operation for all staff in the Society, and the Executive Directors participate in this scheme. The scheme has robust performance measures based on the Society's performance, and results in a maximum payment of £1,000 per annum regardless of salary. The full payment of £1,000 has been awarded to all qualifying staff for 2018, this is payable in March 2019.

As at 31 December 2018, both the Finance Director and Operations Director are members of the defined contribution stakeholder pension scheme.

The retiring Chief Executive was a member of the Leek United Building Society Pension and Assurance Scheme, which closed for future accrual on 24 April 2013. With effect from June 2015, he elected to receive the equivalent contribution to that provided in the defined contribution scheme in the form of a cash allowance.

The Corporate Governance Code recommends that an Executive Director's service contract period should be set at 12 months or less and the contractual notice period for all Executive Directors conforms to this limit. All Executive Directors have a service contract with the Society, terminable by either party giving six months' notice.

Non-Executive Directors

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

The Procedure for Determining Remuneration

The remuneration of the Executive Directors is determined by the Remuneration Committee which comprises of a minimum of three Non-Executive Directors (at 31 December 2018: three Non-Executive Directors). In addition, the Chief Executive, Finance Director and Head of Human Resources attend by invitation but take no part in the discussion of their own salary. The Committee meets a minimum of six times a year. In setting the remuneration of the Executive Directors, their skills, experience and performance in the role are considered by the Committee.

The fees payable to the Chair of the Board are set by the Remuneration Committee. The Chair of the Society is a member of the Remuneration Committee, however she takes no part in the discussion of her own fees.

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

In determining the remuneration of Non-Executive and Executive Directors, both the Board and the Remuneration Committee take account of fees and salaries payable and other benefits provided to Non-Executive Directors, Executive Directors and Chairmen of building societies and other financial services organisations that are similar in size and complexity to Leek United Building Society. The Board and Remuneration Committee also take account of the staff pay review and any general increase awarded to staff.

The review of Non-Executive Director fees and Executive Director salaries applicable for 2018 resulted in percentage increases in fees and salaries which were within the range of percentage pay increases awarded to staff.

Directors' Remuneration Report (continued)

Directors' Remuneration

The table below summarises directors' pay and benefits for the year ended 31 December 2018.

	2018				
	Salary/ Fees £000's	Benefits /Other (iii) £000's	Sub Total £000's	Pensions £000's	Total £000's
Non-Executive Directors (NEDs)					
Rachel Court	43	1	44	-	44
Keith Abercromby (i)	29	3	32	-	32
Richard Goddard	34	1	35	-	35
Colin Kersley	24	-	24	-	24
Jane Kimberlin	24	2	26	-	26
John Leveson	27	3	30	-	30
Executive Directors					
Andrew Healy (from 17/12/2018)	9	-	9	-	9
John Kelly (from 26/04/17) (iii)	142	13	155	21	176
Andrew Morris (from 21/03/2018) (iii)	120	11	131	18	149
Kevin Wilson (to 31/12/2018) (ii) (iii)	234	47	281	-	281
Paul Wilson (to 31/12/2017)	-	-	-	-	-
	686	81	767	39	806

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

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

(iii) Includes £1,000 bonus for Executive Directors (excluding Andrew Healy) in post at 31 December 2018 (2017: £750).



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2017				
Salary/ Fees £000's	Benefits /Other (iii) £000's	Sub Total £000's	Pensions £000's	Total £000's
41	1	42	-	42
28	2	30	-	30
34	-	34	-	34
24	-	24	-	24
24	-	24	-	24
27	1	28	-	28
-	-	-	-	-
92	8	100	14	114
-	-	-	-	-
213	48	261	-	261
138	11	149	20	169
621	71	692	34	726

Member Consultation

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

John Leveson
Chair of the Remuneration Committee
27 February 2019

Summary Financial Statement

For the year ended 31 December 2018

The Summary Financial Statement is a summary of information in the audited Annual Accounts, Directors' Report and Annual Business Statement, all of which will be available to members and depositors free of charge on demand at every office of Leek United Building Society from 11 April 2018.

Approved by the Board of Directors on 27 February 2019.

Rachel Court

Chair

Andrew Healy

Chief
Executive

Andrew Morris

Finance
Director

Summary Directors' Report

Financial Performance

Total Assets

The total assets of the Group at the end of 2018 were £1,071m, an increase of £32m in the year.

Profit and Capital

The profit after tax of £3.1m was transferred to the general reserve.

Management Expenses

The management expenses ratio was 0.97% for 2018 (2017: 0.93%).

Liquid Assets

Liquid assets in the form of cash securities amounted to £241.2m, representing 24.1% (2017: 24.6%) of shares and borrowings.

Loans and Advances

The total amount outstanding on loans and advances, including mortgages at the end of the year was £825m representing growth of 3.7%.

Shares and Deposits

Investors' and depositors' balances at 31 December 2018 totalled £868.3m.

Interest Rates

The residential mortgage base rate increased to 5.69% from 5.44% in October 2018.

Summary Statement

Group results for the year	2018 £000s	2017 £000s
Interest receivable	21,193	19,437
Interest payable	(8,224)	(6,752)
Net interest receivable	12,969	12,685
Other income and charges	408	460
Net gain / (loss) from derivative financial instruments	424	581
Administrative expenses and depreciation	(10,263)	(9,178)
Net finance credit on pension scheme	(41)	(139)
Impairment (charge) / credit on loans and advances to customers	173	(70)
Provisions - Financial Services Compensation Scheme levy	149	161
Profit for the year before taxation	3,819	4,500
Taxation	(673)	(775)
Profit for the year	3,146	3,725

Financial position at the end of the year	2018 £000s	2017 £000s
Assets		
Liquid assets	241,172	238,834
Loans and advances to customers	825,067	795,887
Fixed and other assets	5,117	4,695
Total assets	1,071,356	1,039,416
Liabilities		
Shares	850,096	843,419
Amounts owed to credit institutions*	134,176	105,915
Amounts owed to other customers	18,173	21,131
Other liabilities	1,920	3,134
Net pension liabilities	1,327	2,659
General Reserve	64,725	62,099
Available for Sale Reserve	(78)	47
Revaluation Reserve	1,017	1,012
Total liabilities	1,071,356	1,039,416

* This includes £132,249 Term Funding Scheme owed to the Bank of England.

Summary of key financial ratios	2018 %	2017 %
1. Gross capital as a percentage of shares and borrowings	6.55	6.51
2. Liquid assets as a percentage of shares and borrowings	24.06	24.61
3. Profit on ordinary activities after taxation as a percentage of year end total assets	0.29	0.36
4. Management expenses as a percentage of mean total assets	0.97	0.93

Gross capital as a percentage of shares and borrowings measures the proportion which the Group's capital bears to the Group's liabilities to holders of shares, depositors and other providers of funds (investors).

The Group's capital consists of profits accumulated over many years in the form of reserves together with the revaluation reserve. Capital provides a financial cushion against any losses which might arise from the Group's activities and therefore protects investors.

The **liquid assets ratio** measures the proportion that the Group's assets, which are held in the form of cash, short-term deposits and securities readily convertible into cash, bears to the Group's liabilities to investors.

Most of the Group's assets are long-term mortgages, while many of its liabilities to investors are repayable on demand. Liquid assets are generally readily realisable, enabling the Group to meet requests by investors for withdrawals from their accounts, to make new mortgage loans to borrowers and to fund its general business activities.

The **profit / assets ratio** measures the proportion that the Group's profit after taxation for the year bears to the Group's total assets at the year end.

The Group needs to make a reasonable level of profit each year in order to maintain its capital ratio at a suitable level to protect investors. However, a building society does not have to pay dividends to equity shareholders as a company does. The Group is therefore able to operate safely with lower margins than a bank.

The **management expenses ratio** measures the proportion that the Group's administrative expenses bear to the average of the Group's total assets during the year. Management expenses consist mainly of the costs of employing staff and of running the Society's branches. Expenses need to be controlled so that the Group operates as efficiently as possible while providing the service that members require.



Independent auditor's statement to the members and depositors of Leek United Building Society

Opinion

We have examined the summary financial statement of Leek United Building Society ('the Society') for the year ended 31 December 2018 set out above on pages [26] to [27].

On the basis of the work performed, as described below, in our opinion the summary financial statement is consistent with the full annual accounts, the Annual Business Statement and Directors' Report of the Society for the year ended 31 December 2018 and conforms with the applicable requirements of section 76 of the Building Societies Act 1986 and regulations made under it.

Basis for opinion

Our examination of the summary financial statement consisted primarily of:

- Agreeing the amounts and disclosures included in the summary financial statement to the corresponding items within the full annual accounts, Annual Business Statement and Directors' Report of the Society for the year ended 31 December 2018, including consideration of whether, in our opinion, the information in the summary financial statement has been summarised in a manner which is not consistent with the full annual accounts, the Annual Business Statement and Directors' Report of the Society for that year;
- Checking that the format and content of the summary financial statement is consistent with the requirements of section 76 of the Building Societies Act 1986 and regulations made under it; and
- Considering whether, in our opinion, information has been omitted which although not required to be included under the relevant requirements of section 76 of the Building Societies Act 1986 and regulations made under it, is nevertheless necessary to include to ensure consistency with the full annual accounts, the Annual Business Statement and Directors' Report of the Society for the year ended 31 December 2018.

We also read the other information contained in the Business Review and Summary Financial Statement and consider the implications for our statement if we become aware of any apparent misstatements or material inconsistencies with the summary financial statement.

Our report on the Society's full annual accounts describes the basis of our opinions on those annual accounts, the Annual Business Statement and Directors' Report.

Directors' responsibilities

The directors are responsible for preparing the summary financial statement within the Business Review and Summary Financial Statement, in accordance with applicable United Kingdom law.

Auditor's responsibilities

Our responsibility is to report to you our opinion on the consistency of the summary financial statement within the Business Review and Summary Financial Statement with the full annual accounts, Annual Business Statement and Directors' Report and its conformity



with the relevant requirements of section 76 of the Building Societies Act 1986 and regulations made under it.

The purpose of our work and to whom we owe our responsibilities

This auditor's statement is made solely to the society's members, as a body, and to the society's depositors, as a body, in accordance with section 76 of the Building Societies Act 1986. Our work has been undertaken so that we might state to the society's members and depositors those matters we are required to state to them in such a statement 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 and the society's depositors as a body, for our work, for this statement, 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

27 February 2019

Information relating to directors as at 31 December 2018:

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
 Rachel Court JP, BA 27/06/1966	Non-Executive Director	26/11/2014	South West Yorkshire NHS Foundation Trust Invesco Pension Ltd Invesco UK Ltd Leek United Home Loans Ltd Leek United Financial Services Ltd The Mortgage Outlet Ltd
 Richard Goddard MA, FCA 09/06/1957	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 BA (Hons), ACA 14/09/1965	Building Society Operations Director	26/04/2017	None
 Colin Kersley 20/10/1956	Non-Executive Director	21/12/2016	Assurant plc
 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	None
 Andrew Morris MPhil, FCA, MBA 31/07/1972	Building Society Finance Director	21/03/2018	None
 Kevin Wilson* 20/12/1958	Building Society Retired Chief Executive (effective from 31 December 2018)	01/10/1998	None

* Kevin Wilson retired with effect from 31 December 2018

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

**Registered Principal Office**

50 St. Edward Street
Leek, Staffordshire, ST13 5DL

Registered No.

323B

Directors

Keith Abercromby BSc, FIA
Rachel Court JP, BA
Richard Goddard MA, FCA
Andrew Healy MoB, BSc, MCIPD
John Kelly BA (Hons), ACA
Colin Kersley
Jane Kimberlin BA
John Leveson MBA, FCIB
Andrew Morris MPhil, FCA, MBA
Kevin Wilson

Internal Auditor

Deloitte LLP
Four Brindleyplace
Birmingham
B1 2HZ

Independent Auditors

KPMG LLP
Chartered Accountants
1 St Peter's Square
Manchester
M2 3AE

Chair

Rachel Court JP, BA

Chief Executive

Andrew Healy MoB, BSc, MCIPD

A Member of the Building Societies Association

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

Established 1863

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