



2017

**BUSINESS REVIEW
AND SUMMARY
FINANCIAL
STATEMENT**

Contents

04	Business Review
06	Review of the Year
10	Corporate Governance Report
20	Directors' Remuneration Report
24	Summary Financial Statement
26	Independent Auditor's Statement
28	Information Relating to Directors

WIRKSWORTH

ASHBOURNE

DERBY



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

Business Review

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



Rachel Court
Chair

Economic and Market Conditions

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

The Strategy

The Board remains committed to remaining a local independent building society, supporting the communities

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

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

The Board

2017 has seen some changes to the Executive team. John Kelly joined the Board in April 2017 as Operations Director, whilst Paul Wilson, the Society's Finance Director, left us at the end of 2017 to pursue a new opportunity. On behalf of the Board, I would like to thank Paul for his contribution to the Society's success and to wish him all the very best for the future. I am delighted to welcome



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

Andrew Morris to the Executive team in early 2018 to replace Paul as Finance Director, he will be co-opted to the Board subject to regulatory approval. Andrew brings a wealth of knowledge and has extensive experience in the financial services sector.

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

The Future

Reaching £1bn of assets has been a major achievement for the Society, against a backdrop of challenging market and economic conditions. The Board is aware that the housing market has been subject to significant Government intervention, particularly in terms of low cost funding which has been available to banks and

building societies but that is shortly due to end. This withdrawal of Government funding is likely to put pressure on the profitability of lenders, and the Society will not be immune to this. The Society has a clear strategic plan in place to deal with this, which will require slower growth in the next few years to ensure that the position of financial strength, which has been built up over many generations, remains unchanged.

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

Thanks

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

Rachel Court
21 February 2018

Review of the year

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



Kevin Wilson
Chief Executive

Overview

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

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

Mortgages

The Society advanced a record £184m during 2017, outpacing the lending of £152m

in 2016. This exceptional performance has driven mortgage balance growth of c£53m (7%), an increase of £25m over that achieved last year.

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

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

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

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



Bike ride in aid of
Bloodwise

continue to offer a range of products to support BTL lending including 'portfolio' lending.

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

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

Savings

In an unprecedented extended low interest rate environment, the Society has been able to maintain its level of savings balances. It continues to be a challenging time for our savings members and unfortunately we had to make the

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

Financial Investment Advice

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

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

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 Staff and Members

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

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

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

recognising the Society's commitment to training and development and implementation of practices and policies to ensure its effectiveness.

Community

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

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

Our affinity savings accounts with the County Air Ambulance and Stoke City



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

Football Club allow our members to support their local communities through their savings which pay a percentage of the savings balances to the charity or local club.

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

Outlook

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

And Finally

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

It has been a great privilege to have the opportunity to lead this very special

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

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

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

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

Kevin Wilson
21 February 2018

Corporate Governance Report

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

The Board

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

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

There is a schedule of decisions which can only be made by the Board, the Board meets monthly, with no planned meeting in August, and must meet a minimum of ten times per year. There are also additional days focussed specifically on



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

strategy. The Non Executive Directors meet regularly without the Executive Directors present.

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

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



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

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

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

in respect of its independent audits of risk management processes and the effectiveness of internal controls across the Society.

- An annual assessment of the effectiveness and independence of the Risk and Compliance Function by the Head of Risk and Compliance which is considered by the Board Risk Committee.
- A monthly Head of Risk and Compliance Report which provides an independent assessment of current and emerging risks and the effectiveness of the controls and mitigating actions in place.

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

Board Risk Committee

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

- To oversee and advise the Board on the current risk exposures of the Society and future risk strategy.
- To oversee all the principal risks as defined in the Risk Management Framework except pension risk which remains with the Board.
- To keep under review the Society's overall risk assessment processes that inform the Board's decision making, ensuring both qualitative and quantitative metrics are used.
- To review regularly and approve the parameters used in these measures and the methodology adopted.

Corporate Governance Report (continued)

- To set a standard for the accurate and timely monitoring of large exposures and certain risk types of critical importance.
- To advise the Board on proposed strategic transactions, ensuring that a due diligence appraisal of the proposition is undertaken, focussing in particular on risk aspects and implications for the risk appetite and tolerance of the Society and taking independent external advice where appropriate and available.
- To review reports on any material breaches of risk limits and adequacy of the proposed action.
- To review the effectiveness of the Society's internal controls and risk management systems.
- To review the adequacy and security of the Society's arrangements for its employees and contractors to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters. The Committee shall ensure that these arrangements allow proportionate and independent investigation of such matters and appropriate follow up action.
- To review the Society's procedures for detecting fraud and the prevention of bribery.
- To review promptly all reports on the Society from the Head of Risk and Compliance
- To review and monitor management's responsiveness to the findings and recommendations of the Head of Risk and Compliance.
- To ensure the Head of Risk and Compliance is given the right of unfettered direct access to the Chair of the Board and to the Committee.

- To give due consideration to laws and regulations, as well as other applicable rules, as appropriate.

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

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

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

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

Board Audit Committee

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

- To review the effectiveness of the Society's first and second lines of defence, internal controls and risk management systems established by management, to identify, assess, manage and monitor financial and non-financial risks, for ensuring compliance with the regulatory environment in which the Society operates.

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

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

Remuneration Committee

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

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

The Committee makes an annual report to members which can be found on page 20. The Committee is composed entirely of Non Executive Directors and as at 31 December 2017, comprised John Leveson (Chair), Rachel Court and Jane Kimberlin.

Nominations Committee

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

- To periodically review the structure, size and composition of the Board including a review of the skills, knowledge and experience mix of the members of the

Corporate Governance Report (continued)

Board in order to ensure that such mix remains relevant to the business of the Society at any given time.

- To give full consideration to succession planning for directors and other senior executives, taking into account the challenges and opportunities facing the Society, and the skills and expertise needed on the Board in the future.
- To ensure that appropriate arrangements are in place for the recruitment and selection of suitably qualified persons to act as directors (both Non Executive and Executive) of the Society.
- To identify any role, other than that of director, for which the Committee deems it appropriate to assume responsibility for the recruitment and selection of a suitable candidate for any and all such roles.

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

Division of Responsibilities

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

The Chair

The Chair is responsible for leadership of the Board and ensuring the Board's effectiveness in all aspects of its role. In addition, the

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

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

Non Executive Directors

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

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

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

The Composition of the Board

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

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

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

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

Appointments to the Board

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

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

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

Commitment

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

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

Corporate Governance Report (continued)

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

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

Development

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

Information and Support

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

Performance Evaluation

A formal system of Board appraisals is in place and each Non Executive Director's personal contribution to Board proceedings and Society progress in the year has been the subject of rigorous review by the Chair. The Chair also conducted a formal review of the performance of the Chief Executive. The performance of the Finance Director and Operations Director was reviewed by the Chief Executive, with reference to feedback from the Non Executive Directors. Performance evaluation of the Chair has been conducted by Non Executive Directors led by the Senior Independent Director and taking account of the views of the Executive Directors.

The overall effectiveness of the Board and its Committees is monitored throughout the year and is subject to a formal and

rigorous evaluation on an annual basis. This evaluation encompasses the balance of skills, experience, independence and knowledge of the Society's Board, together with its diversity and gender balance, how the Board works together as a unit and other factors relevant to its effectiveness. In line with the Code, the Board effectiveness is evaluated by external consultants on a three yearly basis. The last external review was carried out by Deloitte LLP during 2015.

Re-election

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

Financial and Business Reporting

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

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

- The impairment allowance required for both individual and collective mortgage

impairment allowance. This is assessed on the level of arrears and forbearance on customer accounts. The key judgments are the level of loans that will actually default as well as expected levels of loan exposure compared to expected levels of security including mortgage indemnity insurance where relevant.

- The assumptions underpinning the Effective Interest Rate (EIR) calculation. The interest and fees earned and incurred on loans are spread over the expected life of the product. The key judgements are to assess the cashflows to be included and the expected life of the product to determine the EIR period.
- The assumptions utilised in the valuation of the defined benefit pension scheme. This is particularly sensitive to asset valuations as well as expectations of long term corporate bond yields, inflation and mortality. Management appointed a third party specialist for the valuation of the defined benefit pension scheme which included advice on the assumptions to use and the sensitivities of those assumptions. The Committee was satisfied that the pension assumptions were within an appropriate range by reviewing the sensitivities and benchmarking with external data and with other organisations.

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 our strategy to manage risk proactively in accordance with our prudent risk appetite stance.

Corporate Governance Report (continued)

During 2017, the Society's Principal Risks were managed through the following Committees:

Board	Board Risk Committee	
	Management Risk Committee	Asset & Liability Committee
Pension Risk	Operational Risk	Market Risk
	Conduct Risk	Liquidity & Funding Risk
	Legal & Regulatory Risk	Strategic Risk
	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 effective implementation across the Society.

The Society operates a 'three lines of defence' governance model, as shown below, to ensure appropriate responsibility is allocated to the management, reporting

and escalation of risks. Supervision and direction is facilitated by the operation of a number of Board Committees, which meet regularly to consider issues specific to key business areas.

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

Audit Committee and Auditors

The role of the Audit Committee is set out on page 12. 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 Committee assesses the effectiveness of the external audit process through a combination of feedback from Committee members and Society management, completion of standard questionnaires and other external independent information where available. The Committee undertook an external tender process during 2016 to review the Society's external auditor engagement and, with effect from the 2017 annual accounts, KPMG LLP was appointed at the AGM in April 2016.

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

Remuneration

The Directors' Remuneration Report is set out on page 20.

Dialogue with Shareholders

As a mutual organisation, the Society has members rather than shareholders. The views of new and existing members are sought by individual questionnaires during the year. Member Forums are held each year when the Chief Executive supported by the Chair and other Executive Directors gives a presentation on the main business developments. The members present at the forum are given the opportunity to raise questions to the Directors and senior management. The Society also has a Senior Independent Director, Richard Goddard, who is pleased to provide a further means by which members can communicate with the Society.

Constructive use of the Annual General Meeting (AGM)

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

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

On behalf of the Board of Directors

Rachel Court

Chair
21 February 2018



Directors' Remuneration Report

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

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

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

The Level and Components of Remuneration

Executive Directors

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

A performance related pay scheme is in operation for all staff in the Society, and the Executive Directors participate in this scheme. The scheme has robust performance measures based on the Society's performance, and results in

a maximum payment of £1,000 per annum regardless of salary. Based on the measures set for 2017, a payment of £750 has been awarded to all qualifying staff, payable in March 2018.

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

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

Non Executive Directors

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

The Procedure for Determining Remuneration

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

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

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

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

Directors' Remuneration Report (continued)

Directors' Remuneration

The table below summarises directors' pay and benefits for the year ended 31 December 2017.

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

Member Consultation

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

John Leveson

Chair of the Remuneration Committee
21 February 2018

(i) Appointed as Chair from 27 April 2016

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

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

(iv) Includes £750 bonus for Executive Directors in post at 31 December 2017 (2016: £1,000)

Summary Financial Statement

For the year ended 31 December 2017

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 12 April 2018.

Approved by the Board of Directors on 21 February 2018.

Rachel Court
Chair

Kevin Wilson
Chief Executive

Summary Directors' Report

Financial Performance

Total Assets

The total assets of the Group at the end of 2017 were £1,039m, an increase of £112m in the year.

Profit and Capital

The profit after tax of £3.7m was transferred to the general reserve.

Management Expenses

The management expenses ratio was 0.93% for 2017 (2016: 0.96%).

Liquid Assets

Liquid assets in the form of cash securities amounted to £238.8m, representing 24.6% (2016: 21.0%) of shares and borrowings.

Loans and Advances

The total amount outstanding on loans and advances, including mortgages at the end of the year was £795.9m representing growth of 7%.

Shares and Deposits

Investors' and depositors' balances at 31 December 2017 totalled £864.6m.

Interest Rates

The residential mortgage base rate increased to 5.44% from 5.19% in December 2017.

Summary Statement

Group results for the year	2017 £000s	2016 £000s
Interest receivable	19,437	20,665
Interest payable	(6,752)	(8,781)
Net interest receivable	12,685	11,884
Other income and charges	460	791
Net gain / (loss) from derivative financial instruments	581	(264)
Administrative expenses and depreciation	(9,178)	(8,718)
Net finance credit on pension scheme	(139)	(82)
Impairment (charge) / credit on loans and advances to customers	(70)	7
Provisions - Financial Services Compensation Scheme levy	161	(123)
Profit for the year before taxation	4,500	3,495
Taxation	(775)	(714)
Profit for the year	3,725	2,781

Financial position at the end of the year	2017 £000s	2016 £000s
Assets		
Liquid assets	238,834	180,328
Loans and advances to customers	795,887	742,844
Fixed and other assets	4,695	4,720
Total assets	1,039,416	927,892
Liabilities		
Shares	843,419	836,578
Amounts owed to credit institutions*	105,915	-
Amounts owed to other customers	21,131	21,781
Other liabilities	3,134	5,512
Net pension liabilities	2,659	5,994
General Reserve	62,099	56,894
Available for Sale Reserve	47	126
Revaluation Reserve	1,012	1,007
Total liabilities	1,039,416	927,892

*This includes £105,085 Term Funding Scheme owed to the Bank of England.

Summary of key financial ratios

	2017 %	2016 %
1. Gross capital as a percentage of shares and borrowings	6.51	6.76
2. Liquid assets as a percentage of shares and borrowings	24.61	21.01
3. Profit on ordinary activities after taxation as a percentage of year end total assets	0.36	0.30
4. Management expenses as a percentage of mean total assets	0.93	0.96

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 2017 set out above on pages 24 to 25.

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 2017 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 2017, 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 2017.

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.



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

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

21 February 2018

Information relating to directors as at 31 December 2017

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 Perpetual Life Ltd Invesco UK Ltd Leek United Home Loans Ltd Leek United Financial Services Ltd The Mortgage Outlet Ltd
 Richard Goddard MA, FCA 09/06/1957	Finance and Risk Consultant	23/11/2011	RCG Business Consultancy Ltd
 John Kelly BA (Hons), ACA 14/09/1965	Building Society Operations Director	26/04/2017	Kelly Strategy Limited
 Jane Kimberlin BA 25/09/1959	Non Executive Director	23/11/2016	Creton Consultants Limited Creton Community Benefit Society
 Colin Kersley 20/10/1956	Non Executive Director	21/12/2016	Assurant plc
 John Leveson MBA, FCIB 04/09/1959	Non Executive Director	19/05/2015	Queen Elizabeth Grammar School, Penrith
 Kevin Wilson 20/12/1958	Building Society Chief Executive	01/10/1998	Leek United Home Loans Ltd Leek United Financial Services Ltd The Mortgage Outlet Ltd
 Paul Wilson * BSc, ACA 02/04/1971	Building Society Finance Director	07/07/2014	None

* Paul Wilson resigned with effect from 31 December 2017

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

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

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
John Kelly BA (Hons), ACA
Colin Kersley
Jane Kimberlin BA
John Leveson MBA, FCIB
Kevin Wilson

Chair

Rachel Court JP, BA

Chief Executive

Kevin Wilson

Internal Auditor

Deloitte LLP
Four Brindleyplace
Birmingham B1 2HZ

Independent Auditors

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

Member of the Building Societies Association

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

01 & 02

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

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

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

01



02



03

03

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

The Society's branches and Wirksworth agency served up a range of refreshments including tea, coffee and cake for customers as part of part of **Macmillan Cancer Support's** nationwide fundraising event.

All visitors were invited to make donations towards the national charity, with £880 being raised in total.



Established 1863

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