2018
ANNUAL REPORT & ACCOUNTS

Leek United
BUILDING SOCIETY

Contents

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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Registered Number 323B

Key Financial Highlights

Profit before tax £3.8m (2017: £4.5m)

Profit before hedging and tax £3.4m (2017: £3.9m)

Net interest margin 1.23% (2017: 1.29%)

Gross mortgage advances of £158m (2017: £184m)

Mortgage balance growth of 3.7% to £825m (2017: £796m 7.1% growth)

Liquidity ratio 24.1% of shares and borrowings (2017: 24.6%)

Number of mortgage accounts in arrears by three or more monthly repayments 0.14% (2017: 0.22%)

Core tier 1 capital ratio 17.8% (2017: 17.6%)

An explanation of some of the terms used here can be found on pages 8 to 17.

Five Year Highlights	2018	2017	2016	2015	2014
	£000's	£000's	£000's	£000's	£000's
Net interest income	12,969	12,685	11,884	12,168	11,142
Other income	408	460	791	832	1,060
Administrative expenses	(10,011)	(8,938)	(8,484)	(7,948)	(7,212)
Other expenses and charges	(252)	(240)	(234)	(187)	(143)
Provisions & other items [1]	281	(48)	(198)	(440)	(648)
Profit before tax pre hedging	**3,395**	**3,919**	**3,759**	**4,425**	**4,199**
Impact of hedging	424	581	(264)	91	(923)
Profit before tax	**3,819**	**4,500**	**3,495**	**4,516**	**3,276**
Liquid assets	241,172	238,834	180,328	171,800	226,773
Loans and advances	825,067	795,887	742,844	715,182	676,543
Other assets	5,117	4,695	4,720	3,665	3,925
Total assets	**1,071,356**	**1,039,416**	**927,892**	**890,647**	**907,241**
Shares and deposits	868,269	864,550	858,359	825,475	844,858
Bank of England funding [2]	134,176	105,915	-	-	-
Other liabilities	3,247	5,793	11,506	6,462	6,924
Reserves	65,664	63,158	58,027	58,710	55,459
Total liabilities	**1,071,356**	**1,039,416**	**927,892**	**890,647**	**907,241**

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

[2] This includes £1,927k owed to banks.

Directors and Officers

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

Chair's Statement

Rachel Court
Chair

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.

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.

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

Chief Executive's Business Review

	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 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 Moneynet.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.

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

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.

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.

Outlook

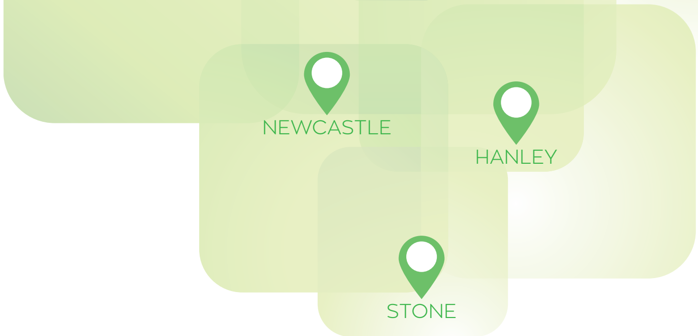
As our Chair has highlighted, house price growth slowed during 2018. However, the Society's mortgage book is well diversified across the UK and is not unduly exposed to any one particular region. Our prudent approach to lending will continue to ensure that our loan book remains of the highest quality 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



Strategic Report

The Strategy for the Society is outlined below:

Vision Statement

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

Mission Statement

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

Our Values

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

Values

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

Key Strategic Objectives

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

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

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

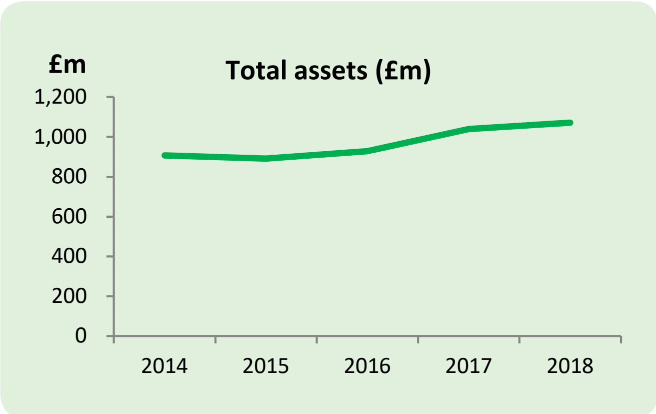
As a building society and a mutual, Leek United does not seek to maximise profits at the expense of members, but rather to deliver a level of profitability that is sufficient to balance member value with the need to protect our capital position and so ensure that member confidence remains high.

Key Performance Indicators

The Society has delivered a strong financial performance in 2018 and ends the year in a robust financial position. The Society uses key performance indicators to monitor its progress; a number of key indicators are included within the review of the business as follows:

(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

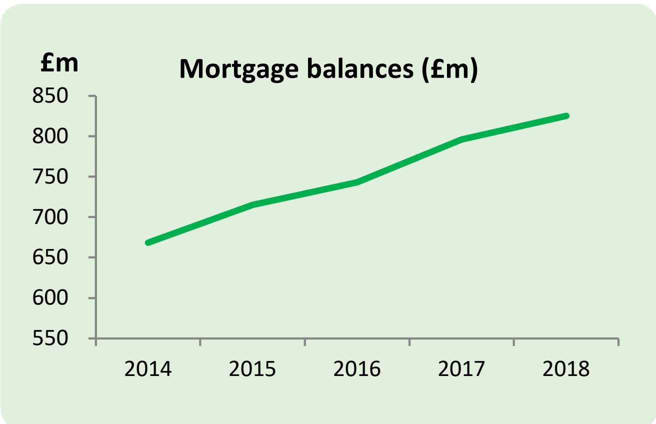
Total assets (£m)



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

The Society continues to grow as planned in a controlled manner. Total assets have increased from £1,039m at the end of 2017 to £1,071m at the end of 2018. This was achieved by solid growth in mortgage balances funded primarily through the Bank of England's Term Funding Scheme (TFS).

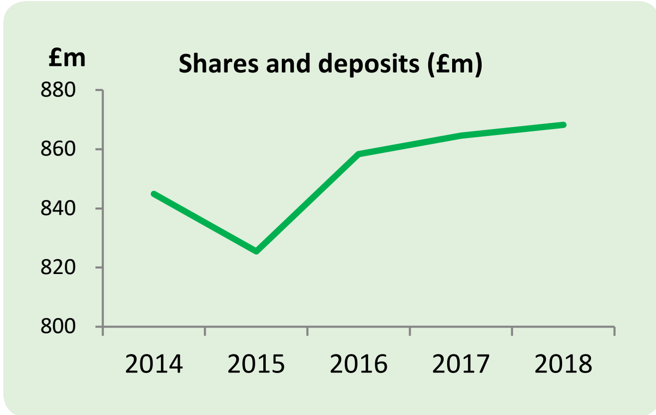
Mortgage balances (£m)



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

Total mortgage balances have increased by c£29m in the year to £825m (2017: £796m). In line with the strategic plan, mortgage growth was slightly reduced from the prior year, but represents a solid performance in a very competitive market. We lent £158m to new mortgage customers in 2018 (2017: £184m). Redemptions in the year were £95m (2017: £93m).

Savings and funding (£m)

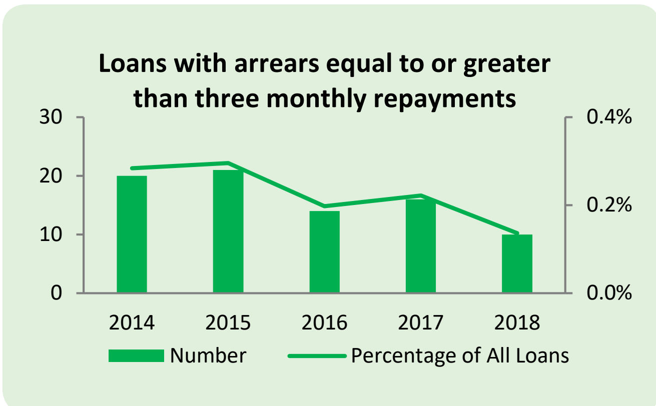


Shares and deposits*: the total amount owed by the Society to shareholding members and depositors in respect of their account balances.*

The Society is primarily funded by our members' retail savings, which remains the most important element of the Society's funding but has been supplemented by low cost funding from TFS. The Society has drawn £132m from TFS during 2017 and 2018, which is repayable within 4 years of drawdown. This scheme is now closed to further drawdown. The Society has plans in place to repay these funds, mainly through increases in member retail savings balances.

The environment for savers continues to be challenging with low interest rates and the availability of low cost funding. However, the Society remains committed to providing our savers with rates that are both fair and sustainable, including offering preferential loyalty products for existing members. Balances have increased from £865m in 2017 to £868m at the end of 2018.

Mortgage arrears

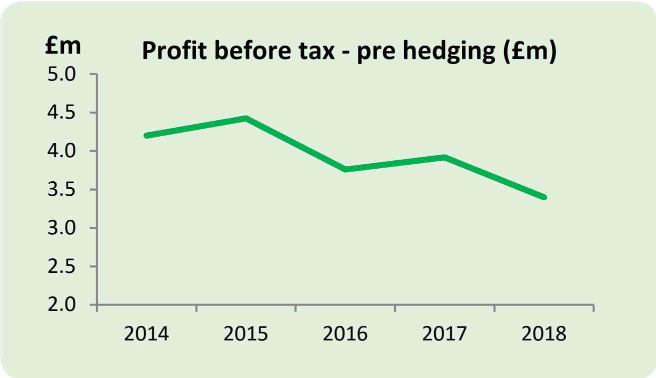


Mortgage arrears: *The number of mortgage accounts which are in arrears by the equivalent of three or more monthly repayments.*

The Society is committed to responsible lending. Our mortgage book remains of high quality, as evidenced by the low level of arrears, which is testament to our cautious approach to lending. This is demonstrated by the number of mortgages that are in arrears by the equivalent of three or more monthly repayments. These totalled 10 accounts as at 31 December 2018, representing 0.14% of mortgage accounts (2017: 16 accounts, 0.22%). Where appropriate, an impairment allowance is held; cases that do not have an individual impairment allowance are included within the collective impairment allowance.

Strategic Report
(continued)

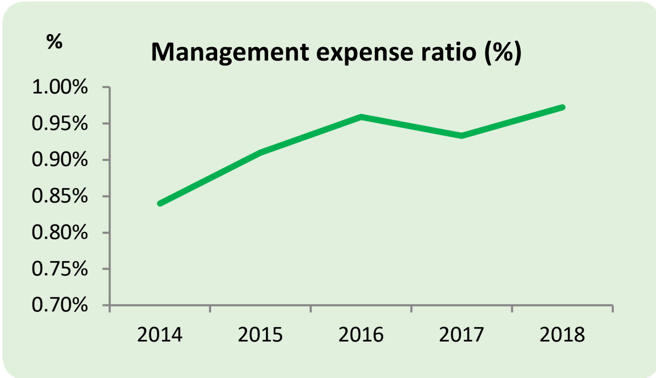
Profit before tax – pre hedging (£m)



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

Pre-tax profits (before hedging) were achieved in 2018 of £3.4m compared to £3.9m in 2017. Margin levels have been challenging in a period of intense competition combined with a rising cost environment. The Society is committed to ensuring profits are maintained at a suitable level to protect capital but are not maximised at the expense of member value.

Management expense ratio (%)

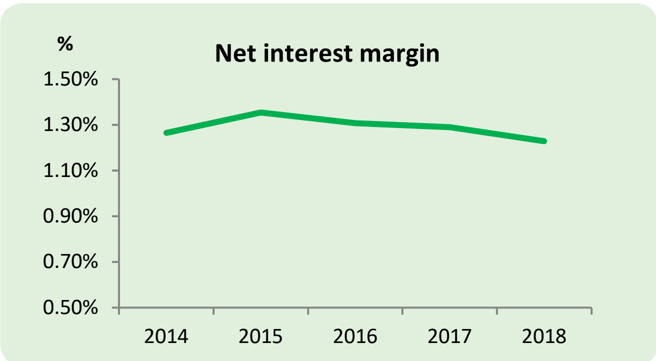


Management expense ratio: *The aggregate of administrative expenses and depreciation as a percentage of the average total assets in the year.*

There continues to be significant investment in the Society. The Board recognises that cost control is a key element in delivering the required level of profitability to protect members' interests. However, this must be carefully balanced with positioning the Society for the future to ensure that we have the capacity to compete and grow, which is also in the members' interests.

The management expense ratio has increased in 2018 to 0.97% (2017: 0.93%). Cost control will be an area of increased focus going forward, balanced with the need to ensure that we continue to provide high quality services and products to our members.

Net interest margin percentage

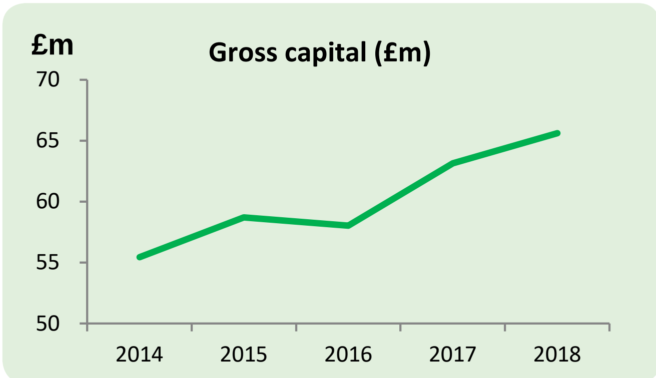


Net interest margin: *The net interest receivable by the Society as a percentage of the average total assets in the year.*

2018 saw a continuation of downward pressure on residential mortgage rates, particularly in the low LTV market. The Society endeavours to offer competitive products to both borrowers and savers and due to these pressures, the net interest margin percentage (%) has reduced to 1.23% in 2018 (2017: 1.29%).

Despite the increase in Bank Base Rate to 0.75% in August 2018, interest rates remain low compared to historic standards and therefore this continues to put pressure on the Society's net interest margin, particularly earnings on its core liquidity.

Gross capital (£m)



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

These consistent levels of appropriate profit generated in 2018 ensure that the capital position remains robust, with reserves as at 31 December 2018 of £65.7m (2017: £63.2m). The 2018 capital position has improved by the profit for the year, partially offset by the £0.5m net reduction in the reserves due to movements in the defined benefit pension scheme obligations.

The ratio of gross capital as a percentage of total shares and borrowings was 6.6% at 31 December 2018 (2017: 6.5%) and the ratio of free capital as a percentage of total shares and borrowings was 6.4% at 31 December 2018 (2017: 6.3%). Free capital is the total reserves and collective loss provision less fixed assets. The core tier 1 ratio stood at 17.8% (2017: 17.6%) and the leverage ratio (unaudited) stood at 6.0% (2017: 6.0%).

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

Capital Management

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

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

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

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

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

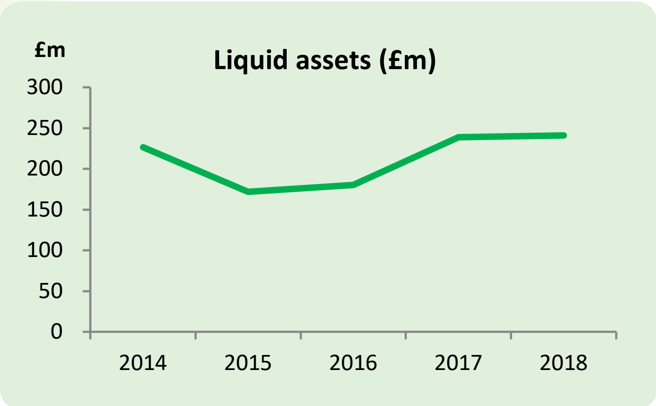
Capital disclosures to comply with FRS 102	**2018**	**2017**
Total Reserves (audited)	£65.7m	£63.2m
Prudent Valuation adjustment (audited)	(£0.1m)	-
Intangible Assets (audited)	(£0.1m)	(£0.2m)
Tier 1 Capital (audited)	£65.5m	£63.0m
Tier 2 Capital – collective impairment allowance (audited)	£0.4m	£0.4m
Capital Resources (audited)	£65.9m	£63.4m
Risk Weighted Assets (unaudited)	£366.8m	£359.1m
Pillar 1 and 2A requirement (unaudited)	£39.7m	£39.0m
Core Tier 1 Ratio (unaudited)	17.8%	17.6%
Assets for leverage purposes (unaudited)	£1,083.0m	£1,055.9m
Leverage Ratio (unaudited)	6.0%	6.0%

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

Strategic Report
(continued)

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

Liquid assets (£m)



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

The Society continues to maintain strong and readily available levels of liquidity. Throughout the year, the Society held levels well in excess of its regulatory requirements, partly as a result of our TFS drawdowns. As at the year end, we held £241m of liquidity (2017: £239m). The amount of liquidity repayable on demand is £112m (2017: £137m).

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

The Bank of England raised its Bank Base Rate (BBR) by 0.25% to 0.75% in August 2018. This was the second increase, following the first increase in over ten years in November 2017. It is anticipated that rates will follow an upward trajectory, but any rate rises will be limited and gradual to a 'normal' level of 2-3% over an extended time frame.

Economic predictions are difficult at any time and this is exacerbated by the uncertainty of the outcome of Brexit negotiations. Confidence levels are lower, taking the edge off consumer led growth and dampening business investment. The housing market has proved to be relatively resilient however, there are signs that house price growth is slowing, particularly in London, as the Society's mortgage book is well diversified across the UK it is not unduly exposed to any one particular region.

2018 saw a continuation of the downward pressure on mortgage rates, as the competition for mortgage market share continued to intensify, particularly by large and 'challenger' banks in respect of lower LTV mortgages. The changes made to both the regulatory and tax environment for Buy to Let (BTL) lending have resulted in a significant reduction in the volume of lending for BTL purchases across the market. As a Society, we are affected by these pressures, though we continue to offer a range of products to support BTL lending, including 'portfolio' lending.

The savings market has been subdued in recent years. The primary reasons being the low interest rate regime and that banks and building societies, including ourselves, have had access to low cost Bank of England funding through the TFS. The availability of this funding until February 2018 meant that savings balances have not been actively sought. The Society seeks to maintain rates that are both fair and sustainable and will keep a watchful eye on the market, as competition for deposits will probably increase as the TFS funding is repaid.

The cost of doing business continues to increase for all financial services companies, especially with the need to strengthen the risk and control framework in first, second and third line, as well as further significant investment in people and technology. Increasingly, it is becoming an essential element of the customer's expectations that their retail financial services business will provide them with a range of digital options to manage their accounts and conduct transactions. Conversely, customers also expect institutions to retain a local branch for when they require advice or want to talk to someone face-to-face.

The Society is not immune to these distribution trends and we will need to continue to adapt and evolve our branch proposition, while retaining the culture and high quality service that our members expect. We continue to monitor these factors to ensure we respond appropriately to the needs of our members.

The Society is very mindful that each of these issues can cause risk and uncertainty which, in extreme circumstances, can damage the financial strength of the Society. These risks are monitored as part of the Society's Risk Management Framework. Additionally, the Society performs regular stress testing as part of its Internal Capital Adequacy Assessment Process (ICAAP) and Individual Liquidity Adequacy Assessment Process (ILAAP) regulatory assessments and also through its forward looking, five year Corporate Plan. Through these processes, the Society assesses a wide range of severe stresses across each of the Society's principal risks, including: stresses to house prices; credit quality; net interest margin compression; cost pressures; regulatory pressures; liquidity and operational events. The Society's currently robust level of capital and liquidity are sufficiently resilient to withstand the impacts of these stresses, which have been assessed as part of the Long Term Viability Statement (page 17).

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

Risk Management Report

The purpose of this report is to:

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

Risk Management Framework

The Society's activities are governed by its constitution, principles and values. The Directors have also agreed a set of statements which describe the Board's risk appetite in terms of the principal risk categories: retail credit, strategic and capital, market, liquidity and funding, wholesale credit, conduct, pension and operational, which is subdivided into financial crime, model & end user computing, financial reporting, regulatory and legal, information technology, product governance, data governance, people, third party supplier, change management and business continuity.

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

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

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

First / Management Line	Second / Oversight Line	Third / Assurance Line
BUSINESS	**RISK MANAGEMENT**	**INTERNAL AUDIT**
Overall Accountability and 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 and Oversight	
Set risk appetite		

Principal Risks and Uncertainties

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

The principal business of the Society is the production and distribution of financial products and, in particular, mortgages and deposit-based savings accounts. Regulated investment products are supplied by a third party, Wren Sterling. We use wholesale financial instruments in the management of the balance sheet, investing funds held as liquidity and is able to raise wholesale funding if necessary. We also use derivative financial instruments to manage and mitigate our interest rate risk. The derivatives are used solely for this purpose and are not used for trading activity or speculative purposes.

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

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

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

Market Drayton branch sponsored the **Ginger and Spice Festival** 2018

Principal Risk	Mitigants	Risk Appetite
Retail Credit The risk of losses arising from a debtor's failure to meet their legal and contractual obligations. Potentially arising from mortgage customers falling into arrears, insufficient security value or the write off of Treasury exposures.	The Society operates within appropriate policies and risk appetites and performance is monitored closely. Our prudent lending policy means our mortgage book is of a high quality. Each application is individually underwritten to ensure that loans are affordable. This is evidenced by our low level of arrears.	The Society will adopt a prudent lending approach to our mortgage customers which will ensure that our default rates are low and do not impact on earnings or capital.
Wholesale Credit The risk of losses due to the default of a wholesale Treasury counterparty who becomes unable to meet their financial obligations.	The Society's Treasury Policy Statement and Operational limits set out the criteria and boundaries within which wholesale lending can be undertaken. The criteria include both long term and short term ratings published by external credit rating agencies, which are an indication of a company's creditworthiness as well as the results of published regulatory stress tests.	The Society will adopt a prudent approach to lending to wholesale counterparties which will ensure that default rates are low and there is no impact on earnings or capital.
Strategic and Capital The risk of losses as a result of strategic / management decisions or business choices, which do not breach rules, regulations, conduct and are not triggered by legal issues. Factors such as competition and regulatory change could impact the Society should it fail to keep up with the pace of change. As a result, there could be significant loss or insufficient capital to meet operational and regulatory demands.	The Society has an established corporate planning process which is subject to rigorous challenge which sets the overall direction for the Society. The Society recognises that it operates in a competitive market place and keeps a close eye on market trends and is mindful of these in its decision making. The Non-Executive Directors provide a robust level of challenge over Executive proposals.	The Society will ensure that the strategic direction delivers a sufficient return that enables it to deliver capital which provides long term growth as well as financial stability for our members.
Market The risk of losses arising from changes in market rates or prices. The main exposure for the Society is interest rates, there is a risk that changes in interest rates will result in changes to income due to the difference between interest rates charged for mortgages compared to those paid for funding over different re-pricing time periods. In addition, the Society is also exposed to basis risk, this is the risk that assets and liabilities of similar re-pricing periods can move by varying amounts.	Reports are produced on a monthly basis to ensure the Society remains within policy limits and risk appetite. The Society only takes out interest rate swaps with approved counterparties to reduce interest rate risk exposure.	The Society will manage our interest rate and basis risk positions to ensure that losses due to adverse movements in market rates do not impact significantly over and above our forecast market expectations.
Liquidity and Funding The risk that the Society is unable to meet its financial obligations as they become due and, as a consequence, is unable to support normal business activity and fails to meet liquidity regulatory requirements. There is potential risk to the level of liquidity from an extreme scenario of depositors withdrawing their funds.	The Society aims to provide customer savings rates that are both fair and sustainable and monitor them closely. The Society has appropriate policies in place and monitors the liquidity and funding positions closely on an ongoing and forward looking basis. There are also contingency plans in place should extreme situations arise.	The Society will maintain sufficient liquid resources, over and above the financial minimum, that give our members confidence that we have the ability to meet our financial obligations as they fall due. The Society will maintain sufficient retail deposits to fully support and fund retail lending at all times. The Society will additionally utilise wholesale or central bank funding when appropriate to support Treasury or liquidity holdings but will ensure that wholesale funding is managed such that an appropriate balance of funding from retail and wholesale sources is maintained.
Conduct The risk that the Society does not demonstrate that it is putting the customer's interest at the very heart of the business.	The Society monitors customer feedback closely on an ongoing basis. In line with our core values and beliefs the customer is at the heart of everything we do.	The Society will ensure that we put our customers at the heart of our business operations to deliver an excellent customer service.

Principal Risk	Mitigants	Risk Appetite
Pension The risk of financial deficit in the Society's defined benefit scheme. The possibility that the Society will have to pay more than expected into its employees' pension schemes which could be impacted by factors such as mortality rates, asset values and yield prices.	The defined benefit pension scheme is closed to further accrual. The Society works closely with the pension trustees to try and seek further de-risking opportunities as conditions allow.	The Society will ensure that it can meet our contractual and regulatory requirements so that we can meet our existing and future liabilities.
Operational This is the risk of a loss or reputational damage resulting from inadequate or failed internal processes, people and systems or from external events.	The Society manages these risks as an integral part of its operations, utilising controls, such as the Risk & Control Self-Assessment tool and the Risk Registers. The Society has disaster recovery and business continuity plans in place, that are also tested, to mitigate the impact of loss or damage to buildings, systems or staff caused by natural disaster or other event.	The Society will maintain efficient operational processes and controls to ensure that we can optimise our resources and reduce the impact of operational risks on the Society's performance and reputation.
Regulatory and Legal The risk of fines, public censure, limitation on business, or restitution costs arising from failing to understand, interpret, implement and comply with UK and EU regulatory requirements.	Continuous monitoring of regulatory change requirements is ongoing to ensure awareness and compliance by the Society and this is reported on a monthly basis. The Three Lines of Defence model also provides oversight, challenge and independent assurance.	The Society's aim in managing its regulatory risk is to be compliant with all relevant UK and EU regulatory requirements. Accordingly, whilst acknowledging that it is not possible to eliminate the risk of a regulatory breach, the Society is committed to managing the risk, within the bounds of what is reasonably viable, in order to minimise the probability and potential impact of breaches and to remedy promptly and comprehensively the consequences of any that do occur.
Financial Crime Losses resulting from criminal activity relating to fraud or dishonesty; misconduct in; or misuse of information relating to, a financial market, or the handling of the proceeds of crime.	The Society operates a wide range of controls, both within our customer facing areas and at Head Office to mitigate financial crime. The Society also works closely with crime prevention authorities to ensure that Society practices remain fit for purpose.	Financial crime is unethical and unacceptable. Leek United Building Society has no risk appetite for financial crime risk and is committed to take timely, proper and reasonable actions in order to minimise, manage and control financial crime risk.
Model and EUC The risk that decisions are made using incorrect information.	The Society uses a wide range of models and complex spreadsheets to derive management information and all such systems are subject to access controls and have detailed procedural documentation to enable recreation where required.	The Society will ensure that all financial models and EUC applications are governed robustly to ensure accuracy and security is maintained.
Financial Reporting The risk that financial reporting internally, to members, to financial markets or to the Society's regulators is inaccurate, misleading or late.	The Society has a detailed schedule which stipulates all of the regulatory returns that need to be submitted during the year. Controls are such that those preparing the returns do not have the responsibility for final submission to the regulator meaning that appropriate checks are performed to ensure accuracy.	The Society will operate robust systems and controls to ensure that financial reporting is timely and accurate.
Product Governance Failure of systems and controls relating to product design, management, distribution strategies, sales processes, quality and suitability of sales.	The Society has a Product Governance Committee which governs the development and launch of new/amended products. The setting up of products on the system is subject to dual checking to ensure accuracy.	All Society products will be designed, approved and launched using appropriate robust governance arrangements.

Principal Risk	Mitigants	Risk Appetite
Information Technology The risk that customers or the Society suffers financial loss or detriment due to inadequate management or controls of information security, physical security of IT assets, IT maintenance or delivery of IT applications and services.	The Society has robust mechanisms to ensure that IT operates effectively to deliver business performance. IT controls are subject to a quarterly attestation process which is independently challenged by the second line of defence.	The Society will maintain robust processes and controls to ensure that Society systems continue to deliver critical business activities and that security measures are appropriate to safeguard assets.
Data Governance The risk that the Society does not meet both regulatory standards and its own requirements for ensuring the accuracy, integrity and security of confidential data relating to customers, staff, suppliers or the Society's business activities and performance.	The Society has comprehensive processes and procedures, including extensive training modules to ensure that Data Protection regulation is observed at all times.	The Society will maintain robust systems and controls to adhere to data protection legislation as it relates to UK financial services businesses and thus prevent legal action regarding non-compliance.
People The risk that the Society does not select, engage, manage, reward and develop its people in such a way that delivers the organisation's core values, and supports that delivery of current and future business strategy.	The Society has a very detailed recruitment and selection process to ensure that appropriate staff are employed. There are detailed policies and procedures in place across the Society for the management of personnel.	The Society will engage with and manage all members of staff in a way that will support the delivery of the objectives set out in the Corporate Plan.
Third Party Supplier The risk of financial loss, regulatory fines, reputational damage or adverse operational impact due to the failure of a critical supplier to fulfil its contract.	The Society has a detailed Third Party Supplier risk policy which sets out the way in which third parties are to be managed. Critical third parties are subject to due diligence on an annual basis.	The Society does not have any appetite to enter into or remain in contract with critical third party suppliers that are unable to demonstrate financial probity, their ability to meet the appropriate levels of service as detailed in the contractual agreement, social responsibility, and adherence to legislative and regulatory obligations.
Change Management Risk of ineffective and inefficient implementation of change within the Society which could lead to financial loss, failure to meet legal and regulatory requirements or customer service standards.	The Society operates both a Portfolio Investment Committee and Change Management Committee to ensure that change is managed appropriately. All projects are monitored through to completion and reviews undertaken after they have been completed.	The Society will manage all change projects in a structured and consistent manner to ensure that the defined benefits are realised.
Business Continuity The risk that the Society is unable to operate business critical process and provide business critical services in the event of an unplanned disruption to business as usual operations.	The Society has a Business Continuity Plan which is reviewed and updated annually. Tests are performed to ensure that if the plan needed to be invoked the Society would be able to operate effectively and meet customer needs.	The Society will operate systems and controls to ensure that business critical operations are supported in the event of unplanned disruption.

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

Long Term Viability

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

Based on the Board's assessment of the principal risks (as set out above), and the stress testing of these principal risks, the Directors have a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the period to December 2023. This is naturally subject to unforeseeable external stresses including, but not limited to, the macro economic climate, competitive pressures, reputational damage and regulatory change.

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

Rachel Court
Chair
27 February 2019

Directors' Profiles

Non-Executive Directors





01 Rachel Court, Chair, JP, BA (age 52)

Rachel worked at Yorkshire Building Society for almost 23 years, concluding with seven years as a Senior Executive. During her career at the Yorkshire, she fulfilled a broad range of roles, including responsibility at various times for intermediary mortgage sales, mortgage product development, HR, operations and customer service. Rachel acquired substantial board level experience and worked closely with the Remuneration Committee as well as serving as a member of the Board Risk Committee, also chairing the Board of Yorkshire Guernsey Limited.

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

Rachel was co-opted onto the Board in November 2014. During 2018, Rachel has served as Chair of the Nominations Committee and as a member of the Remuneration Committee.

02 Keith Abercromby, Non-Executive Director, BSc, FIA (age 54)

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

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

Keith was co-opted onto the Board in March 2016. During 2018, he has served as Chair of the Board Audit Committee and as a member of the Board Risk Committee.

03 Richard Goddard, Non-Executive Director, MA, FCA (age 61)

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

Richard was co-opted onto the Board during 2011. During 2018, he has served as Chair of the Board Risk Committee and Pension Trustees Committee. He is also a member of the Board Audit Committee and the Nominations Committee.

04 Colin Kersley, Non-Executive Director (age 62)

Colin began his career with Midland Bank in 1975 (bought by HSBC in 1992). Throughout his career Colin has held numerous senior roles in Commercial, Corporate and Retail, including UK Head of Wealth and Premier and his final role as Chief Executive of M&S Bank plc.

Colin is also a Non-Executive Director on the Board of Assurant plc, a global provider of risk management solutions.

Colin was co-opted onto the Board in December 2016. During 2018, he has served as a member of the Board Audit Committee and the Nominations Committee.

05 Jane Kimberlin, Non-Executive Director BA (age 59)

Jane is an internationally experienced Board Chief Information Officer / Information Technology Director. Jane's most recent role was with LaSer UK (part of BNP Paribas) and previously with a range of blue chip companies including Domino's Pizza, Scottish and Newcastle and E.ON / PowerGen. After over 25 years in Chief Information Officer / Information Technology Director roles, Jane is now focussing on Non-Executive roles and consultancy under her own company 'Creaton Consultants', in addition to voluntary roles encouraging children and adults to have a successful career in IT. Jane is also a Director of Creaton Community Benefit Society Limited where she serves as Society Secretary.

From 1983 to 2018 Jane was a Fellow of the Institute of Directors and since 2008 has been a Member of the Worshipful Company of Information Technologists, becoming a Liveryman in 2017.

Jane was co-opted onto the Board in November 2016. During 2018 she has served as a member of the Board Risk Committee and the Remuneration Committee.

06 John Leveson, Non-Executive Director, MBA, FCIB (age 59)

John is a Fellow of the Chartered Institute of Bankers and worked in the Building Society sector for over 36 years, the last 17 years as an Executive Director and latterly as Deputy Chief Executive of a regional building society. During his career, he was responsible at various times for marketing, sales, product development, HR, IT, mortgage underwriting, customer services, legal services and internal audit. In addition to serving on a building society group board, he has served on and chaired the boards of subsidiary companies involved in estate agency, financial planning and car finance. John has a voluntary role as a driver for a community bus service which serves the rural area where he lives.

John was co-opted onto the Board in May 2015. During 2018, he has served as Chair of the Remuneration Committee and as a member of the Board Risk Committee.

Executive Directors

07 Andrew Healy, Chief Executive, MoB, BSc, MCIPD (age 52)

Andrew has more than 25 years of experience in the financial services sector in the UK and internationally, including over 10 years at CEO and Board level. Prior to joining Leek United, he was CEO & Managing Director of community bank, Bank of Maldives, the largest financial institution in the Maldives. Under Andrew's leadership, Bank of Maldives experienced consistent improvements in financial performance, risk standards and customer satisfaction and received awards for innovation, progressive HR practices and investment in communities.

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

Andrew commenced his role as Chief Executive of Leek United in December 2018. The resolution to formally elect him to the Society's Board will go before members at the Annual General Meeting in April 2019.

Andrew is a member of the Nominations Committee, Risk Oversight Committee and Asset and Liability Committee, Executive Committee, Portfolio Investment Committee and the Credit Committee and also attends the Board Risk Committee, Board Audit Committee and Remuneration Committee.

08 John Kelly, Operations Director, BA (Hons), ACA (age 53)

John has over 17 years' experience in financial services across finance, IT, strategy and operations. John started his career in accountancy and after obtaining a degree in Accounting and Financial Management, he secured a position at Coopers & Lybrand (now PwC). After living and working in New Zealand for eight years, he returned to the UK and took the position of Strategy & Business Development Manager with Britannia Building Society before moving to the Co-operative Bank, firstly as Financial Projects Director and then Director of Strategy.

John joined Leek United Building Society as Interim Operations Director on a consultancy basis in October 2016 and joined the Board as Operations Director in April 2017.

During 2018, John has served as a member of the Risk Oversight Committee, Asset and Liability Committee, Executive Committee and Portfolio Investment Committee and chairs the Customer Conduct Forum and Product Governance Committee. He also attends the Board Risk Committee and Audit Committee.

09 Andrew Morris, Finance Director, MPhil, FCA, MBA (age 46)

Andrew has over 20 years' experience in the financial services industry and is a Fellow of the Institute of Chartered Accountants in England and Wales and a Member of the Chartered Institute for Securities and Investment.

His most recent role was as Head of Finance Business Partnering at Nationwide Building Society, based at the Head Office in Swindon. Prior to that, he spent more than 12 years gaining considerable and wide-ranging executive-level experience in a succession of positions with the RBS Group. This included four years as CFO and COO of Middle East and Africa, based in Dubai, and as Head of Strategic Cost Management at Coutts private bank in London.

Andrew gained BA in History and Archaeology at the University of Exeter, before going on to read for an MPhil in Medieval History at Trinity Hall, Cambridge. More recently, he obtained a MBA from London Business School.

Andrew was co-opted onto the Board in March 2018 and during the year has served as Chair of the Asset and Liability Committee and is also a member of the Risk Oversight Committee, Executive Committee and Portfolio Investment Committee. He attends the Board Risk Committee, Remuneration Committee and Audit Committee and is also Secretary to the Pension Trustees Committee.

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

Directors' Report

The Directors have pleasure in presenting the Annual Report and Accounts for the year ended 31 December 2018.

Business Review

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

Directors

Keith Abercromby Non-Executive Director

Rachel Court Non-Executive Director

Richard Goddard Non-Executive Director

Andrew Healy Chief Executive Appointed 17 December 2018

John Kelly Operations Director

Colin Kersley Non-Executive Director

Jane Kimberlin Non-Executive Director

John Leveson Non-Executive Director

Andrew Morris Finance Director Appointed 21 March 2018

Kevin Wilson Chief Executive Retired 31 December 2018

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

The Directors would like to express their sincere thanks to all the Society's staff for their role in delivering a strong performance during 2018. Their passion and dedication to achieving our objective of exceptional customer service will support the continued success of the Society in the years ahead and protect the interests of our members. Information is provided to employees through meetings, team briefings, circulars, newsletters and the Society's intranet to ensure they are aware of the Society's performance and objectives and the business environment in which it operates.

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

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

Capital Ratios

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

Principal Risks and Uncertainties

A detailed assessment of the Society's principal risks and uncertainties is set out on pages 14-17.

Financial Risk Management Objectives and Policies

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

Interest Rates

The Society's standard variable mortgage interest rate increased by 0.25bps to 5.69% with effect from 1 October 2018.

Treating Customers Fairly

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

Provision of Information to Auditors

Each person who is a Director at the date of approval of this report confirms that:

- So far as the Director is aware, there is no relevant audit information of which the Society's auditor is unaware; and
- Each Director has taken all the steps that they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the Society's auditors are aware of that information.

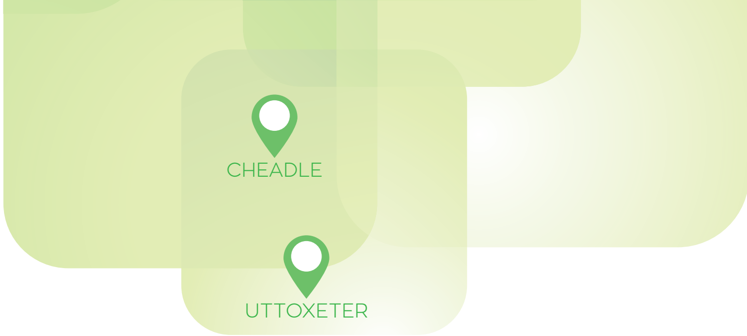
Independent Auditor

A resolution to reappoint KPMG LLP as auditors to the Society will be proposed at the Annual General Meeting in April 2019.

Post Balance Sheet Events

The Directors consider that there have been no events since the year end that have an important effect on the position of the Society.

Rachel Court
Chair
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

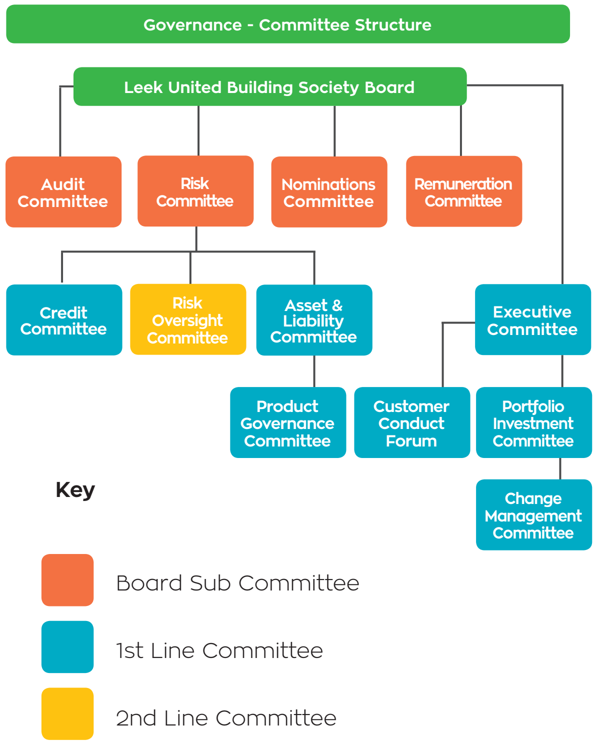
The Board sets the overall strategic aims, long term objectives and commercial strategy for the Society. As such, it is the Board's responsibility to ensure that the necessary financial and human resources are in place to enable the Society to meet these objectives, as well as to review management performance 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 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 opposite:



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.

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

Corporate Governance Report (continued)

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 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 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 27. 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.

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:

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)	
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.

During 2018 the Society's Finance Department ran a tuck shop which raised £671 for the local **Home Start charity**

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.

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 on page 28 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 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.

Further detail regarding the sensitivities of these assumptions is included on page 49 within the Notes to the Accounts.

The Committee reviewed and challenged the assumptions, estimates, risks and sensitivities for each accounting estimate and was satisfied that the provisions were towards the prudent end of the range of sensitivities and that they were appropriately dealt with in the accounts.

Corporate Governance Report (continued)

Risk Management and Internal Control

The Society uses the Risk Management Framework as part of 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, as set out on pages 13-17, 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 on page 13, 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. 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.

Board Audit Committee and Auditors

The role of the Board Audit Committee is set out on page 22. 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 Board Audit Committee has recent and relevant financial experience. The Society has a Board Audit Committee approved policy on the provision of non-audit services by the auditor. The policy reflects the requirements of the UK Corporate Governance Code and legislation on EU Audit Reform. This sets out both qualitative and quantitative criteria on the relevant services and governance procedures.

The Board Audit Committee is responsible for providing oversight of the external audit process by monitoring the relationship with the External Auditor, agreeing its remuneration and terms of engagement, and making recommendations to the Board on the appointment, re-appointment or removal of the External Auditor as appropriate. In 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 Board Audit Committee receives and approves, on an annual basis, a Strategic Audit Plan covering a period of five years. Deloitte LLP provide the Committee with reports summarising the results and its recommendations as well as the response from 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 27.

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.

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.

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
27 February 2019

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 Chairs 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

The table in note 6 to the Annual Report and Accounts summarises Directors' pay and benefits for the year ended 31 December 2018.

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

Statement of Directors' Responsibilities

Directors' Responsibilities for Preparing the Annual Report and Accounts

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

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

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

In preparing each of the Group and Society financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the Group and Society's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the Society or to cease operations, or have no realistic alternative but to do so.

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

Directors' responsibilities for accounting records and internal controls

The Directors are responsible for ensuring that the group:

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

The Directors are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

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

Rachel Court

Chair

27 February 2019

Independent auditor's report

to the members of Leek United Building Society

1. Our opinion is unmodified

We have audited the group and society annual accounts of Leek United Building Society for the year ended 31 December 2018 which comprise the group and society Income Statements, Statements of Comprehensive Income, Statements of Financial Position, Statements of Changes in Members' Interests, Statements of Cash Flows and the related notes, including the accounting policies in note 1.

In our opinion the annual accounts:

— give a true and fair view of the state of affairs of the group and of the society as at 31 December 2018 and of the income and expenditure of the group and of the society for the year then ended;

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

— have been prepared in accordance with the requirements of the Building Societies Act 1986 and regulations made under it.

Basis for opinion

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

We were first appointed as auditor by the directors on 26 April 2017. The period of total uninterrupted engagement is for the 2 financial years ended 31 December 2018.

We have fulfilled our ethical responsibilities under, and we remain independent of the group in accordance with, UK ethical requirements including the FRC Ethical Standard applicable to public interest entities. No non-audit services prohibited by that standard were provided.

Overview	
Materiality: Group financial statements as a whole	£187k (2017:£190k) 4.8% of profit before tax (2017: 0.9% of interest income)
Coverage	4.8% (2017:4.2%) of group profit before tax.

	Risks of material misstatement	vs 2017
Event driven	**New:** The impact of uncertainties due to Britain exiting the European Union on our audit	▲
Recurring risks	Impairment of loans and advances to customers	◄►
	Revenue recognition – EIR	◄►
	Valuation of defined benefit liabilities	▼

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

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. We have refined our key audit matter in respect of the defined benefit pension obligation to focus on the valuation of defined benefit liabilities which better reflects the focus of our audit effort over the liability where there is the highest degree of estimation uncertainty. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

	The risk	Our response
The impact of uncertainties due to Britain exiting the European Union on our audit **Parent society risk** *Refer to page 15-17 (principal risks), page 17 (viability statement), page 22 (Audit Committee Report).*	**Unprecedented levels of uncertainty:** All audits assess and challenge the reasonableness of estimates, in particular as described in Impairment of loans and advances to customers, Revenue recognition –EIR and the Valuation of defined benefit liabilities below, and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements (see below). All of these depend on assessments of the future economic environment and the society's future prospects and performance. In addition, we are required to consider the other information presented in the Annual Report including the principal risks disclosure and to consider the directors' statement that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for members to assess the society's position and performance, business model and strategy. Brexit is one of the most significant economic events for the UK and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown.	We developed a standardised firm-wide approach to the consideration of the uncertainties arising from Brexit in planning and performing our audits. Our procedures included: — **Our Brexit knowledge:** We considered the directors' assessment of Brexit-related sources of risk for the society's business and financial resources compared with our own understanding of the risks. We considered the directors' plans to take action to mitigate the risks; — **Sensitivity analysis:** When addressing Impairment of loans and advances to customers, Revenue recognition – EIR and the Valuation of defined benefit liabilities, we compared the directors' sensitivity analysis to our assessment of the worst reasonably possible, known adverse scenario resulting from Brexit uncertainty and, where forecasts cash flows are required to be discounted, considered adjustments to discount rates for the level of remaining uncertainty; — **Assessing transparency:** As well as assessing individual disclosures as part of our procedures on Impairment of loans and advances to customers, Revenue recognition – EIR and the Valuation of defined benefit liabilities, we considered all of the Brexit related disclosures together, including those in the strategic report, comparing the overall picture against our understanding of the risks. **Our results** — As reported under Impairment of loans and advances to customers, Revenue recognition –EIR and the Valuation of defined benefit liabilities, we found the resulting estimates and related disclosures of subjective estimation and valuation techniques and disclosures in relation to going concern to be acceptable. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

	The risk	Our response
Impairment of loans and advances to customers **Parent society risk** Group and society impairment £405 thousand; 2017: £478 thousand) *Refer to page **22** (Audit Committee Report), page **48** (accounting policy) and page **53** (financial disclosures)*	**Subjective estimate:** Impairments cover loans specifically identified as impaired and a collective impairment of all other loans for those impairments incurred but not yet specifically identified. The directors judge individual impairments by reference to loans that have current or historical arrears, forbearance flagging, product type and other indictors of impairment identified. The collective impairment is derived from a model that uses a combination of the society's historical experience and, due to the Society's limited loss experience, increased judgement is required in the estimate. In particular, judgement is required on the key assumptions of probability of defaults existing and forced sale discounts against collateral. The impairment model is most sensitive to movements in the forced sale discount and the probability of default assumptions. The effect of these matters is that, as part of our risk assessment, we determined that impairment of loans and advances to customers has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole. The financial statements (note 1) disclose the sensitivity estimated by the Society.	Our procedures included: — **Benchmarking assumptions:** We compared the key assumptions used in the model of probability of default and forced sale discounts with externally available data, including KPMG's building society database. — **Sensitivity analysis:** We assessed the collective model and specific individual impairments for their sensitivities to changes in the key assumptions of probability of defaults and forced sale discounts by performing stress testing to help us assess the reasonableness of the assumptions and identify areas of potential additional focus.. — **Historical comparison:** We assessed the key assumptions used in the collective and individual models, being probability of default and forced sale discounts, against the society's historical experience. — **Tests of detail:** We identified a selection of loans using risk based sampling which includes specific items identified based on risk characteristics of current or historical arrears, forbearance flagging, size to identify individual loans which may have unidentified impairments. We tested the provision attached to these loans by reference to relevant supporting information such as property type and valuation to challenge the completeness and accuracy of the society's specific impairment provision estimate. — **Assessing transparency:** We assessed the adequacy of the society's disclosures about the degree of estimation involved in arriving at the provision. **Our results** — We found the resulting estimate of impairment to be acceptable.

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

	The risk	Our response
Revenue recognition – EIR adjustments **Parent society risk** (Group and society: EIR Revenue adjustment £565 thousand; (2017: £53 thousand) EIR Asset £574 thousand (2017: £136 thousand) *Refer to page* ***22*** *(Audit Committee Report), page* ***48*** *(accounting policy) and page* ***53*** *(financial disclosures).*	**Subjective estimate:** Using an excel based model, interest earned and fees earned and incurred on loans are recognised using the effective interest rate ('EIR') method that spreads directly attributable expected cash flows over the expected lives of the loans. The directors apply judgement in deciding and assessing the expected repayment profiles used to determine the EIR period. The most critical element of judgement in this area is the estimation of the future redemption profiles of the loans. This is informed by product mix and past customer behaviour of when loans are repaid.	Our procedures included: — **Our sector experience:** We assessed the key assumptions behind the expected customer lives and profiles of significant loan products against our own knowledge of industry experience and trends, including benchmarking with comparable lenders. — **Sensitivity analysis:** We assessed the model for its sensitivity to changes in the key assumptions by considering different profiles to help us assess the reasonableness of the assumptions used and identify areas of potential additional focus. — **Historical comparison:** We assessed the reasonableness of the model's expected repayment profiles assumptions against historical experience of loan lives based on customer behaviour, product mix and recent performance. — **Reperformance:** We performed recalculations of the EIR adjustment to test the model is in compliance with IAS 39 requirements and model inputs are complete and accurate. — **Assessing transparency:** We assessed the adequacy of the society's disclosures about the degree of estimation involved in arriving at the interest income recognised. **Our results** — We found the resulting estimate of EIR to be acceptable.

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

	The risk	Our response
Valuation of defined benefit liabilities **Parent society risk** (Group and society £37.5 million; 2017: £40.9million) *Refer to page 22 (Audit Committee Report), page 49 (accounting policy) and page 72 (financial disclosures).*	**Subjective valuation:** The society has a material obligation in respect of its defined benefit pension scheme, which is currently in a deficit position. Actuarial assumptions used in the determination of the defined benefit obligation are inherently subjective and requires expertise and judgement. There is a significant degree of estimation uncertainty in respect of certain of these assumptions, and small changes in the assumptions could have a significant effect on the value of the society's defined benefit liabilities. The effect of these matters is that, as part of our risk assessment, we determined that Valuation of defined benefit liabilities has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole. The financial statements (note 26) disclose the sensitivity estimated by the Society.	Our procedures included: — **Evaluation of actuary:** We evaluated the competence, independence and objectivity of the society's actuary in assessing management's reliance upon their expert valuation services. — **Evaluation of scheme administrator:** We evaluated the operating effectiveness of relevant controls, through an inspection and assessment of the administrator's internal controls report, to determine the reliance upon this party as a service organisation. — **Benchmarking assumptions:** We challenged, with the support of our own actuarial specialists, the key assumptions applied to the pension liability, being the discount rate, inflation rate and mortality/life expectancy against externally derived data; and — **Assessing transparency:** Considering the adequacy of the group's disclosures in respect of the sensitivity of the defined benefit obligation to these assumptions. **Our results** — We found the resulting estimate of pension liabilities to be acceptable.

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

Materiality for the group financial statements as a whole was set at £187k (2017: £190k), determined with reference to a benchmark of Profit before tax (of which it represents 4.8% (2017: 0.9% of interest income)).

We consider Profit before tax to be the most appropriate benchmark as it provides a more stable measure year on year than group interest income.

Materiality for the parent company financial statements as a whole was set at £185k (2017: £190k), determined with reference to a benchmark of company Profit before tax, of which it represents 4.8% (2017: £0.9% of interest income).

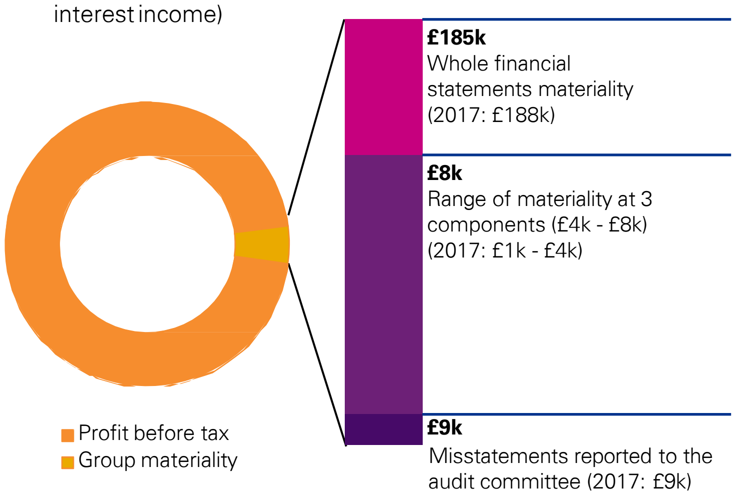
We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £9k, in addition to other identified misstatements that warranted reporting on qualitative grounds

Of the group's 3 (2017: 3) reporting components, we subjected 3 (2017: 3) to full scope audits for group purposes and these audits were performed at component material levels for the statutory audits of the components.

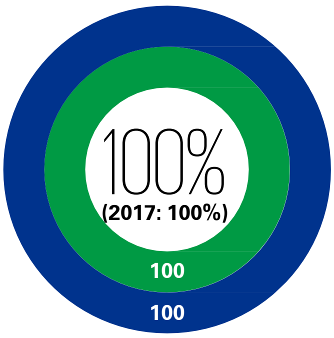
The components within the scope of our work accounted for the percentages illustrated opposite.

Profit before tax
£3.8m (2017: £190k, 0.9% of interest income)

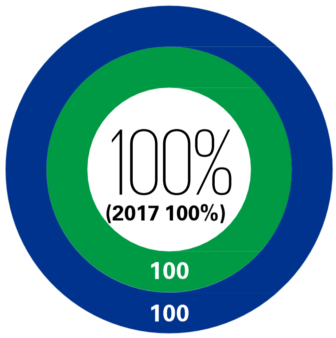
Group Materiality
£187k (2017: £190k)



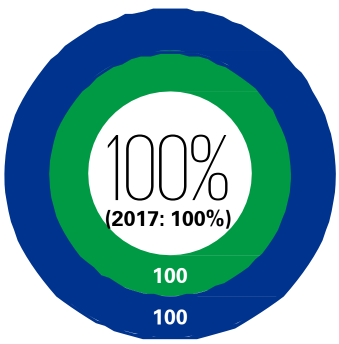
Group revenue



Group profit before tax



Group total assets



Full scope for [group] audit purposes 2018

Full scope for [group] audit purposes 2017

4. We have nothing to report on going concern

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

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

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

- The impact on collateral values and availability and cost of funding from a disorderly Brexit;
- The impact of Brexit on unemployment and the impact on borrowers ability to repay debt;

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

Based on this work, we are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements.

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

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

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

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

Annual Business Statement and Directors' Report

In our opinion:

- the Annual Business Statement and the Directors' Report have each been prepared in accordance with the applicable requirements of the Building Societies Act 1986 and regulations thereunder;
- the information given in the Directors' Report for the financial year is consistent with the accounting records and the annual accounts; and
- the information given in the Annual Business Statement (other than the information upon which we are not required to report) gives a true representation of the matters in respect of which it is given.

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

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

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

We have nothing to report in these respects.

. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on pages 28, the directors are responsible for: the preparation of annual accounts which give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the group and society's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the group or the society or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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

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

Irregularities – ability to detect

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

The potential effect of these laws and regulations on the financial statements varies considerably.

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

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

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

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations (irregularities) is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it. In addition, as with any audit, there remained a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

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

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

Jessica Katsouris (Senior Statutory Auditor)

for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

1 St Peter's Square

Manchester

M2 3AE

27 February 2019

KPMG

Income Statements for the year ended 31 December 2018

	Notes	Group 2018 £000's	Group 2017 £000's	Society 2018 £000's	Society 2017 £000's
Interest receivable and similar income	**2**	21,193	19,437	21,191	19,433
Interest payable and similar charges	**3**	(8,224)	(6,752)	(8,224)	(6,752)
Net interest receivable		12,969	12,685	12,967	12,681
Fees and commissions receivable	**4**	631	672	630	676
Fees and commissions payable		(223)	(212)	(223)	(212)
Net gains from derivative financial instruments	**5**	424	581	424	581
Total net income		13,801	13,726	13,798	13,726
Administrative expenses	**6**	(10,011)	(8,938)	(10,004)	(8,923)
Depreciation	**15**	(252)	(240)	(252)	(240)
		3,538	4,548	3,542	4,563
Net finance credit on pension scheme	**26**	(41)	(139)	(41)	(139)
Impairment credit/(charge) on loans and advances to customers	**7**	173	(70)	173	(70)
Provisions for liabilities – FSCS levy	**24**	149	161	149	161
Profit on ordinary activities before tax		3,819	4,500	3,823	4,515
Tax on profit on ordinary activities	**8**	(673)	(775)	(674)	(775)
Profit for the financial year	**28**	**3,146**	**3,725**	**3,149**	**3,740**

The notes on pages 44 to 76 form part of these accounts.

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

Statements of Comprehensive Income for the year ended 31 December 2018

	Notes	Group 2018 £000's	Group 2017 £000's	Society 2018 £000's	Society 2017 £000's
Profit for the financial year		3,146	3,725	3,149	3,740
Items that will not be reclassified to the Income Statement					
Actuarial (loss)/gain recognised in pension scheme	**26**	(627)	1,783	(627)	1,783
Taxation on items that will not be reclassified to the Income Statement	**16**	107	(303)	107	(303)
Items that may subsequently be reclassified to the Income Statement					
Available for Sale reserve	**30**	(130)	(96)	(130)	(96)
Tax on items that may subsequently be reclassified to the Income Statement	**30**	5	17	5	17
Tax on revaluation reserve	**29**	5	5	5	5
Other Comprehensive (Expense)/Income for the year net of income tax		(640)	1,406	(640)	1,406
Total Comprehensive Income for the financial year		**2,506**	**5,131**	**2,509**	**5,146**

Statements of Financial Position as at 31 December 2018

	Notes	Group 2018 £000's	Group 2017 £000's	Society 2018 £000's	Society 2017 £000's
ASSETS					
Liquid assets:					
Cash in hand and balances with the Bank of England	9	104,033	128,520	104,033	128,520
Loans and advances to credit institutions	10	8,189	10,050	8,046	9,909
Debt securities	11	128,950	100,264	128,950	100,264
		241,172	238,834	241,029	238,693
Derivative financial instruments	12	2,035	1,186	2,035	1,186
Loans and advances to customers	13	825,067	795,887	825,021	795,830
Investments in subsidiary undertakings	14	-	-	24	24
Fixed assets	15	2,234	2,412	2,234	2,412
Other assets	16	274	572	347	643
Prepayments and accrued income	17	574	525	574	525
Total assets		**1,071,356**	**1,039,416**	**1,071,264**	**1,039,313**
LIABILITIES					
Shares	18	850,096	843,419	850,096	843,419
Amounts owed to credit institutions	19	134,176	105,915	134,176	105,915
Amounts owed to other customers	20	18,173	21,131	18,173	21,131
Derivative financial instruments	12	540	1,576	540	1,576
Other liabilities	21	578	427	579	428
Accruals and deferred income	22	731	884	725	870
Provisions for liabilities	23	71	247	71	247
Retirement benefit obligations	26	1,327	2,659	1,327	2,659
Total liabilities		**1,005,692**	**976,258**	**1,005,687**	**976,245**
RESERVES					
General reserve	28	64,725	62,099	64,638	62,009
Revaluation reserve	29	1,017	1,012	1,017	1,012
Available for sale reserve	30	(78)	47	(78)	47
Total reserves attributable to members of the Society		65,664	63,158	65,577	63,068
Total reserves and liabilities		**1,071,356**	**1,039,416**	**1,071,264**	**1,039,313**

These accounts were approved by the Board of Directors on 27th February 2019 and were signed on its behalf by:

Rachel Court
Chair

Andrew Healy
Chief Executive

Statements of Changes in Members' Interest for the year ended 31 December 2018

Group	Notes	General reserve £000's	Revaluation reserve £000's	Available for Sale reserve £000's	Total reserves attributable to members of the Society £000's
Balance as at 1 January 2018		62,099	1,012	47	63,158
Profit for the financial year		3,146	-	-	3,146
Other Comprehensive Income/(Expense) for the year (net of tax)					
Re-measurement of defined benefit scheme obligations		(520)	-	-	(520)
Net gains from changes in financial assets		-	-	(125)	(125)
Net gains from changes in land and building		-	5	-	5
Total Comprehensive Income/(Expense) for the year		2,626	5	(125)	2,506
Balance as at 31 December 2018	**28, 29, 30**	**64,725**	**1,017**	**(78)**	**65,664**

Group	Notes	General reserve £000's	Revaluation reserve £000's	Available for Sale reserve £000's	Total reserves attributable to members of the Society £000's
Balance as at 1 January 2017		56,894	1,007	126	58,027
Profit for the financial year		3,725	-	-	3,725
Other Comprehensive (Expense)/Income for the year (net of tax)					
Re-measurement of defined benefit obligations		1,480	-	-	1,480
Net gains from changes in financial assets		-	-	(79)	(79)
Net gains from changes in land and building		-	5	-	5
Total Comprehensive (Expense)/Income for the year		5,205	5	(79)	5,131
Balance as at 31 December 2017	**28, 29, 30**	**62,099**	**1,012**	**47**	**63,158**

Statements of Changes in Members' Interest as at 31 December 2018 (cont'd)

Society	Notes	General reserve £000's	Revaluation reserve £000's	Available for Sale reserve £000's	Total reserves attributable to members of the Society £000's
Balance as at 1 January 2018		**62,009**	**1,012**	**47**	**63,068**
Profit for the financial year		3,149	-	-	3,149
Other Comprehensive Income/(Expense) for the year (net of tax)					
Re-measurement of defined benefit obligations		(520)	-	-	(520)
Net gains from changes in financial assets		-	-	(125)	(125)
Net gains from changes in land and building		-	5	-	5
Total Comprehensive Income/(Expense) for the year		2,629	5	(125)	2,509
Balance as at 31 December 2018	**28, 29, 30**	**64,638**	**1,017**	**(78)**	**65,577**

Society	Notes	General reserve £000's	Revaluation reserve £000's	Available for Sale reserve £000's	Total reserves attributable to members of the Society £000's
Balance as at 1 January 2017		**56,789**	**1,007**	**126**	**57,922**
Profit for the financial year		3,740	-	-	3,740
Other Comprehensive (Expense)/Income for the year (net of tax)					
Re-measurement of defined benefit obligations		1,480	-	-	1,480
Net gains from changes in financial assets		-	-	(79)	(79)
Net gains from changes in land and building		-	5	-	5
Total Comprehensive (Expense)/Income for the year		5,220	5	(79)	5,146
Balance as at 31 December 2017	**28, 29, 30**	**62,009**	**1,012**	**47**	**63,068**

Statements of Cash Flows
For the year ended 31 December 2018

	Notes	Group 2018 £000's	Group 2017 £000's	Society 2018 £000's	Society 2017 £000's
Cash flows from operating activities					
Profit on ordinary activities before tax		3,819	4,500	3,823	4,515
Depreciation		252	240	252	240
(Increase)/decrease in fair value of derivative financial instruments and hedged items		(424)	(581)	(424)	(581)
(Increase)/decrease in effective interest rate adjustment		(438)	(53)	(438)	(53)
Increase/(decrease) in impairment on loans and advances		(173)	70	(173)	70
Amounts recovered in respect of loans previously written off		100	8	100	8
Net gains on disposal and amortisation of debt securities		(3)	-	(3)	-
(Profit)/loss on sale of tangible fixed assets		(13)	(14)	(13)	(14)
Non cash pension losses		100	197	100	197
Total cash flow from operating activities		**3,220**	**4,367**	**3,224**	**4,382**
Changes in operating assets and liabilities					
Increase in loans and advances to customers		(30,131)	(54,987)	(30,142)	(55,013)
(Decrease)/increase in accruals and deferred income		(153)	(3)	(145)	1
Increase in prepayments and accrued income		(565)	(91)	(565)	(91)
Increase in amounts owed to credit institutions and other customers		25,303	105,265	25,303	105,265
Decrease/(increase) in loans and advances to credit institutions		911	2,250	911	2,250
Decrease/(increase) in other assets		(3)	1	(5)	(2)
Decrease in other liabilities		159	(12)	159	(11)
Increase in shares		6,677	6,841	6,677	6,841
Decrease in provisions for liabilities		(176)	(335)	(176)	(335)
Pension contributions		(2,059)	(1,749)	(2,059)	(1,749)
Taxation paid		(263)	(626)	(264)	(624)
Net cash generated from operating activities		**2,920**	**60,921**	**2,918**	**60,914**
Cash flows from investing activities					
Proceeds from sale of fixed assets		42	24	42	24
Purchase of fixed assets		(103)	(216)	(103)	(216)
Purchase of debt securities		(149,566)	(93,037)	(149,566)	(93,037)
Maturities and disposal of debt securities		121,270	59,288	121,270	59,288
Net cash used in investing activities		**(28,357)**	**(33,941)**	**(28,357)**	**(33,941)**
Net increase in cash and cash equivalents		**(25,437)**	**26,980**	**(25,439)**	**26,973**
Cash and cash equivalents at 1 January		137,139	110,159	136,998	110,025
Cash and cash equivalents at 31 December	**27**	111,702	137,139	111,559	136,998
Net cash generated from operating activities		**(25,437)**	**26,980**	**(25,439)**	**26,973**

Notes to the Accounts for the year ended 31 December 2018

1. Principal accounting policies

Basis of preparation

The accounts have been prepared in accordance with applicable accounting standards in the United Kingdom and with the Building Societies (Accounts and Related Provisions) Regulations 1998.

Basis of accounting

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

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

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

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

Basis of consolidation

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

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

Exemptions

The Group has taken exemption as provided in Section 33.1A of FRS 102 and does not disclose transactions with members of the same group that are wholly owned. See note 6 for disclosure of the Directors' remuneration and key management compensation.

Investments in subsidiary undertakings

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

Interest income and expense

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

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

Fees and commissions

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

Notes to the Accounts for the year ended 31 December 2018

1. Principal accounting policies (continued)

Financial assets

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

a) Loans and receivables

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

b) Financial asset at fair value through profit and loss

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

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

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

If the hedging derivative expires or is sold, terminated, or exercised, or the hedge no longer meets the criteria for fair value hedge accounting, or the hedge designation is revoked, hedge accounting is discontinued prospectively. If the underlying instrument is sold or repaid, the unamortised fair value adjustment is immediately recognised in the income statement and, therefore, as a consequence within the statement of changes in members interests. A summary of the effects of hedging and the associated fair value adjustments can be found in notes 12 and 25.

c) Available for Sale assets – debt securities

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

Further information regarding how fair values are determined can be found in note 25 to the accounts. Upon sale or maturity of the asset, the cumulative gains and losses recognised in other comprehensive income are removed from available for sale reserves and recycled to the Income Statement.

d) Offsetting

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

Notes to the Accounts for the year ended 31 December 2018

1. Principal accounting policies (continued)

Impairment of loans and advances to customers

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

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

Forbearance strategy

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

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

Customers requesting a forbearance option will need to provide information to support the request which is likely to include the completion of an Income and Expenditure Questionnaire, bank statements and payslips in order that the request can be properly assessed. If the forbearance request is granted, the account is monitored in accordance with our policy and procedures. Further information on forbearance is contained within note 25.

Impairment losses on debt securities

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

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

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

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

Notes to the Accounts for the year ended 31 December 2018

1. Principal accounting policies (continued)

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

Pension costs

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

On 24 April 2013, the Society closed an externally funded final salary (defined benefit) scheme administered by Jardine Lloyd Thompson to further accrual. Contributions payable to the scheme are determined by a qualified actuary on the basis of a triennial valuation using the projected unit method, and are charged to the income and expenditure account over the periods benefiting from the employees' services. The last full actuarial valuation was carried out on 24 April 2015. The charge to the income and expenditure account over the financial year in relation to the defined benefit scheme is shown in note 26.

The pension scheme deficit on the closed scheme at 31 December 2018 has been recognised as a liability on the balance sheet.

The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high quality sterling bonds of comparable term to the related pension liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited each year to the Statement of Other Comprehensive Income. Past and current service costs are recognised immediately in administrative expenses.

Cash and cash equivalents

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

Taxation

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

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

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

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

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

Notes to the Accounts for the year ended 31 December 2018

1. Principal accounting policies (continued)

Fixed assets and depreciation

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

Shares

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

Provisions for liabilities and charges

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

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

Critical accounting judgements and estimates

a) Impairment losses on loans and advances

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

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

The principal estimates are the proportion of loans that will become impaired/default, known as the probability of default (PD) and, on these cases, how much will be lost, known as loss given default (LGD). This is principally driven by house prices at the point of realisation of collateral. The impact of a 1% change in PD would impact the provision in 2018 by £335k. The impact of a 5% increase in the forced sale discount affecting the LGD would impact the provision in 2018 by £230k.

b) Effective Interest Rate

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

Notes to the Accounts for the year ended 31 December 2018

1. Principal accounting policies (continued)

c) Employee benefits

The Group operates a defined benefit pension scheme. Significant estimates (on such areas as future interest and inflation rates and mortality rates) have to be exercised in estimating the value of the assets and liabilities of the scheme, and hence its net deficit. The assumptions are outlined in note 26. Of these assumptions, the main determinant of the liability is the discount rate. The sensitivity to key assumptions is as follows:

Assumption	Sensitivity (increase)	Impact on liabilities
Discount rate	0.1%	c. £795k reduction
Inflation (RPI/CPI)	0.1%	c. £236k increase
Salary increases	0.1%	c. £118k increase
Life expectancy	1 year	c. £795k increase

d) Fair values of derivatives and financial assets

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

- Available for Sale – measured at fair value using market prices
- Derivative financial instruments – calculated by discounted cash flow models using yield curves that are based on observable market data
- A change in the yield curve of 0.5% would change the net fair value of derivative financial instruments by c. £3.9m, before allowing for any mitigating change of hedged items in fair value hedge accounting relationships

2. Interest receivable and similar income

	Group 2018 £000's	Group 2017 £000's	Society 2018 £000's	Society 2017 £000's
On loans fully secured on residential property	20,490	20,702	20,488	20,698
On other loans	9	10	9	10
On debt securities – interest and other income	910	589	910	589
On other liquid assets – interest and other income	901	321	901	321
Net (expense) on derivative financial instruments	(1,117)	(2,185)	(1,117)	(2,185)
	21,193	**19,437**	**21,191**	**19,433**

3. Interest payable and similar charges

	Group 2018 £000's	Group 2017 £000's	Society 2018 £000's	Society 2017 £000's
On shares held by individuals	7,343	6,578	7,343	6,578
On deposits and other borrowings	881	174	881	174
	8,224	**6,752**	**8,224**	**6,752**

4. Fees and commissions receivable

	Group 2018 £000's	Group 2017 £000's	Society 2018 £000's	Society 2017 £000's
Insurance commission	527	583	527	587
Other fees	104	89	103	89
	631	**672**	**630**	**676**

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

	Group 2018 £000's	Group 2017 £000's	Society 2018 £000's	Society 2017 £000's
Gains/(losses) on hedging instruments	1,727	2,659	1,727	2,659
(Losses)/gains on hedged items attributable to the hedged risk	(1,461)	(1,919)	(1,461)	(1,919)
Net matched position	**266**	**740**	**266**	**740**
(Losses)/gains on derivatives not in designated fair value relationships	158	(159)	158	(159)
Total net gain/(loss) on derivatives	**424**	**581**	**424**	**581**

The net fair value (FV) gain from matched derivative financial instruments of £266k (2017: £740k) represents the net fair value movement on derivative instruments that are matching risk exposure on an economic basis, offset by the net fair value movement on the hedged item. As part of its interest rate risk management, the Society transacts derivatives when there is sufficient confidence and volumes of fixed rate mortgages either offered or completed. Whilst this economically results in the Society fixing its economic risk and margin, hedge accounting cannot be applied until the mortgage completes and is on the balance sheet. Therefore, the Society is exposed to accounting volatility for the period of normally a few weeks, between the two respective dates. The effect of this included within the gain/(loss) on matched derivatives comprises a FV gain of £225k in 2018 (2017: £678k). The movement in fair value is primarily due to timing differences in income recognition between derivative instruments and the hedged assets or liabilities, which at an individual hedge relationship level are temporary in nature. Hedge accounting is also not achievable on certain items, resulting in a net FV gain of £158k (2017: FV loss of £159k) on unmatched derivatives.

6. Administrative expenses

	Group 2018 £000's	Group 2017 £000's	Society 2018 £000's	Society 2017 £000's
Staff costs (including Executive Directors):				
Wages and salaries	5,008	4,390	5,008	4,389
Social security costs	553	424	553	424
Other pension costs	336	298	336	298
	5,897	**5,112**	**5,897**	**5,111**
Other expenses:				
Remuneration of auditors				
Audit of Group and Society accounts	109	110	109	110
Audit of subsidiaries	6	13	-	-
Other services	25	8	25	8
Total auditor remuneration	**140**	**131**	**134**	**118**
Other administrative expenses	3,974	3,695	3,973	3,694
Total administrative expenses	**10,011**	**8,938**	**10,004**	**8,923**

In addition to the auditor remuneration as shown above, the Society also paid audit fees in relation to the defined benefit pension scheme of £19k (2017: £17k).

Other pension costs include both defined contribution costs as well as current service costs for the defined benefit scheme as set out in note 26.

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

	Group 2018	Group 2017	Society 2018	Society 2017
(i) At principal office:				
Full-time staff	89	80	89	80
Part-time staff	30	25	30	25
(ii) At branch offices:				
Full-time staff	44	49	44	49
Part-time staff	31	24	31	24
Total staff	**194**	**178**	**194**	**178**
(iii) Total full-time equivalents	173	162	173	162

Notes to the Accounts for the year ended 31 December 2018

6. Administrative expenses (continued)

Directors' loans and transactions

A register of loans and transactions with Directors and connected persons is maintained and is available for inspection by members at the Society's principal office up to and including 24 April 2019 and at the Annual General Meeting. The total loans outstanding at 31 December 2018, in respect of 2 (2017: 1) person amounted to £534k (2017: £17k). There is no disclosure in respect of Directors' investment accounts because of the overriding duty of confidentiality with regard to customers' affairs. Analysis of Directors' remuneration:

	2018					2017				
	Salary/ Fees	Benefits /Other (iii)	Sub Total	Pensions	Total	Salary/ Fees	Benefits /Other (iii)	Sub Total	Pensions	Total
	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's
Non-Executive Directors (NEDs) (IV)										
Rachel Court	43	1	44	-	44	41	1	42	-	42
Keith Abercromby (i)	29	3	32	-	32	28	2	30	-	30
Richard Goddard	34	1	35	-	35	34	-	34	-	34
Colin Kersley	24	-	24	-	24	24	-	24	-	24
Jane Kimberlin	24	2	26	-	26	24	-	24	-	24
John Leveson	27	3	30	-	30	27	1	28	-	28
Executive Directors										
Andrew Healy (from 17/12/2018)	9	-	9	-	9	-	-	-	-	-
John Kelly (from 26/04/17) (iii)	142	13	155	21	176	92	8	100	14	114
Andrew Morris (from 21/03/2018) (iii)	120	11	131	18	149	-	-	-	-	-
Kevin Wilson (to 31/12/2018) (ii) (iii)	234	47	281	-	281	213	48	261	-	261
Paul Wilson (to 31/12/2017)	-	-	-	-	-	138	11	149	20	169
	686	**81**	**767**	**39**	**806**	**621**	**71**	**692**	**34**	**726**

(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); further details are included on page 27

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

Responsibility	2018 £000's	2017 £000's
Chair	43	41
Senior Independent Director	29	28
Chair of Audit	29	28
Chair of Risk	29	28
Chair of Remuneration	27	27
'Notified' NED	24	24

Notes to the Accounts for the year ended 31 December 2018

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

Group and Society

	Loans fully secured on residential property		
	Individual Impairment £000's	**Collective Impairment £000's**	**Total £000's**
At 1 January 2018	**102**	**376**	**478**
Change in loan impairment allowance	(87)	14	(73)
At 31 December 2018	**15**	**390**	**405**

Group and Society

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

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

Group and Society	**2018 £000's**	**2017 £000's**
Change in loan impairment allowance	(73)	(25)
Amounts recovered in respect of loans previously written off	(100)	(8)
Amounts written off	-	103
Income and expenditure account	**(173)**	**70**

The impairment allowance as at 31 December 2018 and 2017 has been deducted from loans fully secured on residential property in the Statement of Financial Position. No impairment allowance is held for loans fully secured on land.

8. Tax on profit on ordinary activities

	Group 2018 £000's	Group 2017 £000's	Society 2018 £000's	Society 2017 £000's
(a) UK corporation tax at 20% (2017: 20%):				
Current tax	255	409	256	409
UK deferred tax at 17% (2017: 17%):				
Deferred tax – current year (see note 16)	418	366	418	366
Total	**673**	**775**	**674**	**775**

The tax assessed for the year is lower (2017: lower) than the standard rate of corporation tax in the UK of 19% (2017: 19.25%). The differences are explained below.

	Group 2018 £000's	Group 2017 £000's	Society 2018 £000's	Society 2017 £000's
(b) Factors affecting current tax charge in year:				
Profit on ordinary activities before tax	3,819	4,500	3,823	4,515
Tax on profit at UK standard rate of 19% (2017: 19.25%)	726	866	726	869
Expenses not deductible for tax purposes	11	4	11	4
Adjustment re: prior year	(21)	(56)	(19)	(56)
Group relief claimed	-	-	(1)	(3)
Impact of change in rate – deferred tax	(48)	(48)	(48)	(48)
Changes to treatment of debt securities	5	9	5	9
Total tax charge	**673**	**775**	**674**	**775**

Reductions in the UK Corporation tax rate from 20% to 19% (effective from 1 April 2017) was substantively enacted on 26 October 2015 and a further reduction to 17% (effective from 1 April 2020) was substantively enacted on 7 September 2016. Accordingly, the Society's profits have been taxed at an effective rate of 19% (2017: 19.25%). The deferred tax asset at 31 December 2018 has been calculated based on the rate of 17% (2017: 17%) substantively enacted at that date.

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

	Note	Group 2018 £000's	Group 2017 £000's	Society 2018 £000's	Society 2017 £000's
Cash in hand		736	864	736	864
Balances at the Bank of England		103,297	127,656	103,297	127,656
Included in cash and cash equivalents	**27**	**104,033**	**128,520**	**104,033**	**128,520**

10. Loans and advances to credit institutions

	Group 2018 £000's	Group 2017 £000's	Society 2018 £000's	Society 2017 £000's
Maturity analysis:				
Repayable on demand	7,669	8,619	7,526	8,478
In more than one year but not more than five years	520	1,431	520	1,431
	8,189	**10,050**	**8,046**	**9,909**

Amounts outstanding in more than one year but not more than five years of £520k (2017: £1,431k) fully reflect amounts placed as collateral with counterparties in respect of derivative contracts.

Notes to the Accounts for the year ended 31 December 2018

11. Debt securities

	Group 2018 £000's	Group 2017 £000's	Society 2018 £000's	Society 2017 £000's
Available for sale securities				
Issued by UK Government	15,454	500	15,454	500
Issued by other borrowers - listed	17,215	7,443	17,215	7,443
Issued by other borrowers - unlisted	96,281	92,321	96,281	92,321
	128,950	**100,264**	**128,950**	**100,264**
Available for sale securities				
Maturity analysis:				
In not more than one year	111,735	100,264	111,735	100,264
In more than one year	17,215	-	17,215	-
	128,950	**100,264**	**128,950**	**100,264**

The Directors of the Society consider that the primary purpose of holding securities is prudential. The securities held as liquid assets are held with the intention of use on a continuing basis in the Society's activities. Movements in debt securities during the year may be analysed as follows:

Group and Society	2018 £000's	2017 £000's
At 1 January	**100,264**	**66,488**
Additions	149,566	93,037
Maturities and disposals	(121,267)	(59,288)
Movement in premium and accrued interest	517	123
Gains/(loss) in fair value recognised in Other Comprehensive Income	(130)	(96)
At 31 December	**128,950**	**100,264**

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

12. Derivative financial instruments

Group & Society	Contract Notional Amount £000's	Fair Value Assets £000's	Fair Value Liabilities £000's	Fair Value Net Asset (Liability) £000's
At 31 December 2018				
Unmatched derivatives – interest rate swaps	12,237	67	(6)	61
Derivatives designated as fair value hedges interest rate swaps	364,191	1,968	(534)	1,434
Total recognised derivative assets/(liabilities)	**376,428**	**2,035**	**(540)**	**1,495**
At 31 December 2017				
Unmatched derivatives – interest rate swaps	65,001	25	(122)	(97)
Derivatives designated as fair value hedges interest rate swaps	346,629	1,161	(1,454)	(293)
Total recognised derivative assets/(liabilities)	**411,630**	**1,186**	**(1,576)**	**(390)**

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

13. Loans and advances to customers

	Group 2018 £000's	Group 2017 £000's	Society 2018 £000's	Society 2017 £000's
Loans and advances to customers comprise				
Loans fully secured on residential property	826,288	795,640	826,242	795,583
Loans fully secured on land	197	204	197	204
Fair value adjustment for hedged risk	(1,418)	43	(1,418)	43
	825,067	**795,887**	**825,021**	**795,830**

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

Fair value hedging adjustments of (£1,418k) (2017: £43k) have been made to certain fixed rate mortgages that are in fair value hedging relationships.

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

	Group 2018 £000's	Group 2017 £000's	Society 2018 £000's	Society 2017 £000's
Repayable on demand	207	468	207	468
In not more than three months	6,645	6,455	6,644	6,455
In more than three months but not more than one year	20,436	19,509	20,434	19,507
In more than one year but not more than five years	131,465	123,561	131,453	123,549
In more than five years	667,563	646,193	667,532	646,150
	826,316	**796,186**	**826,270**	**796,129**
Loan impairment allowance	(405)	(478)	(405)	(478)
Fair value adjustment for hedged risk	(1,418)	43	(1,418)	43
Effective Interest Rate adjustment	574	136	574	136
	825,067	**795,887**	**825,021**	**795,830**

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

14. Investments in subsidiary undertakings

	Society 2018 £000's	Society 2017 £000's
Shares	2	2
Loans	22	22
	24	**24**

Leek United Home Loans Limited is a wholly owned direct subsidiary undertaking of the Society. The Society holds £100 of shares in the subsidiary. The company is registered in England and Wales. All shares are £1 ordinary shares. The principal activity of the subsidiary is the purchase and administration of mortgage portfolios. No Director had a beneficial interest in any shares or debentures of the subsidiary undertaking.

Leek United Financial Services Limited is a wholly owned direct subsidiary undertaking of the Society. The Society holds £1,000 shares in the subsidiary. The company is registered in England and Wales. All shares are £1 ordinary shares. The principal activity of the subsidiary is the provision of financial services. No Director had a beneficial interest in any shares or debentures of the subsidiary undertaking.

14. Investments in subsidiary undertakings (continued)

The Mortgage Outlet Limited is a wholly owned direct subsidiary of the Society. The Society holds £1,000 of shares in the subsidiary. The company is registered in England and Wales. All shares are £1 ordinary shares. The principal activity of the subsidiary was the provision of mortgage broking services. No Director had a beneficial interest in any shares or debentures of the subsidiary undertaking. The company ceased trading on 31 December 2009. From 1 January 2010 the company has been dormant. The loan relates to an intercompany balance with The Mortgage Outlet Limited.

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

15. Fixed assets

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

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

15. Fixed assets (continued)

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

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

Equipment, fixtures and fittings include intangible assets with a net book value of £74k (2017: £128k).

The net book value of land and buildings occupied by the Society for its own activities is £1,854k (2017: £1,893k).

15. Fixed assets (continued)

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

	2018 £000's	2017 £000's
Cost	1,470	1,470
Aggregate depreciation based on cost	(415)	(393)
	1,055	**1,077**

16. Other assets

	Group 2018 £000's	Group 2017 £000's	Society 2018 £000's	Society 2017 £000's
Deferred tax asset	268	569	268	569
Amounts due from subsidiary undertakings		-	72	71
Other	6	3	7	3
	274	572	347	643

The elements of deferred taxation are as follows:	Group 2018 £000's	Group 2017 £000's	Society 2018 £000's	Society 2017 £000's
Difference between accumulated depreciation and capital allowances	11	4	11	4
Capital gains on revalued land and building	(96)	(101)	(96)	(101)
Other timing differences	353	666	353	666
	268	569	268	569
Deferred taxation at 1 January	**569**	**1,216**	**569**	**1,216**
Deferred tax charge	(418)	(366)	(418)	(366)
Items in relation to the Statement of Comprehensive Income				
Movements in relation to pension scheme	107	(303)	107	(303)
Movements in relation to debt securities	5	17	5	17
Movements in relation to revalued land and buildings	5	5	5	5
At 31 December	**268**	**569**	**268**	**569**

17. Prepayments and accrued income

	Group 2018 £000's	Group 2017 £000's	Society 2018 £000's	Society 2017 £000's
Prepayments	527	483	527	483
Accrued income	47	42	47	42
	574	**525**	**574**	**525**

18. Shares

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

	Group 2018 £000's	Group 2017 £000's	Society 2018 £000's	Society 2017 £000's
Repayable on demand	704,670	688,223	704,670	688,223
In not more than three months	31,369	32,545	31,369	32,545
In more than three months but not more than one year	83,087	72,320	83,087	72,320
In more than one year but not more than five years	30,970	50,331	30,970	50,331
	850,096	**843,419**	**850,096**	**843,419**

Notes to the Accounts for the year ended 31 December 2018

19. Amounts owed to credit institutions

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

	Group 2018 £000's	Group 2017 £000's	Society 2018 £000's	Society 2017 £000's
Repayable in more than one year but not more than five years	134,176	105,915	134,176	105,915

20. Amounts owed to other customers

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

	Group 2018 £000's	Group 2017 £000's	Society 2018 £000's	Society 2017 £000's
Repayable on demand	18,173	21,131	18,173	21,131

21. Other liabilities

	Group 2018 £000's	Group 2017 £000's	Society 2018 £000's	Society 2017 £000's
Amounts falling due within one year:				
Income tax	-	1	-	1
Corporation tax	75	83	75	83
Other taxation and social security costs	161	134	161	134
Other creditors	342	209	343	210
	578	**427**	**579**	**428**

22. Accruals and deferred income

	Group 2018 £000's	Group 2017 £000's	Society 2018 £000's	Society 2017 £000's
Accrued interest on derivatives	60	188	60	188
Accruals	641	663	635	649
Deferred income	30	33	30	33
	731	**884**	**725**	**870**

23. Provisions for liabilities

Group and Society	Regulated Business £000's	FSCS Levy £000's	Total £000's
1 January 2018	**51**	**196**	**247**
Amount charged/(released) during the year	12	(149)	(137)
Amount utilised during the year	(7)	(32)	(39)
31 December 2018	**56**	**15**	**71**

The regulated business provision is to provide for potential claims against the Group in respect of past sales, the amount charged during the year has been reported in the income statement under fees and commissions payable. The Financial Services Compensations Scheme Levy is explained in note 24.

24. Financial Services Compensation Scheme levy

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

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

Notes to the Accounts for the year ended 31 December 2018

24. Financial Services Compensation Scheme levy (continued)

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

The non-Bradford & Bingley plc loans were repaid by a levy on deposit takers in three roughly equal instalments in 2013, 2014 and 2015. The Bradford & Bingley plc loan of £15.7bn was substantially reduced on 25 April 2017 by the sale of certain Bradford & Bingley mortgage assets, reducing the balance outstanding to £4.7bn. This remaining balance was subsequently repaid on 23 May 2018.

The compensation levy invoice payable in the year ended 31 December 2018 included all interest up to the final settlement date of 23 May 2018 and no further costs are expected in this regard. A supplemental levy is, however, due in relation to the failure of the Dial-A-Cab Credit Union in September 2018 which, at a total cost of £21m, is the largest deposit failure since the 2008 financial crisis.

The Society has recognised in this year's accounts the release of a surplus provision in 2018 of £149k (2017: £161k release) which gives a total levy provision, as at 31 December 2018, of £15k (2017: £196k). This provision is in respect of the Dial-A-Cab Credit Union supplemental levy and has been calculated with reference to the level of the Society's protected deposits at 31 December 2018.

25. Financial instruments

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

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

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

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

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

Instruments used for risk management purposes include derivative financial instruments 'derivatives', which are contracts or agreements whose value is derived from one or more underlying price, rate or index inherent in the contract or agreement, such as interest rates. Derivatives are only used by the Group in accordance with the Building Societies Act 1986 (as amended by the Building Societies Acts 1997 and 2005), to reduce the risk of loss arising from changes in interest rates or other factors specified in the legislation. The Group does not trade in derivatives or use them for speculative purposes.

25. Financial instruments (continued)

Type of derivatives

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

The following table describes the significant activities undertaken by the Group, the related risks associated with such activities and the types of derivatives which are typically used in managing such risks. The Group applies fair value hedging techniques to these. The fair value of these hedges as at 31 December 2018 is shown in note 12.

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

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

Financial Instrument	Terms and Conditions	Accounting Policy
Loans and advances to credit institutions	Variable interest rates Short to medium term maturity	Loans and receivables at amortised cost Accounted for at settlement date
Debt securities	Fixed or variable interest rates Fixed term Short to medium term maturity	Available for sale at fair value Accounted for at settlement date
Loans and advances to customers	Secured on residential property or land Standard contractual term between 5 and 40 years Fixed or variable interest rate	Loans and receivables at amortised cost if not in a hedged relationship Loans and advances held at fair value where in a hedged relationship Accounted for at settlement date
Shares	Fixed or variable term Fixed or variable interest rates Short to medium term maturity	Financial liabilities at amortised cost Accounted for at settlement date
Amounts owed to credit institutions	Variable interest rates Short to medium term maturity	Financial liabilities at amortised cost Accounted for at settlement date
Amounts owed to other customers	Variable interest rates Short to medium term maturity	Financial liabilities at amortised cost Accounted for at settlement date
Derivative financial instruments	Fixed interest paid converted to variable interest received Based on notional value of derivative	Fair value through profit and loss Accounted for at trade date

Notes to the Accounts for the year ended 31 December 2018

25. Financial instruments (continued)

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

Carrying values as at 31 December 2018	**Loans and receivables £000's**	**Financial assets and liabilities at amortised cost £000's**	**Available for Sale £000's**	**Derivatives designated as fair value hedges £000's**	**Unmatched derivatives at fair value £000's**	**Total £000's**
Financial assets						
Cash in hand and balances with the Bank of England	-	104,033	-	-	-	104,033
Loans and advances to credit institutions	8,189	-	-	-	-	8,189
Debt securities	-	-	128,950	-	-	128,950
Derivative financial instruments	-	-	-	1,968	67	2,035
Loans and advances to customers	825,067	-	-	-	-	825,067
Total financial assets	**833,256**	**104,033**	**128,950**	**1,968**	**67**	**1,068,274**
Total non-financial assets						3,082
Total Group assets						**1,071,356**
Financial liabilities						
Shares	-	850,096	-	-	-	850,096
Amounts owed to credit institutions	-	134,176	-	-	-	134,176
Amounts owed to other customers	-	18,173	-	-	-	18,173
Derivative financial instruments	-	-	-	534	6	540
Total financial liabilities	**-**	**1,002,445**	**-**	**534**	**6**	**1,002,985**
Total non-financial liabilities						2,707
General and other reserves						65,664
Total Group reserves and liabilities						**1,071,356**

25. Financial instruments (continued)

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

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

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

	Notes	Level 1 £'000's	Level 2 £'000's	Level 3 £'000's	Total £'000's
As at 31 December 2018					
Financial assets					
Available for Sale					
Debt securities	**11**	128,950	-	-	**128,950**
Derivative financial instruments					
Interest rate swaps	**12**	-	2,035	-	**2,035**
		128,950	**2,035**	**-**	**130,985**
Financial liabilities					
Derivative financial instruments					
Interest rate swaps	**12**	**-**	**540**	**-**	**540**
As at 31 December 2017					
Financial assets					
Available for Sale					
Debt securities	**11**	100,264	-	-	**100,264**
Derivative financial instruments					
Interest rate swaps	**12**	-	1,186	-	**1,186**
		100,264	**1,186**	**-**	**101,450**
Financial liabilities					
Derivative financial instruments					
Interest rate swaps	**12**	**-**	**1,576**	**-**	**1,576**

Notes to the Accounts for the year ended 31 December 2018

25. Financial instruments (continued)

Valuation techniques

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

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

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

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

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

Debt securities

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

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

Credit risk

Credit risk is the risk that the Group incurs a financial loss arising from the failure of a customer or counterparty. The Group structures the level of credit risk it undertakes, by maintaining a credit governance framework involving delegated approval authority levels and credit procedures, the objective of which is to build and maintain risk asset portfolios of high quality. Credit risk in relation to retail customers is governed by limits contained in the Society's Board approved responsible lending policy. The Society's treasury policies mean that tight criteria are set over where the Society is prepared to place excess funds. The criteria include long term ratings published by external credit rating agencies, which are an indication of a company's creditworthiness.

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

	Group 2018 £000's	Group 2017 £000's	Society 2018 £000's	Society 2017 £000's
Cash in hand and balances with the Bank of England	104,033	128,520	104,033	128,520
Loans and advances to credit institutions	8,189	10,050	8,046	9,909
Debt securities	128,950	100,264	128,950	100,264
Derivative financial instruments	2,035	1,186	2,035	1,186
Loans and advances to customers	825,067	795,887	825,021	795,830
Total statement of financial exposure *(1)*	**1,068,274**	**1,035,907**	**1,068,085**	**1,035,709**
Off balance sheet exposure - mortgage commitment *(2)*	38,199	26,859	38,199	26,859
Total	**1,106,473**	**1,062,766**	**1,106,284**	**1,062,568**

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

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

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

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

25. Financial instruments (continued)

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

	Group			
Industry sector	**2018 £000's**	**2018 %**	**2017 £000's**	**2017 %**
Banks	87,228	68%	79,690	80%
Building Societies	9,053	7%	20,074	20%
Central Government	15,454	12%	500	-
Supranationals	17,215	13%	-	-
Total	**128,950**	**100%**	**100,264**	**100%**

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

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

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

Geographic region	**2018 £000's**	**AA %**	**A %**	**BBB %**	**2017 £000's**	**AA %**	**A %**	**BBB %**
United Kingdom	1,236	-	61%	-	1,186	-	100%	-
Europe	799	-	39%					
Total	**2,035**				**1,186**			

There are no impairment charges against any of the Group's treasury assets at 31 December 2018 or 31 December 2017.

Notes to the Accounts for the year ended 31 December 2018

25. Financial instruments (continued)

b) Loans and advances to customers

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

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

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

Credit risk management information is circulated to the Credit Committee on a monthly basis to ensure that the portfolio remains within the Group's risk appetite. It is the Group's policy to ensure good customer outcomes and lend responsibly by ensuring at the outset that the customer can meet the mortgage repayments. This is achieved by obtaining specific information from the customer concerning income and expenditure but also external credit reference agency data. The Group does not have any exposure to the sub-prime market. The maximum credit risk exposure is disclosed in the table on page 65. Loans and advances to customers are predominantly made up of retail loans fully secured against UK property of £826m (2017: £796m) split between residential and buy to let loans. The Group operates through England and Wales with the portfolio well spread throughout the geographic regions. An analysis of the Group's geographical concentration, gross of provisions, is shown in the table below.

		Group			
Geographic region	Note	2018 £000's	2018 %	2017 £000's	2017 %
West Midlands		190,800	23%	191,938	24%
North		143,271	17%	141,818	18%
London		121,983	15%	105,345	13%
East Midlands		94,104	11%	95,020	12%
South West		80,542	10%	73,673	9%
Outer South East		77,392	9%	76,414	10%
Yorkshire & Humberside		53,855	7%	51,508	6%
East Anglia		30,921	4%	31,013	4%
Wales and Northern Ireland		33,251	4%	29,254	4%
Total		**826,119**	**100%**	**795,983**	**100%**
Other loans (see below)		197		203	
	13	**826,316**		**796,186**	

Other loans represent commercial loans secured on land.

25. Financial instruments (continued)

Retail loans

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

	2018 %	2017 %
Repayment – Residential mortgage	59%	60%
Interest Only – Residential mortgage	11%	10%
Repayment – Buy to Let	4%	4%
Interest Only – Buy to Let	26%	26%

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

The average LTV of residential mortgages is 43% (2017: 43%). All residential loans above 80% (2017: 75%) LTV are insured.

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

	Group	
LTV analysis	**2018 %**	**2017 %**
Residential		
0% - 30%	13%	12%
30% - 60%	34%	33%
60% - 80%	33%	31%
80% - 90%	16%	22%
90%-100%	4%	2%
>100%	-	-
Average loan to value of residential mortgage loans	**43%**	**43%**
Average loan to value of new business in the year	**51%**	**62%**

	Group	
LTV analysis	**2018 %**	**2017 %**
Buy to Let		
0% - 30%	4%	3%
30% - 60%	48%	42%
60% - 80%	48%	55%
80% - 90%	-	-
90%-100%	-	-
>100%	-	-
Average loan to value of Buy to Let mortgage loans	**53%**	**54%**
Average loan to value of new business in the year	**52%**	**59%**

The quality of the Group's retail mortgage book is reflected in the number and value of accounts in arrears, by value it is 0.7% (2017: 0.8%), of which only 0.1% (2017: 0.1%) is greater than three months in arrears.

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

25. Financial instruments (continued)

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

Arrears analysis	2018 £000's	2018 %	2017 £000's	2017 %
Not impaired				
Neither past due or impaired	820,512	99%	789,301	99%
Past due up to three months but not impaired	5,162	1%	5,380	1%
Impaired				
Not past due but impaired	-	-	377	<=0.1%
Past due three to six months	422	<=0.1%	1,030	<=0.1%
Past due six to 12 months	134	<=0.1%	98	<=0.1%
Past due over 12 months	86	<=0.1%	-	-
Total	**826,316**	**100%**	**796,186**	**100%**

Value of collateral held	2018 Indexed £000's	2018 Unindexed £000's	2017 Indexed £000's	2017 Unindexed £000's
Neither past due or impaired	1,781,473	1,581,093	1,709,695	1,461,175
Not past due but impaired	-	-	410	398
Past due up to three months but not impaired	12,658	10,160	11,845	9,001
Past due over three months and impaired	1,732	1,174	2,822	1,892

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

Mortgage indemnity guarantee insurance acts as additional security. For mortgage applications from 1st December 2017, it has been taken out for all residential loans where the borrowing exceeded 80% of the value of the property at the point of application. Prior to 1st December 2017 the borrowing threshold was 75% of the value of the property at the point of application. During 2018 the length of time for the Mortgage Indemnity Guarantee period was reduced from 10 years to 7 years, with the option to purchase a further 3 years, if required. The status 'not past due but impaired' includes assets where no balance is overdue, but due to other factors the loan is considered impaired. There are no such assets in 2018. The status 'past due up to three months but not Impaired' includes any asset where a payment due is received late or missed but no individual provision has been allocated. The amount included is the entire loan amount rather than just the overdue amount. The status past due over three months and impaired includes assets where an individual provision has been allocated where appropriate.

At 31 December 2018, the Group and Society had no (2017: nil) properties in possession with an outstanding balance of £nil (2017: £nil) and related collateral of £nil (2017: £nil)

Forbearance

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

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

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

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

25. Financial instruments (continued)

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

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

	31 December 2018 Number	31 December 2017 Number
Type of forbearance		
Reduced payment including interest only concessions	6	1
Arrangements	12	17
Capitalisation	-	-
Payment holidays	3	2
Total	**21**	**20**

In total £1.5m (2017 £1.5m) of loans are subject to forbearance. There is a requirement for a collective impairment allowance in 2018 of £8k (2017 £nil).

25. Liquidity risk

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

Stress tests are undertaken to measure the Society's ability to meet adverse cash flows on a regular basis. This activity is overseen by the Asset and Liability Committee. The Society also complies with the rules issued by the Prudential Regulation Authority concerning the quality of liquid assets held by banks and building societies. As a consequence the Society held £102.7m at 31 December 2018 (2017: £127.4m) on deposit with the Bank of England to ensure ready access to liquid funds should the need arise.

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

31 December 2018	Repayable on demand £000's	Not more than three months £000's	More than three months but not more than six months £000's	More than six months but less than one year £'000's	More than one year but not more than five years £000's	More than five years £000's	Total £000's
Shares	704,670	31,451	32,118	51,442	31,381	-	851,062
Amounts owed to credit institutions	-	306	191	499	135,920	-	136,916
Amounts owed to other customers	18,173	-	-	-	-	-	18,173
Derivative financial instruments	-	154	118	205	140	-	617
Total liabilities	**722,843**	**31,911**	**32,427**	**52,146**	**167,441**	**-**	**1,006,768**
31 December 2017							
Shares	688,223	32,870	26,982	45,773	51,058	-	844,906
Amounts owed to credit institutions	-	85	134	262	107,363	-	107,844
Amounts owed to other customers	21,131	-	-	-	-	-	21,131
Derivative financial instruments	-	425	357	471	(700)	-	553
Total liabilities	**709,354**	**33,380**	**27,473**	**46,506**	**157,721**	**-**	**974,434**

25. Financial instruments (continued)

Market risk

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

The Society hedges interest rate risk by hedging its exposure to fixed mortgage lending tranches. Overall interest rate risk is managed through a statement of financial position gap analysis. The statement of financial position is subjected to a series of stress tests reflecting changes in interest rates on a monthly basis and the results are measured against the risk appetite and operating limits. The Society's exposure to a 2% change in interest rates was 1.9% of capital (£1.3m) on a net present value basis and £0.2m on profit at 31 December 2018 (2017: 1.6%, £1.0m, £0.7m). In addition, interest rate basis risk is controlled by a Board approved risk appetite. Both are reported to the monthly ALCO meeting and to the Board.

Derivative financial instruments

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

	2018 Assets £000's	2018 Liabilities £000's	2017 Assets £000's	2017 Liabilities £000's
Instrument type:				
Interest rate swaps	2,035	540	1,186	1,576
Total	**2,035**	**540**	**1,186**	**1,576**

26. Retirement benefit obligations

The Society operates a defined benefit scheme in the UK. This is a separate trustee administered fund holding the pension scheme assets to meet long term pension liabilities. A full actuarial valuation is currently being carried out at 24 April 2018 and preliminary results have been updated to 31 December 2018 by a qualified actuary, independent of the scheme's sponsoring employer. The major assumptions used by the actuary are shown on page 74.

This most recent completed actuarial valuation at 24 April 2015 showed a deficit of £3,814,000. The Society agreed with the trustees that it will aim to eliminate the deficit over a period of five years from 24 April 2015 by the payment of £765,000 before 31 March 2016 and thereafter annual contributions of £765,000 to be paid for four years until March 2020 in respect of the deficit. With effect from April 2017, the employer increased deficit contributions to a rate of £2 million per annum whilst reserving the right to revert to the lower payment of £765,000 per annum if desired. In addition, and in accordance with the actuarial valuation, the Society has agreed with the trustees that it will meet expenses of the scheme and levies to the Pension Protection Fund. The Scheme closed to accrual, but retained salary linkage to accrued benefits, with effect from 24 April 2013.

The English High Court ruling in Lloyds Banking Group Pension Trustees Limited v Lloyds Bank plc and others was published on 26 October 2018, and held that UK pension schemes with Guaranteed Minimum Pensions

26. Retirement benefit obligations (continued)

(GMPs) accrued from 17 May 1990 must equalise for the different effects of these GMPs between men and women. The case also gave some guidance on related matters, including the methods for equalisation.

The trustees of the scheme will need to obtain legal advice covering the impact of the ruling on this scheme, before deciding with the employer on the method to adopt. The legal advice will need to consider (amongst other things) the appropriate GMP equalisation solution, whether there should be a time limit on the obligation to make back payments to members (the "look-back" period) and the treatment of former members (members who have died without a spouse and members who have transferred out for example).

The benefit obligations have been adjusted assuming the following:

- The minimum allowable method will be applied to past and future benefit payments
- There will be no limit on the "look-back" period for rectification
- No allowance for members who no longer have GMP liabilities within the scheme (members who have died without a spouse and members who have transferred out for example).

The GMP allowance, of £37.5k, has been estimated based on average impacts for schemes with similar service periods and benefit structures.

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

	2018 £000's	2017 £000's	2016 £000's
Fair value of scheme assets	38,408	40,725	41,295
Present value of scheme liabilities	(39,735)	(43,384)	(47,289)
Deficit in scheme	**(1,327)**	**(2,659)**	**(5,994)**

As part of the 2018 valuation, it was established that an insured annuity was not included in the pension scheme total assets and liabilities. As a result, a gross up was required of the pension assets and liabilities to include the insured annuity. The comparative information for 2017 and 2016 has been restated (£2,459k and £2,574k respectively) and corrected by including the insured annuity in the defined benefit assets and liabilities. The impact on the Income Statement and the Statement of Financial Position in both current and prior year is nil.

Reconciliation of opening and closing balances of the defined benefit obligation

	2018 £000's	2017 £000's
Defined benefit obligation at start of year	43,384	47,289
Current service cost	59	58
Interest expense	1,043	1,212
Actuarial (gains)/losses	(1,388)	(324)
Benefits paid and expenses	(3,363)	(4,851)
Defined benefit obligation at end of year	**39,735**	**43,384**

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

	2018 £000's	2017 £000's
Fair value of scheme assets at start of year	40,725	41,295
Interest income	1,002	1,073
Actuarial gains/(losses)	(2,015)	1,458
Contributions by Society	2,059	1,750
Benefits paid	(3,363)	(4,851)
Scheme assets at end of year	**38,408**	**40,725**

The actual return on the plan assets over the year ended 31 December 2018 was (£1,013k) (2017: £2,531k).

26. Retirement benefit obligations (continued)

Total defined benefit costs recognised in the Income Statement

	2018 £000's	2017 £000's
Current service cost	59	58
Net interest cost	41	139
Defined benefit cost recognised in profit and loss account	**100**	**197**

Defined benefit costs recognised in Other Comprehensive Income

	2018 £000's	2017 £000's
Return on plan assets (excluding amounts included in net interest cost) – (loss)/gain	(2,015)	1,458
Experience gains and losses arising on the plan liabilities – (loss)/gain	(1,098)	192
Effects of changes in the demographic and financial assumptions underlying the present value of the plan liabilities: gain	2,486	132
Total amount recognised in Other Comprehensive Income – (loss)/gain	**(627)**	**1,782**

Assets

	2018 £000's	2017 £000's	2016 £000's
Multi Asset Credit Funds	2,001	-	-
Corporate bonds	2,340	2,273	-
Diversified growth funds	9,457	9,414	12,047
Liability driven investment funds	8,685	5,774	2,055
Equity linked bond funds	-	6,462	10,286
Insured pensioners	15,762	16,586	16,843
Other	163	216	64
Total	**38,408**	**40,725**	**41,295**

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

26. Retirement benefit obligations (continued)

Assumptions

	2018 % per annum	2017 % per annum	2016 % per annum
Rate of discount	2.80	2.50	2.70
Retail Price Index inflation	3.45	3.40	3.55
Consumer Price Index inflation	2.45	2.40	2.55
Salary growth	4.45	4.40	4.55
Allowance for revaluation of deferred pensions of CPI or 5% p.a. if less	2.45	2.40	2.55
Allowance for pension payment increases of RPI or 5% p.a. if less	3.45	3.40	3.55
Allowance for pension in payment increases of RPI or 2.5% p.a. if less	2.20	2.40	2.20
Allowance for commutation of pension for cash at retirement	80% of Post A Day on current factors	80% of Post A Day on factors 15% higher than those currently in place	80% of Post A Day on factors 15% higher than those currently in place

The mortality assumptions adopted at 31 December 2018 imply the following life expectancies:

Male retiring at age 60 in 2018	25.6 years (2017: 25.7 years)
Female retiring at age 60 in 2018	27.6 years (2017: 27.7 years)
Male at age 60 in 2038	26.8 years (2017: 26.9 years)
Female retiring at age 60 in 2038	28.9 years (2017: 29.0 years)

The best estimate of contributions to be paid by the Society to the scheme for the period commencing 1 January 2019 is £2,060,000. This assumes that the Society continues to pay contributions at a rate of £166,667 per month and includes £60,000, in addition, in respect of expected death in service premiums, which will be paid to the insurer directly by the Society.

27. Cash and cash equivalents

	Group 2018 £000's	Group 2017 £000's	Society 2018 £000's	Society 2017 £000's
Cash in hand and balances at Bank of England	104,033	128,520	104,033	128,520
Loans and advances to credit institutions	7,669	8,619	7,526	8,478
At 31 December	**111,702**	**137,139**	**111,559**	**136,998**

28. General reserve

	Group 2018 £000's	Group 2017 £000's	Society 2018 £000's	Society 2017 £000's
At 1 January	**62,099**	**56,894**	**62,009**	**56,789**
Profit for the financial year	3,146	3,725	3,149	3,740
Net gain/(loss) recognised directly in Other Comprehensive Income	(520)	1,480	(520)	1,480
At 31 December	**64,725**	**62,099**	**64,638**	**62,009**

As set out on page 11, the general reserves along with the revaluation reserve and available for sale reserve constitute the Society's Tier 1 Capital for regulatory purposes.

29. Revaluation reserve

	Group 2018 £000's	Group 2017 £000's	Society 2018 £000's	Society 2017 £000's
At 1 January	**1,012**	**1,007**	**1,012**	**1,007**
Tax on revaluation reserve	5	5	5	5
At 31 December	**1,017**	**1,012**	**1,017**	**1,012**

The revaluation reserve arises because until 31 December 1999, the Society revalued properties annually. From 31 December 2000, the Society adopted the transitional arrangements under FRS15 to maintain the book value of fixed assets at their previously revalued amounts. The resultant potential gain results in a capital gain for deferred tax purposes which is recognised under FRS 102.

30. Available for Sale reserve

	Group 2018 £000's	Group 2017 £000's	Society 2018 £000's	Society 2017 £000's
At 1 January	**47**	**126**	**47**	**126**
Net gains/(losses) from changes in fair value	(130)	(96)	(130)	(96)
Deferred tax on Available for Sale reserve	5	17	5	17
At 31 December	**(78)**	**47**	**(78)**	**47**

Notes to the Accounts for the year ended 31 December 2018

31. Country by Country Reporting

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

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

Nature of the Society's activities

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

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

Total turnover, profit before tax and average number of employees

Total turnover for the year ended 31 December 2018 was £13,377k (2017: £13,145k). Total turnover is defined as net interest income plus fees and commissions receivable (net of fees and commissions payable).

Profit before tax for the year ended 31 December 2018 was £3,819k (2017: £4,500k). Corporation tax paid during the year ended 31 December 2018 was £263k (2017: £626k).

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

The average monthly number of employees on a full-time equivalent basis during the year ended 31 December 2018 was 173 (2017: 162).

Public subsidies received

The Society received no public subsidies in the year ended 31 December 2018 (2017: nil).

Annual Business Statement

Annual Business Statement for the year ended 31 December 2018

	2018 %	2017 %	Statutory limit %
Statutory percentages			
Calculated in accordance with the Building Societies Act 1986 as amended by the Building Societies Acts 1997 and 2005			
Lending limit	0.20	0.32	25.0
Funding limit	15.2	13.09	50.0

The lending limit measures the proportion of business assets not in the form of loans fully secured on residential property.

The funding limit measures the proportion of shares and borrowings not in the form of shares held by individuals.

Business assets are the total assets of the Group plus provision for loan impairment, less fixed assets, and liquid assets.

Loans fully secured on residential property is the amount of principal owing by borrowers and interest accrued not yet payable. This is the amount shown in the Group balance sheet plus provision for loan impairment.

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

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

	2018 %	2017 %
Other Percentages		
Gross capital as a percentage of shares and borrowings	6.55	6.51
Free capital as a percentage of shares and borrowings	6.37	6.30
Liquid assets as a percentage of shares and borrowings	24.06	24.61
Profit on ordinary activities after taxation as a percentage of year end total assets	0.29	0.36
Management expenses as a percentage of mean total assets	0.97	0.93

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

Free capital represents the sum of the general reserve, the revaluation reserve, the available for sale reserve and collective loss provision less fixed assets.

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

Liquid assets represent the total of cash in hand, loans and advances to credit institutions and debt securities.

Mean total assets is the average of the 2017 and 2018 total assets. Management expenses represent the aggregate of administrative expenses and depreciation.

Annual Business Statement (continued)

Information relating to directors as at 31 December 2017

Name / Date of Birth	Occupation	Date of Appointment	Other Directorships
Keith Abercromby BSc, FIA 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

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BUILDING SOCIETY

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