LEEK Building Society

ANNUAL REPORT & ACCOUNTS 2022

IN THIS REPORT

Leek Building Society is a trading name of Leek United Building Society, which is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority with firm reference number 100014. Our details can be found on the Financial Services Register at https://register.fca.org.uk/s/.
Leek United Building Society's address for service is 50 St. Edward Street, Leek, Staffordshire ST13 5DL.

Established 1863

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

Tel: 0800 093 0004

Email: finance@leekbs.co.uk

leekbs.co.uk

Registered Number 323B

OUR PERFORMANCE HIGHLIGHTS

Total Assets
£1.24bn

Regulatory Capital
£75.4m

Underlying Profit Before Tax
£5.0m

Profit Before Tax
£9.6m

Mortgage Balances
£888m

Shares & Deposits
£1.01bn

98%
Customer Satisfaction

97%
Proud Employees

Over £100k
Donated to Charities & Community Causes

Balance sheet	2022	2021
Total Assets	£1.24bn	£1.18bn
Mortgage Balances	£888m	£869m
Shares and Deposits	£1.01bn	£990m
Operating performance		
Underlying Profit Before Tax	£5.0m	£2.5m
Profit Before Tax	£9.6m	£3.6m
Net Interest Margin	1.47%	1.12%
Management Expenses Ratio	1.07%	0.94%
Mortgage Arrears	0.11%	0.21%
Financial strength		
Regulatory Capital	£75.4m	£70.2m
Total Capital Ratio	18.4%	18.1%
Liquid Assets	£308m	£298m

Explanations for the above terms can be found in the Strategic Report on page 18.

RACHEL COURT

CHAIR

CHAIR'S STATEMENT

I am delighted to introduce your Society's Annual Report and Accounts for 2022, a challenging but extremely positive year of which I am very proud. Our continuing focus on our mutual values has supported our strong financial performance as well as extremely high member and colleague satisfaction which is all the more pleasing as this was achieved while we continued our strategic investment programme which will underpin our success and sustainability for many years to come.

Significant further detail regarding the Society's financial performance, strategy and risk management can be found throughout this annual report, in particular in the Chief Executive's Review, Strategic Report and Risk Management Report.

"Our continuing focus on our mutual values has supported our strong financial performance as well as extremely high member and colleague satisfaction which is all the more pleasing as this was achieved while we continued our strategic investment programme which will underpin our success and sustainability for many years to come."

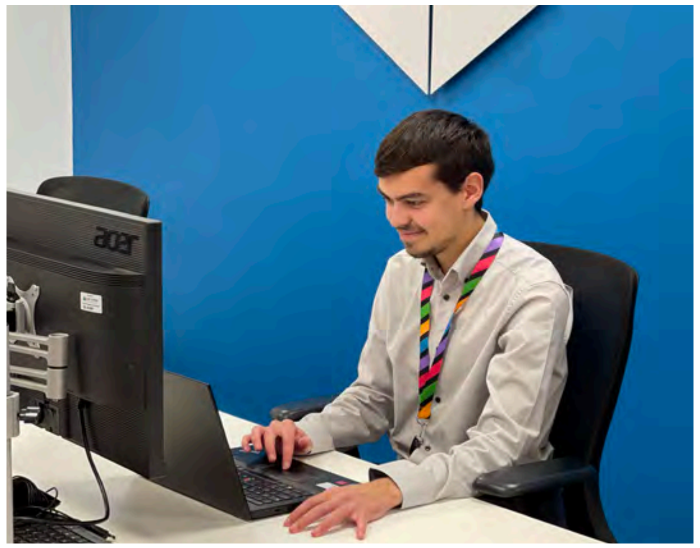
Economic and Market Conditions

There is no doubt that in 2022 there have been momentous developments for the United Kingdom and the world at large to reflect on. Just as we were recovering from the pandemic, Europe saw its first significant conflict in over 30 years, with the Russian invasion of Ukraine and the resulting economic fall-out causing impacts the world over. In the UK, we have been hit hard by the cost-of-living crisis that has emanated in the main from higher wholesale energy prices and wider increases in inflation. We have also seen substantial increases in base rate as the Bank of England looked to control this higher inflation which for some has further challenged their financial resilience as they have faced higher borrowing costs. Over the second half of the year, the country's economic outlook became even more uncertain with the potential for a recession in the course of 2023.

The housing market remained reasonably resilient during the year despite the headwinds created by the cost-of-living crisis, rising interest rates and the deteriorating economic outlook. The level of market lending for house purchases cooled in comparison to 2021, which benefited from stamp duty concessions and other factors, but nonetheless was higher than pre-pandemic numbers. There was additionally a good level of remortgage activity which was in part driven by buyers looking to lock-in low rate deals as increases in base rate translated into higher mortgage rates. However, there was a notable slowdown in the latter part of the year which was influenced by a combination of higher interest rates, ongoing high inflation and concerns that property prices would fall.

Against this backdrop, it is good to report that the Society's gross and net mortgage lending showed an improvement from the levels achieved in the prior year.

Base rate finished the year at 3.50% and increased further to 4.0% in February 2023. In addition to the resulting higher mortgage rates, it is now widely anticipated that property



prices will reduce, although it is important to note that this should be considered in the context of prices rising by almost 25% since the start of 2020.

In terms of our members' ability to repay their borrowings, higher interest rates have not been good news for those on variable rates or for those reaching the end of their fixed rate mortgage term. I am pleased that we were able to soften the blow for those on variable rates by only passing on approximately half of the Bank of England base rate increases, while we continued to offer competitively priced products for all customers. It is positive to report that we have not yet seen an increase in mortgage arrears, a result that has undoubtedly been supported by our prudent approach to underwriting and customer affordability. However, there is naturally a heightened risk that higher arrears will materialise in 2023 as challenging conditions persist. I would like to emphasise that we have a range of resources to support any members who are in financial difficulty or indeed who are concerned that they may experience difficulties in the future. Please get in touch with us if you feel this may apply to you.

The savings market experienced a range of dynamics during 2022. Activity was relatively subdued in the first half of the year as households released the funds accumulated during the pandemic, including to support their higher day to day living costs caused by higher inflation and interest rates. However, the improved savings rates on offer in the second half of the year led to increased levels of market activity and balances, the bulk of which centred on fixed rate savings products. In the same way that we sought to support our mortgage members as interest rates rose, the Society responded in a fair manner to Bank of England base rate increases, offering a highly competitive suite of variable and fixed rate savings, whilst balancing the interests of variable rate mortgage and savings customers.

This approach resulted in solid savings inflows, with the Society exceeding the £1 billion threshold for total savings balances for the first time, leading to a healthy surplus liquidity position at year end. This surplus is expected to reduce over the coming years as we use it to fund our planned mortgage book growth and to manage wholesale funding maturities.

"In the same way that we sought to support our mortgage members as interest rates rose, the Society responded in a fair manner to Bank of England base rate increases, offering a highly competitive suite of variable and fixed rate savings, whilst balancing the interests of variable rate mortgage and savings customers."

I am particularly pleased to report that our online savings platform went live towards the end of the year, allowing both new and existing members to open new accounts with us, as well as to manage their existing accounts online if they so wish. This is the result of a significant investment in new technology by the Society, and we will now move on to invest substantially in the technology supporting our mortgage application process, which will significantly improve the experience for our new borrowers. Many of you will also have seen the benefit of the investment we've made in modernising and improving our branch premises. I'm delighted that we've been able to bring these investments to fruition, notwithstanding the market headwinds around us.

"I am particularly pleased to report that our online savings platform went live towards the end of the year, allowing both new and existing members to open new accounts with us, as well as to manage their existing accounts online if they so wish."

The economic prospects for the year ahead remain difficult to predict. It is unclear how long inflation will remain at its current elevated levels but there is expected to be considerable ongoing pressure on living costs which, combined with any increase in unemployment and further interest rate rises, could lead to mortgage repayment difficulties as well as to lower housing market activity and prices. However, your Society has repeatedly demonstrated its resilience in the past and I am more confident than ever that we are robustly positioned to navigate the challenges we may face.

Our Board

A number of changes to our Board have taken place during the year.

In terms of executive management, Darren Ditchburn joined the Society in January as Deputy Chief Executive, replacing former Operations Director, John Kelly. Darren has significant experience within the building society sector and is responsible for IT & Change, Customer Operations and the Branch Network. In November, Steve Clarke became the Society's Finance Director following the resignation of Robert Broadbent. Steve also brings with him a wealth of relevant sector experience. Darren and Steve were co-opted onto the Board in June and November respectively following their regulatory approvals.

Following Richard Goddard's departure, Jane Kimberlin took over as Senior Independent Director in March. Jane has been a Non-Executive Director with the Society for more than six years and serves on our Risk, Remuneration and Nominations Committees.

Keith Abercromby, Non-Executive Director and Chair of the Society's Board Audit Committee, will step down from the Board in April 2023. Keith has played an important part in the embedding of the Society's strong audit framework and risk management culture and will be very greatly missed. We wish Keith all the very best for the future.

As part of our succession planning in anticipation of Keith Abercromby's departure, the Board initiated a recruitment process during 2022 to identify a new Non-Executive Director. Felicity Bambery, who brings extensive relevant experience, including as a senior partner in a tier one audit firm, was selected and was co-opted onto the Board in July. Felicity has since then been serving as a member of both the Board Audit Committee and Board Risk Committee and subject to regulatory approval, she will take over as Chair of the Audit Committee from April 2023 onwards.

Thank You

Against the difficult and uncertain backdrop I have outlined, we have again found the Society's resilience and spirit being tested; and once again, I'm proud to say that we have not been found wanting. I would like to record my thanks to my fellow Board members, the broader management team and to all my colleagues across the Society for your continued exceptional efforts to ensure Leek Building Society remains strong and successful. Well done on performing so admirably and with such character.

But most of all, I would like to say thank you to you, our members, for your exceptional support and loyalty which I assure you we never take for granted. As we proudly approach the milestone of 160 years of service to the communities in which we operate, I firmly believe that together we can look to the future with tremendous optimism. Meanwhile, I offer you my best wishes for your wellbeing throughout the year ahead.

Rachel Court
Chair
27 February 2023

> **"Most of all, I would like to say thank you to you, our members, for your exceptional support and loyalty which I assure you we never take for granted. As we proudly approach the milestone of 160 years of service to the communities in which we operate, I firmly believe that together we can look to the future with tremendous optimism."**

WHAT OUR MEMBERS SAY

"Customer Service is outstanding. The society has a great reputation across the financial services sector."

"The staff are friendly and knowledgeable. Communications are great, always plenty of notice with jargon-free letters."

"Great customer service, great refurbishments, great products."

"The new layout is lovely. The staff are so nice and deliver a fantastic service with great values."

"Great friendly staff that are always happy to help."

Overall customer satisfaction rating 98%

ANDREW HEALY

CHIEF EXECUTIVE

CHIEF EXECUTIVE'S REVIEW

As I look back on 2022, I am immensely proud that despite the challenging economic and market conditions which prevailed, the Society delivered robust financial results, strong risk management standards and high customer and staff satisfaction whilst continuing to invest for the long-term benefit of our members.

We entered the year with covid-19 still lingering, uncertain as to what lay ahead. Thankfully we have been able to restore a significant degree of normality, routine and predictability to our lives. However, the year was dominated by the cost-of-living crisis which resulted in high inflation, rising interest rates and deteriorating economic conditions. It is all the more satisfying, therefore, that we have emerged even stronger than before.

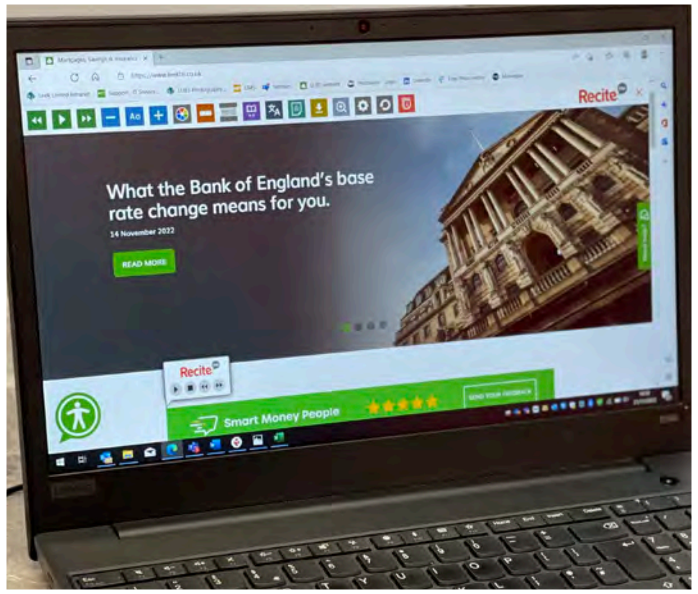
> "I am immensely proud that despite the challenging economic and market conditions which prevailed, the Society delivered robust financial results, strong risk management standards and high customer and staff satisfaction whilst continuing to invest for the long-term benefit of our members."

Resilient financial performance

As set out in the Strategic Report which follows my review, the Society recorded a solid financial performance in 2022.

In terms of profitability, the year-on-year improvement was primarily due to increases in the Bank of England base rate and continued mortgage growth. We do not seek to maximise profits but it is in the interest of the Society's long-term competitiveness and sustainability that sufficient profits are generated to maintain our strong capital position and financial resilience and to ensure there is ongoing investment in our business. The Strategic Report addresses how recent years have seen below historical average profit levels due to the ultra-low prevailing interest rate environment, industry margin compression and the impacts of the pandemic. The significant increases in base rate across the year improved the yield generated on our asset portfolios and helped to return the Society's profitability to the historical level required.

The Society's cost base increased against the prior year and whilst this partly reflects the challenging inflationary pressures, most of the increase was planned as we continued to invest in our business.



Rising interest rate environment – supporting our Members

As a mutual, what sets us apart is that we do not have shareholders, so we can – and do – look at everything from the perspective of how we can best support our members. The period between December 2021 and December 2022 saw nine increases in the Bank of England base rate as it rose from 0.25% to finish the year at 3.50%. As reported in our Chair's Statement, the Society took a very fair and balanced approach to the rising interest rate environment and sought to pass as little as possible of these base rate increases on to mortgage borrowers whilst providing highly competitive fixed and variable rate products to saving members. We also continued to provide preferential loyalty products to existing savings members with higher rates of interest than those on offer to new customers.

With further base rate increases expected during 2023, please be assured that we will continue to stick to these principles.

I would like to use this opportunity to remind members that on the Society's website, there are a range of helpful resources which include who to speak to if you are struggling with your mortgage repayments, tips on ways you may be able to reduce your bills and details of external agencies which offer free help and support.

> "The Society took a very fair and balanced approach to the rising interest rate environment and sought to pass as little as possible of these base rate increases on to mortgage borrowers whilst providing highly competitive fixed and variable rate products to saving members. We also continued to provide preferential loyalty products to existing savings members with higher rates of interest than those on offer to new customers."

Mortgages

The Society's gross mortgage lending increased to £186m (2021: £174m) which contributed to our total mortgage book of £888m (2021: £869m). Net lending of £42m (2021: £14m) was achieved.

Our lending proposition remains focussed on providing a range of competitive fixed and discounted rate mortgages to owner occupiers and supporting First Time Buyers to take their first step on the housing ladder. In terms of Buy to Let landlords, we significantly enhanced our offering during the year by introducing both Holiday Let and Limited Company Buy to Let mortgage products.

I am pleased to report that our mortgage book continues to be of high quality with below industry average arrears levels. The number of mortgages that are in arrears by the equivalent of three or more monthly repayments totalled 8 accounts at 31 December 2022, representing just 0.11% of mortgage accounts (2021: 15 accounts, 0.21%). There were 2 cases in arrears of 12 months or more at 31 December 2022 (2021: 3 cases). While it is inevitable that the rising cost of living and higher interest rates will place pressure on borrowers moving forward, we believe our prudent lending policy, which includes robust affordability tests at the outset of our lending decisions, will provide a significant shield against these impacts.

A key component of our lending strategy is that we do not use automatic credit scoring to make our mortgage decisions. In line with our commitment to personal, flexible service that meets the needs of members, all mortgages are individually reviewed and underwritten by our experienced credit team. As an additional protection, all lending over 80% LTV at inception is covered by mortgage indemnity insurance against losses incurred if a property were to be taken into possession in the first seven years.

Our commitment, competitiveness and high standards in the mortgage arena were recognised during the year. Smart Money People named the Society as the top-rated building society, and the joint highest financial institution, for mortgage broker satisfaction in its Mortgage Lender Benchmark Survey for the first half of 2022. In addition, the Society was Highly Commended in both the Best Variable Rate Mortgage Lender and Best Buy to Let Lender categories at the national Personal Finance Awards.

Savings

Savings balances continued to grow, with total balances at the end of 2022 of £1,011m (2021: £990m). This is the first time we have crossed the £1 billion threshold, a landmark achievement that demonstrates just how important our members are to our business.

> **"Savings balances continued to grow, with total balances at the end of 2022 of £1,011m (2021: £990m). This is the first time we have crossed the £1 billion threshold, a landmark achievement that demonstrates just how important our members are to our business."**

As referenced above, we ensure our existing members are rewarded with exclusive loyalty products which offer higher rates of interest than those available to new customers. In November, we launched our first online savings service, Leek Online, where members are now able to conveniently open and manage their accounts safely and securely online.

But of course, we know that online services are not for everyone and we remain deeply committed to our local high streets as evidenced by our ongoing investment in upgrading our branch network in order to continue to provide members with high quality face to face services and access to cash.

As living costs rise, we recognise that it may be more difficult to set money aside but encouraging a savings habit remains a key focus for the Society. During the year, we launched a new regular saver account where members can save a small amount each month to help with those unexpected bills or special occasions.

> **"In November, we launched our first online savings service, Leek Online, where members are now able to conveniently open and manage their accounts safely and securely online.**
>
> **But of course, we know that online services are not for everyone and we remain deeply committed to our local high streets as evidenced by our ongoing investment in upgrading our branch network in order to continue to provide members with high quality face to face services and access to cash."**

Investment Programme – investing in the Society's future

2022 saw the Society's investment programme deliver a number of benefits for members.

As many financial institutions closed the doors of their branches, we continued to go against the grain by investing in our branch network. Following the refurbishment of our flagship branch at Leek Derby Street in 2021, we completed refurbishments in our Uttoxeter, Cheadle, Ashbourne and Leek St Edward Street branches. At the same time, we made a small change to the Society's name whereby we dropped the word 'United' to become known as 'Leek Building Society'. The timing of this change, which had its roots in research among existing and

prospective new members, avoided the additional costs that would have been incurred had we waited until the completion of our branch refurbishment programme to effect it.

The majority of member feedback in relation to the new, modern look and feel of our branches has been very positive and the Board has approved further investment in all remaining branches. We aim to complete our refurbishment programme during the first half of 2023, beginning with our branches in Market Drayton and Newcastle.

We also invested in the refurbishment of our Head Office environment for staff and members, whilst significantly enhancing accessibility. At the same time, we improved our environmental footprint by, for example, installing highly efficient LED lighting which will reduce our overall energy usage and carbon emissions.

We have been working hard to expand the services available to members and as stated above, we have launched Leek Online which enables members to manage their money safely and securely with increased convenience. This includes opening new savings accounts, viewing important information such as transactions and interest rates, and sending faster payments to a nominated bank account. Mortgage holders can also view information relating to their mortgage including outstanding balance, interest rate and transactions.

We are continuing to invest in our digital capabilities and the year ahead will see particular focus on our mortgage application process. Following a comprehensive supplier selection process, we have chosen an external, highly experienced technology partner to support us in delivering a best-in-class mortgage customer experience by the end of 2023.

> **"We are continuing to invest in our digital capabilities and the year ahead will see particular focus on our mortgage application process."**

Our Service

In June 2022, we introduced a new way of collecting feedback on our service standards through an independent organisation which is widely recognised across the mutual sector, Smart Money People. I am proud to advise that all our key service measures were rated by members as strong and that our overall service score for 2022 was 98%, which compares favourably with peers. The Net Promoter Score, which is a widely used measure of whether people would recommend us to their family, friends and colleagues, was also very positive at 89.

> **"I am proud to advise that all our key service measures were rated by members as strong and that our overall service score for 2022 was 98%."**

As mentioned earlier, the Society was rated by mortgage brokers as 'Best Building Society' in Smart Money People's Mortgage Lender Benchmark Survey for the first half of 2022 where we were recognised for having friendly and helpful staff, flexible lending criteria, competitive products and for being easy to do business with.

We pride ourselves on delivering outstanding customer service and whilst we are extremely proud of these results, we are not resting on our laurels. We will continue to seek to improve customer experience across all mediums.

During 2023, the Financial Conduct Authority (FCA) will introduce a new Consumer Duty for financial services firms. The aim of the Duty is to increase the standard of consumer protection and drive a healthy and successful financial services system in which firms can thrive and consumers can make informed choices about financial products and services. As a member-owned institution, we place the customer at the heart of everything we do and we look forward to meeting these new principles whilst continuing to deliver good customer outcomes.

Member Engagement

We recognise the importance of communicating effectively with our members and acting on your feedback. During 2022, we used a range of methods to promote active participation and engagement with members, including our annual governance survey in April and regular real-time member feedback via the independent Smart Money People platform which, as mentioned above, was launched in June. Such feedback, whilst generally extremely positive, has always been carefully listened to and acted upon where appropriate.

There were consistent website updates throughout the year, including information to support members with the cost-of-living crisis. A member newsletter was issued to savings members in September which included details of such support as well as the Society's name change, investment in branches, the launch of online savings, an update on our charitable foundation and our latest savings interest rates. A second newsletter was issued to mortgage members in early 2023.

> **"During 2022, we used a range of methods to promote active participation and engagement with members, including our annual governance survey in April and regular real-time member feedback via the independent Smart Money People platform."**

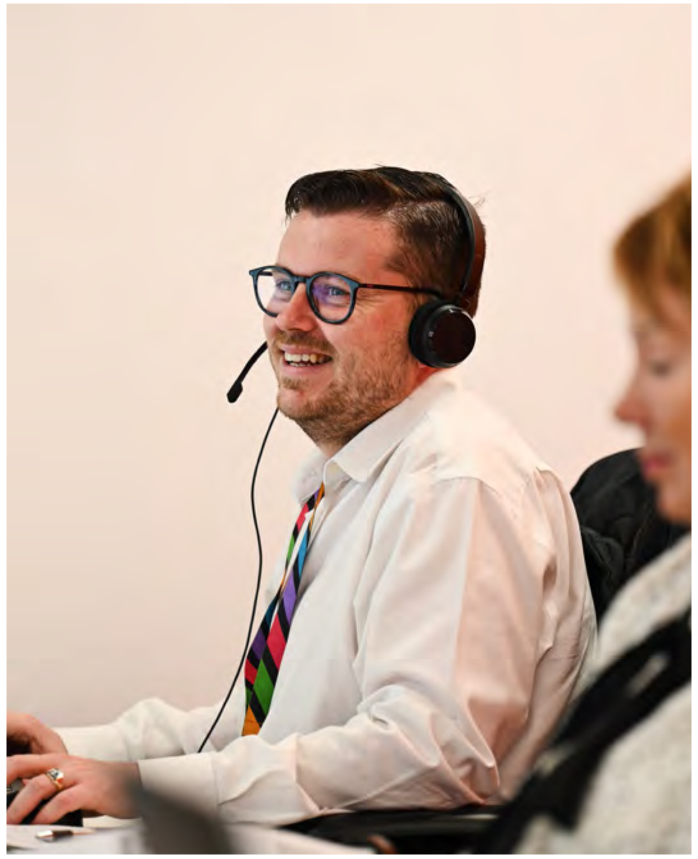
In response to member feedback, we extended our branch opening hours to better align with demand at those branches which were refurbished during 2022 and we will continue to review our opening hours throughout 2023.

Our People & Culture

We fully recognise the pivotal importance of our people to our excellent customer service, high risk management standards and immensely positive culture. An organisational structure is in place which supports the delivery of our strategic plan and this is augmented by appropriate succession planning and staff development.

A real strength of our Society is the extent to which business decisions are examined not only through the lens of our members but also from the perspective of our people and our values. This has helped to engender strong, well-evidenced progress in the culture of the Society and the morale of our staff. I am proud to report that our year-end staff survey indicated that more than 95% of staff believe the Society is run on strong values and principles, are proud to work for us and would recommend us as an employer of choice to others. Almost 100% of staff felt we showed the right level of care and compassion towards them in our handling of the cost-of-living crisis. We firmly believe that this positive culture, allied to our strong overall employee proposition, makes us one of the most attractive organisations to work for in our sector.

> **"I am proud to report that our year-end staff survey indicated that more than 95% of staff believe the Society is run on strong values and principles, are proud to work for us and would recommend us as an employer of choice to others. Almost 100% of staff felt we showed the right level of care and compassion towards them in our handling of the cost-of-living crisis. We firmly believe that this positive culture, allied to our strong overall employee proposition, makes us one of the most attractive organisations to work for in our sector."**



Despite the extraordinary conditions within the employment market during 2022, our impressive culture has supported an enviable level of staff retention and has helped the recruitment of a number of new, high calibre people. Hybrid working has been an area of focus following the end of restrictions linked to the pandemic. We have taken a careful, measured approach to returning to the office with a number of testing phases to help inform our decisions and throughout this process, the preservation of our exceptional culture has been front of mind.

Substantial advances were also made with our employee proposition during the year, evidencing our deep ongoing commitment to staff welfare and to supporting our people. The introduction of funded health screenings has proven to be a greatly valued employee benefit. We also made improvements to remuneration which were appropriately cognisant of the challenges our staff faced due to the cost-of-living crisis.

Equality, diversity and inclusion (EDI) remains an important area of focus for the Society. As stated in the Board Nominations Committee report, we have developed a comprehensive strategy to make our Society more diverse, inclusive and reflective of the communities we serve. As part of this work, we have established a staff EDI Forum made up of a diverse range of colleagues from across the business.

The Society continues to be accredited by the Good Business Charter. This consists of ten components that link to responsible business behaviour including diversity and inclusion, real living wage, fair hours and contracts, employee well-being, employee representation, environmental responsibility, paying fair tax, commitment to customers, ethical sourcing, and prompt payment.

> **"The Society continues to be accredited by the Good Business Charter. This consists of ten components that link to responsible business behaviour including diversity and inclusion, real living wage, fair hours and contracts, employee well-being, employee representation, environmental responsibility, paying fair tax, commitment to customers, ethical sourcing, and prompt payment."**

GBC Good Business Charter Accredited

Community

A key component of the Society's purpose is to be socially responsible and to make a positive difference to the local community. Despite the challenges of an unprecedented year, we continued to strongly support local community groups and charities and in total, over £100,000 was donated to such causes. This included funds generated by members through our affinity savings account range.

The key community highlight for the year was undoubtedly the launch of our Charitable Foundation in April. This has been set up to increase the scale and scope of our charitable giving and has already started to make a real impact locally. The Foundation's primary function is to provide grants of between £500 and £5,000 to local charities and community groups and in the months since its launch, more than £13,000 has already been donated to a number of worthy causes.

Leek Building Society Charitable Foundation

We also supported our local communities through staff using their paid volunteering days. Colleagues dedicated 95 days during the year to local initiatives ranging from landscaping community gardens to facilitating an industry day at a local school.

We went further with local sponsorships in 2022 than ever before. We developed partnerships with a broad range of local clubs and organisations that are fundamental pillars of our communities and which play an important role in the lives of local people.

Finally, I am delighted to advise that we have set a target to provide £500,000 over the next five years to charities and community groups through grants, donations and sponsorships.

The Environment

A further key measure of the extent to which we are socially responsible is of course our commitment to the environment. In 2022, we made significant progress with the development of our Environmental, Social and Governance (ESG) agenda, of which climate plays a key part, including aligning our approach to the United Nations sustainability goals. Details can be found in the ESG Report on page 26.

The Future

I have addressed above the very significant activities undertaken over the course of 2022 which underpin my conclusion that this was a strong and immensely proud year for the Society. The collective determination to deliver our business ambitions and to make a positive difference to the lives of our members, colleagues and the local community yielded some powerful outcomes which will undoubtedly support the organisation's long term success and sustainability.

"The collective determination to deliver our business ambitions and to make a positive difference to the lives of our members, colleagues and the local community yielded some powerful outcomes which will undoubtedly support the organisation's long term success and sustainability."

I am particularly proud of our people. We are now well recognised as an excellent, progressive and compassionate employer with a team of first class staff who really care about our members, the community and one another. This wonderful people platform is central to everything we do. I would like to take this opportunity to most sincerely thank my colleagues at all levels for consistently living our organisation's values and for delivering, in testing circumstances, exceptional service whilst maintaining the highest standards of corporate governance, compliance and risk management.

To our loyal members, thank you for your ongoing support and words of encouragement to myself and my colleagues. We will continue to be here for you and we will constantly seek to anticipate and meet your needs. This year sees the Society reach the terrific milestone of 160 years of service and I have no hesitation in saying that we are stronger and more committed than ever to supporting you.

"I am particularly proud of our people. We are now well recognised as an excellent, progressive and compassionate employer with a team of first class staff who really care about our members, the community and one another. This wonderful people platform is central to everything we do."

The economic and business outlook remains challenging and uncertain. The cost-of-living crisis has not gone away. However, as you will consistently see throughout this annual report, your Society has the financial resilience, culture and vision to tackle whatever headwinds come our way, just as we have done throughout our long history. I firmly share the view of our Chair and wider Board that as an unwaveringly proud member-focused organisation, a positive and successful future lies ahead for Leek Building Society.

Andrew Healy
Chief Executive
27 February 2023

"To our loyal members, thank you for your ongoing support and words of encouragement to myself and my colleagues. We will continue to be here for you and we will constantly seek to anticipate and meet your needs."

OUR COMMUNITY SUPPORT

We donated over £47,000 to County Air Ambulance Trust thanks to our Affinity Account Members

We extended our partnerships with Leek Cricket Club (left) and Ashcombe Park Cricket Club

We became proud sponsors of Port Vale FC and headline sponsor of the Port Vale Foundation

Our community defibrillator programme saw more life-saving defibrillators installed throughout our heartland counties

We were delighted to build new partnerships with Leek Rugby Club (above) and Westwood Golf Club (below)

STRATEGIC REPORT

The purpose of this Strategic Report is to provide a fair, balanced and understandable review of the Society's progress against its strategy together with an assessment of the environment in which the Society operates and the principal risks faced by the Society. It should be read in conjunction with the Chair's Statement, Chief Executive's Review, Directors' Report and the Risk Management Report.

The Society's strategy is summarised pictorially below.

VISION	TO BE THE BEST BUILDING SOCIETY IN OUR HEARTLAND.
PURPOSE	*Our Society is here to provide high quality, competitive mortgage and savings products, outstanding customer service and fair outcomes.* *In doing so, we will have an unflinching focus on being socially responsible and on making a positive difference to the lives of members, employees and the local community.*
VALUES	MEMBERS FIRST · INTEGRITY · COLLABORATION · RESPONSIBILITY

STRATEGIC PILLARS	BRANCHES	DIGITAL	PROCESSES
CORE FOUNDATIONS	Resilient Technology	Robust Risk Management	People Excellence
STRATEGIC OBJECTIVES	FINANCIAL GROWTH ACHIEVED	SOCIALLY RESPONSIBLE	EMPLOYER OF CHOICE

Our Values

Our values define how we behave, both as an organisation and individually. They provide the framework within which our actions can be judged and define the experience that everyone who comes into contact with the Society should perceive.

We have four values:

Members First

We ensure our members are our key focus. We always strive to exceed their expectations. We ensure fair customer outcomes.

Integrity

We adhere strictly to the highest standards of conduct, risk management, ethics and honesty in all that we do.

Collaboration

We collaborate with our colleagues and external partners to deliver our purpose and to ensure we operate to the highest possible standards.

Responsibility

We understand our role within the organisation and we take individual responsibility not only for meeting our performance objectives but also for continuously improving our business. In terms of Environmental, Social and Governance responsibilities, we play our individual part in supporting the Society to achieve its goals.

Key Strategic Objectives

The Society's primary objective is the provision of mortgage finance for the purchase and improvement of residential property while funding such lending through a range of personal savings accounts. We also provide access to general insurance, life insurance and long term investments through a number of business partners.

As a mutual organisation, the Society has no shareholders and rather than focus on maximising profits, seeks to balance the requirement to offer competitive interest rates for savers and borrowers with ensuring sufficient profits are generated to maintain our strong capital position/financial resilience and to invest in our capability and infrastructure.

> **"As a mutual organisation, the Society has no shareholders and rather than focus on maximising profits, seeks to balance the requirement to offer competitive interest rates for savers and borrowers with ensuring sufficient profits are generated to maintain our strong capital position/financial resilience and to invest in our capability and infrastructure."**

We continue to invest to ensure our propositions align with both existing and potential customer needs. Our ongoing investment programme aims to deliver improvements in the organisation's systems, processes and branch network, including a digital agenda which involves providing online solutions for our members and intermediary partners. As addressed in the Chair's Statement and Chief Executive's Review, during 2022 we introduced our online digital savings service, and the year ahead will see particular focus on our mortgage application process. At the same time, we are continuing to invest in refurbishing our branch network, thereby improving the environment for members when they choose to visit us.

> **"Our ongoing investment programme aims to deliver improvements in the organisation's systems, processes and branch network, including a digital agenda which involves providing online solutions for our members and intermediary partners."**

Key Performance Indicators

The Society delivered robust financial performance in 2022 despite the prevailing challenging market conditions. The Board uses key performance indicators (KPIs) to monitor the development and performance of the Society and a number of these are included below together with explanatory comment in order to help provide a good understanding of the Society's performance and status.

		2022	2021
Balance Sheet	Total Assets	£1.24bn	£1.18bn
	Mortgage Balances	£888m	£869m
	Shares and Deposits	£1.01bn	£990m
Operating performance	Underlying Profit before Tax	£5.0m	£2.5m
	Profit before Tax	£9.6m	£3.6m
	Net Interest Margin	1.47%	1.12%
	Management Expenses Ratio	1.07%	0.94%
	Mortgage Arrears	0.11%	0.21%
Financial strength	Regulatory Capital	£75.4m	£70.2m
	Total Capital Ratio	18.4%	18.1%
	Liquid Assets	£308m	£298m

STRATEGIC REPORT (CONTINUED)

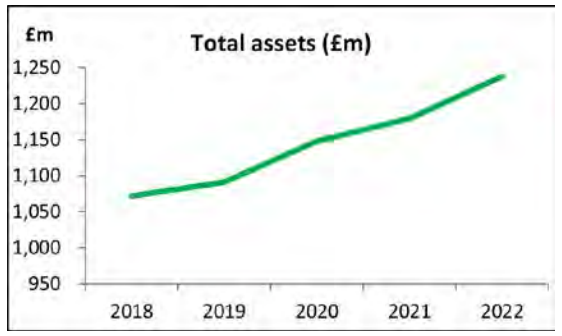
Measure	Explanation
Total Assets	The value of all assets in the Group balance sheet.
Mortgage Balances	The total amount owed to the Society for mortgages by customers.
Shares and Deposits	The total amount owed by the Society to shareholding members and depositors in respect of their account balances.
Underlying Profit before Tax	The surplus before tax achieved from trading activity during the financial year excluding fair value movements resulting from hedging risk management activity. As is common industry practice, the Society uses derivative instruments that are designed to hedge the financial risk associated with fixed rate mortgage lending. Any gains or losses arising from fair value movements reflect timing differences which do not affect the underlying cash flows. As a result, they are excluded from the Society's underlying profit or loss in the annual report. In the view of the Society's directors, underlying profit therefore represents a better measure to compare performance across accounting periods.
Profit before Tax	The surplus before tax achieved from trading activity during the financial year. This includes fair value movements in derivatives that are designed to hedge the financial risk associated with fixed rate mortgage lending.
Management Expenses Ratio	The aggregate of administrative expenses and depreciation as a percentage of the average total assets in the year.
Net Interest Margin	The net interest receivable by the Society as a percentage of the average total assets in the year.
Mortgage Arrears	The number of mortgage accounts which are in arrears by the equivalent of three or more monthly repayments.
Regulatory Capital	The Society's reserves and collective provisions net of any required deductions for regulatory purposes e.g. intangible assets. Retained profits are the highest quality of capital.
Total Capital Ratio	Regulatory capital expressed as a percentage of the Society's risk weighted assets (RWAs).
Liquid Assets	The total cash in hand, loans and advances to credit institutions and debt securities.

The Society prepares its results under Financial Reporting Standard (FRS) 102, "The Financial Reporting Standard applicable in the UK and Ireland" and elects to apply the measurement and recognition provisions of IAS39, "Financial Instruments: Recognition and Measurement".

Business Review

Total assets

The Society's assets continued their path of sustained growth, increasing by 5% from £1,179m at the end of 2021 to £1,238m at the end of 2022.



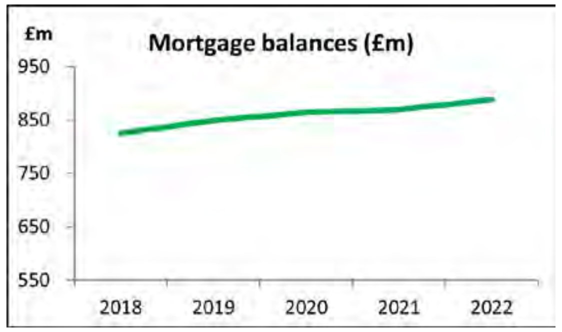
"The Society's assets continued their path of sustained growth, increasing by 5% from £1,179m at the end of 2021 to £1,238m at the end of 2022."

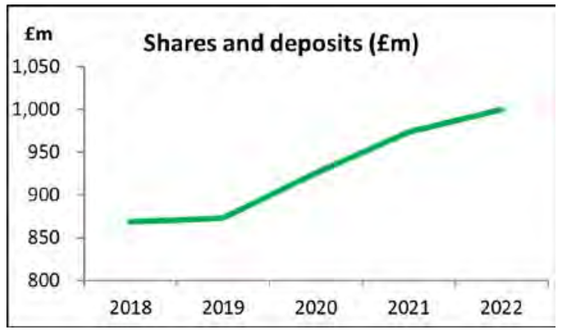
Mortgage balances

Total mortgage balances at the end of 2022 stood at £888m (2021: £869m) net of provisions, interest rate and fair value adjustments. Net lending of £42m was achieved (2021: £14m).

New lending amounted to £186m in 2022 (2021: £174m) reflecting a solid performance in challenging market conditions. Mortgage redemptions were £105m (2021: £121m).

The Society's lending proposition remains focussed on providing a range of competitive mortgages to owner occupiers, First Time Buyers and Buy to Let landlords.





Shares and deposits

The Society continues to grow its savings base, with total balances at the end of 2022 of £1,011m (2021: £990m), exceeding £1 billion for the first time. The Society is, and will continue to be, primarily funded by individual retail savings (shares) via a range of competitive savings and ISA products. We also continue to reward our existing customers through preferential loyalty products.

"The Society is, and will continue to be, primarily funded by individual retail savings (shares) via a range of competitive savings and ISA products. We also continue to reward our existing customers through preferential loyalty products."

As addressed in both the Chair's Statement and Chief Executive's Review, the Society has taken a fair and balanced approach to the rising interest rate environment and sought to pass as little as possible of the base rate increases during the year on to mortgage borrowers whilst providing highly competitive fixed and variable rate products to saving members and at the same time ensuring the Society's financial resilience to protect against the deteriorating economic climate.

"As addressed in both the Chair's Statement and Chief Executive's Review, the Society has taken a fair and balanced approach to the rising interest rate environment and sought to pass as little as possible of the base rate increases during the year on to mortgage borrowers whilst providing highly competitive fixed and variable rate products to saving members and at the same time ensuring the Society's financial resilience to protect against the deteriorating economic climate."

Underlying profit before tax

The Society recorded an underlying profit before tax of £5.0m, an increase from £2.5m in 2021. The improvement was primarily due to higher net interest margin as a result of increases in the Bank of England base rate and continued mortgage growth.

We do not seek to maximise profits but it is in the interest of the Society's long-term competitiveness and sustainability that sufficient profits are generated to maintain our strong capital position/financial resilience and to ensure there is ongoing investment in our capability and infrastructure. It is particularly important to view this year's underlying profit in the context of the surge in base rate from 0.25% in December 2021 to 3.50% at the end of 2022 and the fact that recent years have seen below historical average profit levels due to the ultra-low prevailing interest rate environment, margin compression across the financial services industry and the pandemic and its associated impacts. Absolute levels of profit should also increase gradually over time in line with growth in the Society's asset base.

This is perhaps best illustrated in the table below which shows that the Society's profit as a percentage of total assets in 2022 is in fact actually slightly lower than the average for the 5 year period 2012 – 2016.

	Average 2012-16	Average 2017-21	2022
Underlying Profit	£3.96m	£2.72m	£5.0m
Total assets	£877m	£1,106m	£1,238m
Underlying Profit as % of Total assets	0.45%	0.25%	0.40%

Therefore when reviewing underlying profitability over the long term, profit has in effect returned to somewhere near the historical level which is required for the Society to have the capacity to sustainably grow and invest, which is even more necessary in today's competitive and ever-evolving marketplace.

"It is particularly important to view this year's underlying profit in the context of the surge in base rate from 0.25% in December 2021 to 3.50% at the end of 2022 and the fact that recent years have seen below historical average profit levels due to the ultra-low prevailing interest rate environment, margin compression across the financial services industry and the pandemic and its associated impacts. Absolute levels of profit should also increase gradually over time in line with growth in the Society's asset base."

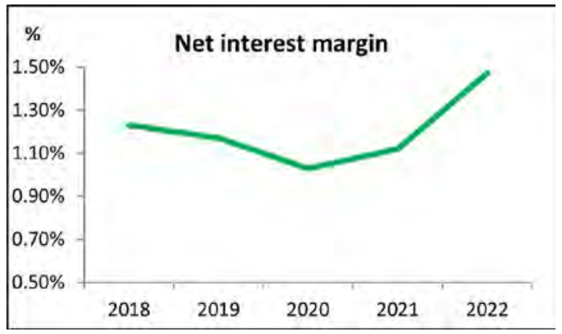
Profit before tax

Profit before tax was £9.6m (2021: £3.6m) after accounting for fair value movements (gain of £4.6m; 2021 gain of £1.1m) in derivatives that are designed to hedge the financial risk associated with fixed rate mortgage lending and which could be a gain or loss in any given accounting period. While the use of such derivatives is common industry practice and a prudent method of risk management that has been used by the Society for many years, the following points are particularly noteworthy with respect to this year's results:

- The gain from fair value movements arises from how we reflect in any given year's financial accounts the approach to hedging risk management that we adopt relating to swaps that have not been matched against mortgages due to timing differences between the swaps being transacted and the associated mortgages completing. As stated, it is an industry practice which we have historically used, and will continue to use, but there has been a significant increase in the gain this year due to the exceptionally volatile interest rate environment which saw enormous market uncertainty and which fed through to fluctuating interest rate swap prices.
- The gain in 2022 is in line with the accounting standards we comply with but it essentially inflates the Society's profit this year relative to prior years. The gain will reverse over the next few years as the relevant mortgages mature, reducing profit in these years.
- Underlying profit excludes fair value movements in derivatives and in the view of the Society's directors, it therefore represents a more accurate reflection of trading performance as well as a better measure to compare performance across accounting periods.

Net interest margin

The Society's net interest margin increased during the year to 1.47% (2021: 1.12%). The significant increases in base rate from the Bank of England as it responded to inflationary pressures in the UK economy improved the yield generated on our asset and derivative portfolios with a consequential benefit to net interest margin. The Society's balanced approach to base rate movements is well documented in this report and without this, the increase in net interest margin would have been higher. A robust governance process is in place which involves the Board overseeing this approach.

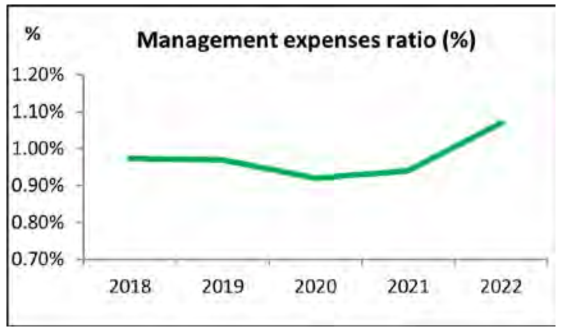


"The Society's balanced approach to base rate movements is well documented in this report and without this, the increase in net interest margin would have been higher. A robust governance process is in place which involves the Board overseeing this approach."

Management expenses ratio (%)

The management expenses ratio is a very simple measure of efficiency. It increased in 2022 to 1.07% (2021: 0.94%), with total costs increasing by £1.8m (18%) reflecting our investment programme's expenditure on technology systems and infrastructure, branch refurbishments and the impact of inflationary pressures on salaries and third party costs. As part of our strategy to be an employer of choice, we also provided colleagues with a cost of living payment to support their financial wellbeing.

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



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

Mortgage arrears

The Society is committed to responsible lending. Our mortgage book remains of high quality, as evidenced by the low level of arrears. The number of mortgages in arrears by the equivalent of three or more monthly repayments totalled 8 accounts at 31 December 2022, representing 0.11% of mortgage accounts (2021: 15 accounts, 0.21%). There were 2 cases in arrears of 12 months or more at 31 December 2022 (2021: 3 cases).

In certain circumstances, we offer forbearance measures to support customers who are experiencing financial difficulty to help them to get back on their feet. We are extremely sensitive to the challenges the current economic environment poses for our members and on the Society's website, there are a range of helpful resources including who to speak to if they are struggling with their mortgage repayments, tips on ways to reduce bills and details of external agencies who offer free help and support.

"We are extremely sensitive to the challenges the current economic environment poses for our members and on the Society's website, there are a range of helpful resources including who to speak to if they are struggling with their mortgage repayments, tips on ways to reduce bills and details of external agencies who offer free help and support."

An impairment allowance is held where appropriate and cases that do not have an individual impairment allowance are included within the collective impairment allowance. As in 2021, just one property was taken into possession during the year.

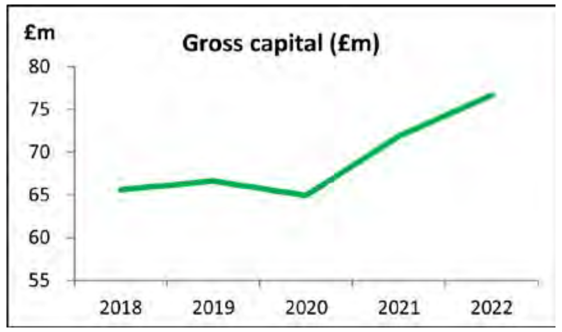
Specific consideration has been given to the risk of losses due to the deterioration of economic conditions as household finances are being stretched by increases in inflation and energy prices. At 31 December 2022, a post model adjustment of £0.4m was added to the Society's impairment allowance to reflect the risk of losses within our mortgage portfolio.

At the end of 2021, a provision of £0.2m was put in place to reflect the Society's possible exposure to a small cohort of properties within our portfolio with potentially dangerous cladding. As at the end of 2022, we were satisfied that the impairment risk to the Society was minimal, therefore this provision has been released.

Capital strength

The level of profit generated in 2022 has ensured that the Society's capital position remains robust, with reserves at 31 December 2022 of £76.8m (2021: £71.9m). This outturn predominantly reflects the impact of our profit for the year.

The ratio of gross capital as a percentage of total shares and borrowings was 6.6% at 31 December 2022 (2021: 6.5%) and the ratio of free capital as a percentage of total shares and borrowings was 6.2% (2021: 6.2%). Free capital is the total reserves and collective loss provision less fixed assets. The core tier 1 ratio at year end stood at 18.3% (2021: 17.9%) and the leverage ratio stood at 6.8% (2021: 5.6%). Our strong capital position provides confidence that the Society can continue to grow and invest in the manner projected within our strategic plan.



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

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

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

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

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

STRATEGIC REPORT (CONTINUED)

Capital disclosures	2022	2021
Total Reserves	£76.8m	£71.9m
Prudent Valuation adjustment	(£0.1m)	(£0.1m)
Intangible Assets	(£1.7m)	(£1.3m)
Tier 1 Capital	£74.9m	£69.6m
Tier 2 Capital – collective impairment allowance	£0.5m	£0.6m
Capital Resources	£75.4m	£70.2m
Risk Weighted Assets	£410.2m	£388.2m
Pillar 1 and 2A requirement	£37.3m	£37.5m
Core Tier 1 Ratio	18.3%	17.9%
Assets for leverage purposes	£1,099.7m	£1,192.9m
Leverage Ratio	6.8%	5.6%

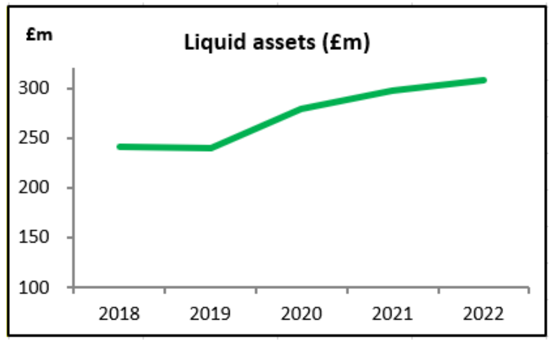
The Society is required to set out its capital position, risk exposures and risk assessment processes in the Pillar 3 disclosure document which can be found on our website.

Liquid assets

The Society continues to maintain strong and readily available levels of liquidity. Throughout the year, such levels were well in excess of regulatory requirements. As at the year end, total liquid assets stood at £308m (2021: £298m). The amount of liquidity repayable on demand was £164m (2021: £174m).

A key measure of liquidity introduced under the Capital Requirements Directive is the Liquidity Coverage Ratio (LCR).

At 31 December 2022, the Society reported an LCR of 283% (2021: 285%), significantly in excess of minimum regulatory requirements.



> **"The Society continues to maintain strong and readily available levels of liquidity. Throughout the year, such levels were well in excess of regulatory requirements."**

Future outlook and uncertainties

The Society's Risk Management Report on pages 58 to 62 sets out in significant detail the principal risks and uncertainties faced by the Society with respect to the achievement of our strategic objectives, together with our comprehensive mitigating activities.

The economic prospects for the year ahead remain difficult to predict. It is unclear how long inflation will remain at its current high levels but there is expected to be considerable ongoing pressure on living costs and there remains the risk that this, combined with potential increases in interest rates and unemployment, could lead to mortgage repayment difficulties as well as lower housing market activity and prices.

All of that said, I am more confident than ever that your Society remains robustly positioned to deal with any economic headwinds we may face.

The financial services market continues to see rapidly accelerating digital transformation and intense competition which notwithstanding our ongoing investment programme, increases the risk of the Society failing to retain existing members and to attract new members. Associated risks also include increasing pressure on margins, higher future costs to deliver the level of investment necessary to keep pace with technological developments and increased risk management costs.

A competitive market for savings and mortgages is positive for members and it remains our intention to at all times offer fair-priced savings and mortgage products, to provide a safe home for members' savings, to lend responsibly and to support borrowers to achieve their housing aspirations. Whilst technological development is an ongoing area of focus, the Board remains fully committed to our branch network which will see further investment, as well as to promoting a savings culture using fair and transparent products which offer good value in the short, medium and long term. We will continue to invest in enhancing the resilience of our technology, ensuring that our systems remain well placed to survive the challenges and risks posed by the modern world.

The Society has a proud history of resilience and prudent management in difficult market conditions and we do not intend to stray from our well-tested approach. As addressed under the Risk Management Report, all risks are monitored carefully through our Risk Management Framework.

> **"A competitive market for savings and mortgages is positive for members and it remains our intention to at all times offer fair-priced savings and mortgage products, to provide a safe home for members' savings, to lend responsibly and to support borrowers to achieve their housing aspirations. Whilst technological development is an ongoing area of focus, the Board remains fully committed to our branch network which will see further investment, as well as to promoting a savings culture using fair and transparent products which offer good value in the short, medium and long term. We will continue to invest in enhancing the resilience of our technology, ensuring that our systems remain well placed to survive the challenges and risks posed by the modern world."**

In addition, we perform regular stress testing as part of our Internal Capital Adequacy Assessment Process (ICAAP) and Individual Liquidity Adequacy Assessment Process (ILAAP) regulatory assessments as well as our forward-looking corporate plan. Through these robust processes, we test a wide range of severe stresses across each of the Society's principal risks. These include house price reductions, lower mortgage book quality, net interest margin compression, cost pressures, regulatory pressures, liquidity changes and operational events which are significantly more severe than current external economic projections. Such testing continues to demonstrate that the Society is sufficiently strong to withstand the impacts of these stresses which have been assessed as part of the Going Concern Statement on page 39.

In summary, the Board considers that despite the challenging market conditions that are likely to prevail in 2023, the Society remains robustly positioned to navigate through the economic, competitive and other headwinds it may face.

Rachel Court
Chair
27 February 2023

> **"The Board considers that despite the challenging market conditions that are likely to prevail in 2023, the Society remains robustly positioned to navigate through the economic, competitive and other headwinds it may face."**

ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) REPORT

At the heart of the Society's purpose is to have an unflinching focus on being socially responsible and on making a positive difference to the lives of our members, employees and the local community. This purpose forms the bedrock of our approach to our Environmental, Social and Governance (ESG) responsibilities.

The United Nations (UN) has called on governments, businesses and others around the world to end extreme poverty, fight inequality and injustice, and limit climate change through a range of sustainability development goals. We have worked with an expert third party to develop our ESG strategy which is based upon the below UN sustainability goals that are considered most relevant to our business model.

The Society has in place an ESG Steering Committee, chaired by the Chief Executive, to oversee the development and implementation of its ESG agenda. This committee provides regular updates to the Board.

Progress to date is summarised in the table below, with more detail following.

2020	2021	2022	2023	2027 & Beyond
✓ Finance Director appointed responsible for climate risk ✓ Climate Working Group established	✓ Climate scenario analysis (physical and transition risk) undertaken ✓ ICAAP updated for climate risk and scenario analysis ✓ Qualitative risk appetite for climate risk set ✓ Charitable Foundation announced ✓ Accredited by Good Business Charter	✓ ESG strategy approved by Board ✓ Scope of Climate Working Group expanded to cover ESG. Becomes ESG Steering Committee. ✓ Charitable Foundation launched ✓ Green Ambition stated on website ✓ 100% energy from renewable sources ✓ Carbon footprint assessment ✓ Launch of first Green Product (Holiday Let) with additional products planned ✓ Risk Management Framework updated to cover ESG risks	• Emissions reduction[1] & offsetting plans produced. • Baseline mortgage portfolio EPC rating and set target • Target of 45% senior management positions held by females • Complete branch & Head Office refurbishment with accessibility measures • Target 200 staff volunteering days	• Target 0 net carbon position for scope 1 and 2 emissions • Net Zero by 2050 LEEK Building Society CO2e Assessed

[1] Actions have already been taken that will reduce these emissions and will offset scope 1 and scope 2 emissions.

"At the heart of the Society's purpose is to have an unflinching focus on being socially responsible and on making a positive difference to the lives of our members, employees and the local community. This purpose forms the bedrock of our approach to our Environmental, Social and Governance (ESG) responsibilities."

Environmental

The financial services industry has an important part to play in the transition to a lower carbon economy and the Society has a responsibility to meaningfully contribute to the climate change and sustainability agenda. We are fully committed to achieving a net neutral carbon position by 2050. An updated assessment of our scope 1 and scope 2 emissions is currently being produced, from which we will build an emissions reduction plan. However, it is acknowledged that notwithstanding this emissions reduction activity, there will remain an element of unavoidable emissions. A robust carbon offsetting strategy will be followed to ensure the Society achieves its target net neutral carbon position.

We have an ongoing series of environmental actions:

- We have baselined our branch energy efficiency. All branches meet the current Minimum Energy Efficiency Standards (MEES) for letting which require the rating to be an E or better.
- We have installed modern, highly efficient LED lighting throughout our Head Office which will reduce the energy usage (and carbon emissions) related to lighting the building by approximately 90%. The same lighting is being deployed across the branch network as our refurbishment programme is being rolled out.
- We have employed a specialist waste management company to recycle waste from our Head Office and branch network.
- Our electricity supply contract ensures that energy production is from 100% renewable sources.
- Electric Vehicle charging points using renewable energy have been installed at our Head Office.
- We have established a financed emissions base-line for our mortgage portfolio.
- We have introduced our first green mortgage product, the Holiday Buy to Let product, and we will continue to develop green products, including further advances, which will support and incentivise customers to improve the energy efficiency of their homes and investment properties.
- As mentioned previously, our scope 1 and scope 2 emissions have been reviewed and an emissions reduction plan is being produced as well as further carbon offsetting measures.

"We have introduced our first green mortgage product, the Holiday Buy to Let product, and we will continue to develop green products, including further advances, which will support and incentivise customers to improve the energy efficiency of their homes and investment properties."

In 2019, the Prudential Regulation Authority (PRA) published Supervisory Statement 3/19, "Enhancing banks' and insurers' approaches to managing the financial risks from climate change". We have put the necessary governance in place to ensure there is appropriate oversight of the financial risks posed by climate change. Specifically, we have:

- Allocated responsibility to our Finance Director for assessing and reducing the environmental impact of the Society's activities and for implementing governance arrangements to ensure climate change is well managed by the business.
- Allocated responsibility for climate change risk and ensured that climate change risk is considered regularly by Executive Management, the Board Risk Committee and the Board.
- Updated the terms of reference for all relevant committees to ensure climate change is subject to proper oversight.

"We have installed modern, highly efficient LED lighting throughout our Head Office which will reduce the energy usage (and carbon emissions) related to lighting the building by approximately 90%."

- Set a descriptive risk appetite for climate change risk. Further work will be undertaken in 2023 to add detailed risk appetite measures and to report actual risk against this appetite.
- Established, as mentioned above, a financed emissions base-line for our mortgage portfolio and we are considering how best to achieve improvements in this important area.
- Commenced reporting to the Society's Board on a quarterly basis on climate change and our broader ESG performance.

In 2021, the Society worked with an independent, expert third party to assess and model the physical and transitional risks associated with climate change on our mortgage assets. The results of this work demonstrated that even in a high emission scenario, the impact of climate change on the Society was not currently material. The report concluded that less than 1% of our mortgage assets were exposed to flood risk and the Board decided that no immediate changes to our lending activities were required.

The results of this independent review of our climate change risks has been factored into the Society's Internal Capital Adequacy Assessment Process (ICAAP) and has been subject to detailed review by the Board Risk Committee and Board.

We further improved the sophistication of the scenario analysis in 2022 and we will continue to develop this analysis over the coming years as emerging trends develop, to ensure our business strategy remains aligned with the need to manage the financial risks arising from climate change.

Social

In line with our purpose, we are passionate about making a positive impact on society – our members, staff and the local community. A broad range of initiatives have been taken and are ongoing:

- As many financial institutions have been closing the doors of their branches, we are continuing to go against the grain by investing in our branch network. To date we have refurbished our Leek Derby Street, Leek St Edward Street, Uttoxeter, Cheadle and Ashbourne branches. We will complete our refurbishment programme during the first half of 2023, beginning with the refurbishment of our branches in Market Drayton and Newcastle.
- We have also been investing in the refurbishment of our Head Office to improve the environment for staff and members, whilst significantly enhancing accessibility. The Society has been accredited by the national Disability Confident Scheme.
- In addition to establishing a market-leading culture as evidenced by our extremely positive staff survey results, we have taken concerted measures to support the welfare of our employees. Mental health support is being provided by trained internal employees as well as through free access to external resources. Funded health screenings have been introduced for staff and we have also effected improvements to their remuneration which were appropriately cognisant of the challenges they faced due to the cost-of-living crisis.
- Equality, diversity and inclusion (EDI) continues to be an important area of focus for the Society. We have developed a Board-approved strategy to make our organisation more diverse, inclusive and reflective of the communities we serve. As part of this work, we have established a staff EDI Forum made up of a diverse range of colleagues from across the business. We have subscribed to the Women in Finance Charter and a target has been set for 45% of senior management positions to be held by females by 2023. This representation improved from 33% to 43% during 2022.
- The Society is accredited by the Good Business Charter. This consists of ten components that link to responsible business behaviour including diversity and inclusion, real living wage, fair hours and contracts, employee well-being, employee representation, environmental responsibility, paying fair tax, commitment to customers, ethical sourcing, and prompt payment.

"Equality, diversity and inclusion (EDI) continues to be an important area of focus for the Society. We have developed a Board-approved strategy to make our organisation more diverse, inclusive and reflective of the communities we serve."

- During 2022, we continued to support local community groups and charities and in total, over £100,000 was contributed to such causes. This included funds donated by members through our affinity savings account range. Our Charitable Foundation commenced during the year to increase the scale and scope of our charitable giving and it has already started to make a positive impact. In addition, we increased the range of sponsorships of local clubs and community organisations we supported.
- Staff volunteering to support local community groups and causes also increased, with 95 days of such volunteering in 2022.
- We have set an ambitious target to provide £500,000 over the next 5 years to charities and community groups through grants, donations, and sponsorships.

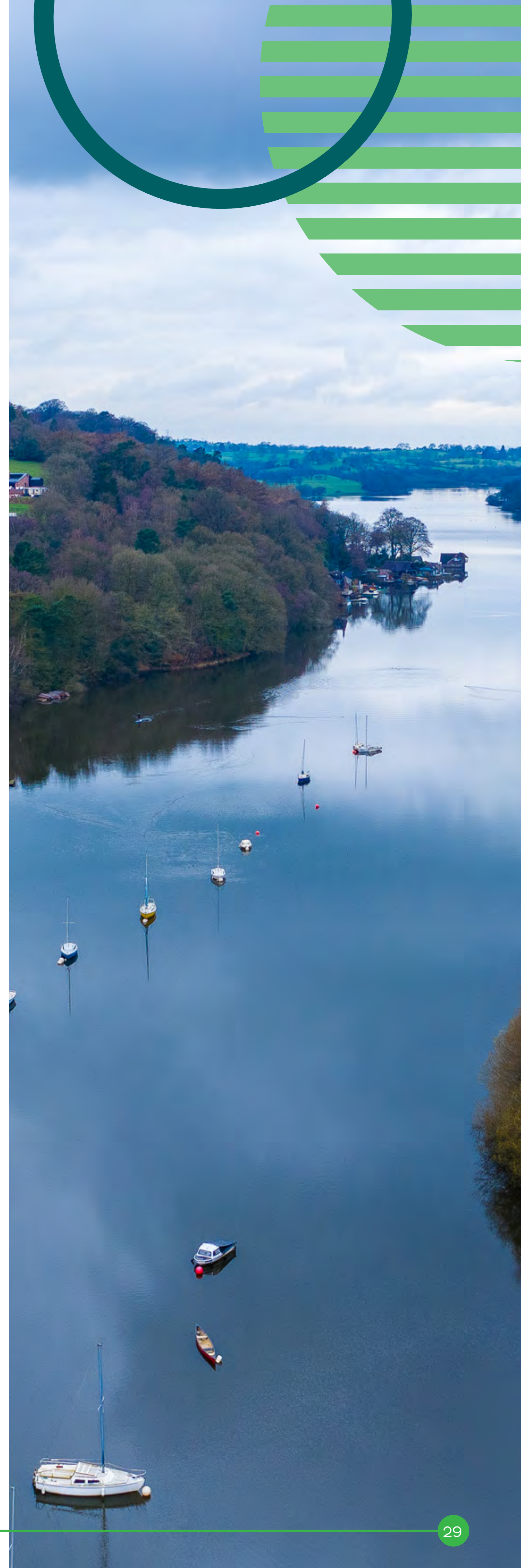
Governance

The Board's Corporate Governance report is set out on page 40.

As stated above, the Society has in place an ESG Steering Committee, chaired by the Chief Executive, to oversee the development and implementation of its ESG agenda. This committee provides regular updates to the Board.

Steve Clarke
Finance Director
27 February 2023

"Our Charitable Foundation commenced during the year to increase the scale and scope of our charitable giving and it has already started to make a positive impact. In addition, we increased the range of sponsorships of local clubs and community organisations we supported."



DIRECTORS' PROFILES

NON-EXECUTIVE DIRECTORS

Rachel Court
JP, BA Oxon

Independent Non-Executive Director since November 2014 and Independent Chair since April 2016.

Skills and Experience

Rachel has 23 years of experience working in the Building Society sector including 8 years at Executive level. This has been followed by 8 years operating as a Non-Executive Director in the broader financial services sector as well as in the Public and Voluntary sectors.

After an 18 month period as a Non-Executive Director on the Board of Leek Building Society, Rachel was appointed to the position of Independent Chair in April 2016. Since then she has overseen the reshaping of the Society's Board, including the appointment of a new Chief Executive in 2018 and a number of additional Executive and Non-Executive Director changes.

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

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

Current external positions

Rachel currently holds the following external appointments:

- Independent Chair of Invesco Pensions Limited, where she is also a member of the Audit and Risk Committee.
- Non-Executive Director of Invesco UK Limited,
- Non-Executive Director of Invesco Asset Management Ltd and Chair of the Risk Committee.
- Governor – Calderdale College.
- Magistrate.

Keith Abercromby
BSc, FIA

Independent Non-Executive Director since March 2016.

Skills and Experience

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

During his career at the Halifax, Keith was employed at Board level in a wide range of roles including Chief Executive of its life insurance and investment businesses and the executive responsible for risk and products in retail. At Aviva, Keith was the Finance Director of its UK life insurance companies – Norwich Union, General Accident and Commercial Union – before being appointed Group Finance Director by Liverpool Victoria.

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

Current external positions

Keith currently holds the following external appointments:

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

Felicity Bambery
BA, FCA

Independent Non-Executive Director since July 2022.

Skills and Experience

Felicity is an audit and assurance professional who has specialised in financial services for over 25 years. She is a chartered accountant and accredited controls assurance provider who during her executive career has worked with building societies, banks, investment managers, custodians, administrators and pension schemes.

Immediately prior to taking up her role with the Society, Felicity was a partner in a global professional services firm and led numerous external and internal audit and controls assurance engagements, governance and regulatory reviews. She has also acted as the Head of Internal Audit for organisations and held a number of roles on committees for industry bodies. Felicity led a national team and her responsibilities included business and people development, risk and quality and relationship management.

Felicity was co-opted onto the Board in July 2022 and is a member of both the Board Risk Committee and Board Audit Committee.

Current external positions

- None

Dave Cheeseman
BSc, FIA

Independent Non-Executive Director since April 2021.

Skills and Experience

Dave is an actuary with over 30 years' experience in financial services within the UK and overseas including life insurance, pensions and investment platforms. He has served as a Director of various regulated companies in the sector over the last 14 years, including Phoenix Life, Abbey Life, SunLife, AXA Isle Of Man and AXA Wealth.

During his executive career, Dave has held a wide range of roles including Finance Director, Strategy Director and Chief Operations Officer. He was responsible for running large finance and operational teams and for driving commercial growth and strategic change across organisations.

Dave was co-opted onto the Board in April 2021. Dave chairs the Board Risk Committee and is a member of the Board Audit Committee and the Board Nominations Committee.

Current external positions

Dave currently holds the following external appointments:

- Independent Non-Executive Director at Holloway Friendly Society Limited since 2020 where he chairs the Audit and Risk Committee.
- Independent Non-Executive Director at Amber River Group since September 2021, where he chairs the Audit and Risk Committee.

Jane Kimberlin
BA

Independent Non-Executive Director since November 2016 and Senior Independent Director since March 2022.

Skills and Experience

Jane is an internationally experienced Board Chief Information Officer / Information Technology Director with over 30 years of delivering significant transformation across a wide range of companies including financial services, retail and utilities. She led the successful merger of IT for several major companies following acquisitions.

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

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

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

Current external positions

Jane currently holds the following external appointments:

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

John Leveson
MBA, FCIB

Independent Non-Executive Director since May 2015.

Skills and Experience

John has over 40 years experience in a wide range of roles within the Building Society sector including 17 years as an Executive Director and latterly Deputy Chief Executive of a regional building society. In addition to serving on a building society group Board, he served on and chaired the boards of subsidiary companies involved in estate agency, financial planning and car finance.

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

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

Current external positions

John currently holds the follow external appointments:

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

DIRECTORS' PROFILES

EXECUTIVE DIRECTORS

Andrew Healy
MoB, BSc, Chartered FCIPD

Chief Executive and Executive Director since December 2018.

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

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

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

Andrew is a member of the Board Nominations Committee and he attends the Board Risk Committee, Board Audit Committee and Board Remuneration Committee. In terms of management committees, Andrew chairs the Executive Committee, Asset and Liability Committee, All Risks Committee, Credit Risk Forum and Change Programme Steering Committee.

Current external positions
- None

Darren Ditchburn
MSc, AdvCeMAP

Deputy Chief Executive and Executive Director since January 2022.

Skills and Experience
Darren has significant experience in the financial services sector having spent 18 years at another building society before joining Leek Building Society, including 9 years at Executive level. He started his career on the branch counter and went on to undertake various roles in business development, operations and marketing culminating in the role of Chief Customer Officer where he was responsible for branches, mortgage advice and intermediaries as well as digital and product proposition. Darren successfully led a number of key strategic initiatives which included the launch and integration of the organisation's first digital channels.

After completing a number of professional qualifications through the ifs School of Finance, Darren obtained a Masters Degree in Leadership and Management at Loughborough University (in conjunction with the Building Societies Association). He is passionate about the mutual model and prides himself on championing the voice of members.

Darren took up duty as Leek Building Society's Deputy Chief Executive in January 2022 with overall responsibility for the Branch Network, IT and Change and Customer Operations which includes the Society's savings, mortgage, and administration support teams. His remit includes developing the IT, digital, operations, branch, and customer service strategy in alignment with the Society's corporate plan.

Darren chairs the Conduct and Product Forum. He is also a member of the Executive Committee, All Risks Committee, Credit Risk Forum, Asset and Liability Committee, Pricing Forum and the Change Programme Steering Committee.

Current external positions
- None

Steve Clarke
BA, ACMA

Finance Director and Executive Director since November 2022.

Skills and Experience
A Chartered Accountant for almost 20 years, Steve has more than 12 years of experience in the Building Society sector as well as significant experience in broader financial services.

Steve is responsible for managing the Society's capital, funding and liquidity positions. Central to his role is ensuring the integrity of financial and regulatory reporting whilst ensuring the Society operates an effective stress testing framework. Steve also holds executive responsibility for managing the Society's exposure to the financial risks associated with climate change and for championing the overall ESG agenda.

Steve is a member of the Executive Committee, Asset and Liability Committee, Pricing Forum, All Risks Committee, Credit Risk Forum and the Change Programme Steering Committee.

Current external positions
- None

Andrew Davies

Chief Risk Officer and Executive Director since September 2021.

Skills and Experience
Andrew has over 30 years of treasury and risk management experience gained within the financial services sector. He joined the Society in January 2018 as Head of Risk & Compliance, becoming Chief Risk Officer in July 2019 and was appointed to the Board in September 2021. His role is to ensure that the Society manages risk robustly and operates in line with its clearly defined risk management framework. In addition to having management responsibility for risk and compliance, he also acts as the Society's Money Laundering Reporting Officer and Data Protection Officer.

Having started his career in the branch network of a clearing bank, Andrew then moved to the building society sector where he gained extensive treasury experience, becoming Assistant Treasurer in one of the country's largest societies. More recently he held a senior risk management role at a UK bank where he helped to develop and embed a second line risk oversight function covering market risk, liquidity risk and counterparty credit risk.

For the majority of his career, Andrew has worked within mutual organisations, reflecting his commitment to the sector and its ethos. He strongly believes that member owned organisations are best placed to provide real value to their members and positively impact the communities they serve.

Andrew is a member of the All Risks Committee. He also attends the Executive Committee, the Board Risk Committee and Board Audit Committee, Conduct and Product Forum, Credit Risk Forum, Asset and Liability Committee, Pricing Forum and the Change Programme Steering Committee.

Current external positions
- Board Trustee of Leek Building Society Charitable Foundation.

WHAT OUR STAFF SAY

"The Society focuses heavily on our core values, personal development and reward and recognition and I always feel appreciated within my role."

"The Society really prioritises my physical, mental and financial wellbeing."

"Over the last year, the business has been turned into an even better place to work – a real achievement in such unpredictable times."

"I am proud to be part of an amazing team and fantastic organisation with our members at the heart of what we do."

"I couldn't be more appreciative or prouder to work for Leek Building Society."

"Leek Building Society has supported me from day one, helping me to achieve my full potential."

"I am proud to work for Leek Building Society and get a great sense of achievement from helping our members on a daily basis."

Over 90% of colleagues say:

- I'm proud to work for Leek Building Society.
- The Society's executive team provide strong leadership.
- The Society is handling the cost-of-living crisis compassionately.
- The organisation is run on strong values & principles.
- I would recommend the Society as an employer to friends and family.

PROUD OF OUR STAFF

Sue Matiaha completed her Chartered Institute of Management Accountants (CIMA) qualifications and is now a fully fledged accountant

Katie Swindell achieved the Prince 2 Practitioner qualification in Project Management

Emma Bogdanski championed a number of staff engagement initiatives during the year

Karen Brooks (left) reached the wonderful milestone of 25 years' service, as did Craig Milner (centre, right)

CHARITABLE FOUNDATION

Our new Foundation got up and running during the year and is already making a really positive difference to local community organisations and charities.

More than £3,200 was raised for the Foundation through the Society's 2022 AGM

DIRECTORS' REPORT

The Directors have pleasure in presenting the Annual Report together with the Annual Accounts and Business Statement of the Society for the year ended 31 December 2022.

This Directors' Report should be read in conjunction with the Chair's Statement, Chief Executive's Review, Strategic Report and Risk Management Report.

Information presented in other sections

Certain information required to be included in a Directors' report can be found in other sections of the Annual Report and Accounts as described below. All the information presented in these sections is deemed to form part of this report.

Business objectives and activities	Strategic Report
Business review and future developments	Strategic Report
Principal risks and uncertainties	Risk Management Report
Financial risk management objectives	Risk Management Report
Disclosure requirements under CRD IV country-by-country reporting	Note 29 to the Accounts

The following served as Directors of the Society during the year and to the date of this report.

Keith Abercromby	Non-Executive Director	
Felicity Bambery	Non-Executive Director	Appointed 27 July 2022
Robert Broadbent	Finance Director	Resigned 5 November 2022
Dave Cheeseman	Non-Executive Director	
Steve Clarke	Finance Director	Appointed 30 November 2022
Rachel Court	Non-Executive Director	
Andrew Davies	Chief Risk Officer	
Darren Ditchburn	Deputy Chief Executive	Appointed 30 June 2022
Richard Goddard	Non-Executive Director	Retired 31 March 2022
Andrew Healy	Chief Executive	
John Kelly*	Operations Director	Resigned 23 February 2022
Jane Kimberlin	Non-Executive Director	
John Leveson	Non-Executive Director	

*John Kelly resigned from the Board with effect from 23/02/2022 and left the Society on 31/03/2022.

Biographies of the Directors appear on pages 30 to 33 and their attendance at meetings of the Board and Board Committees is set out in the Corporate Governance Report on page 40.

In accordance with the requirements of the new Corporate Governance Code, to which the Society has due regard, all the Society's Directors are seeking re-election to the Board at the Annual General Meeting with the exception of:

1. John Kelly, who resigned from the Board on 23 February 2022 and left the Society on 31 March 2022.
2. Richard Goddard, who retired from the Board on 31 March 2022 at the end of his tenure.
3. Robert Broadbent, who resigned from the Board on 5 November 2022.
4. Darren Ditchburn, Felicity Bambery and Steve Clarke who are standing for election, having been appointed to the Board since the last Annual General Meeting.
5. Keith Abercromby, who will retire from the Board on 31 March 2023.

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

Other Matters

Creditor Payment Policy

It is the Society's policy to pay suppliers within agreed terms providing the supplier performs according to the terms of their contract with the Society. The number of creditor days at 31 December 2022 was 18 (2021: 17).

Political Donations and Gifts

The Society has not made any political gifts or donations in the year to 31 December 2022 (2021: £nil).

Events since the Year-End

The Directors do not consider that any event since the year-end has had a material effect on the financial position of the Society as disclosed in the Annual Accounts.

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

In response to a significant increase in external audit fees over recent years, tenders for the provision of external audit services to the Society were invited during 2022 to ensure optimal value for members. Following a robust selection process, the Board accepted the Board Audit Committee's recommendation to appoint PwC LLP as external auditor from 2023. A formal resolution to appoint PwC LLP as external auditor will be put before the Society's members at the Annual General Meeting on 26 April 2023. KPMG LLP will remain as external auditor of the Society until the Annual General Meeting.

Pillar 3 disclosures

The Society is required to set out its capital position, risk exposures and risk assessment processes in its Pillar 3 disclosures document. These are available on the Society's website.

Going Concern

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

The Society conducts annual Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Adequacy Assessment Process (ILAAP) reviews to assess and stress test its capital and liquidity positions respectively, in line with Prudential Regulation Authority (PRA) requirements. These include the need to model the impact on the Society of a range of severe but plausible stresses to residential house prices, unemployment, interest rates and funding outflows. Supported by these reviews, the Directors have prepared forecasts for a period of at least twelve months from the date of approval of the accounts of profitability, capital, funding and liquidity which take account of the Society's current position and its principal risks as set out in the Risk Management Report, including severe but plausible stress scenarios. These severe but plausible stresses are established and defined in detail during the annual ICAAP and ILAAP reviews, in line with PRA requirements. Considerations are given to a range of factors, including but not limited to HPI fluctuations, changes in customer propensity of default, unemployment, interest rate changes and circumstances that may give rise to funding outflows either on an idiosyncratic level or sector wide. Based on these forecasts, the Directors are satisfied that the Society has adequate resources to continue in business for a period of at least twelve months from the date of approval of the accounts.

The Directors consider 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 2023

CORPORATE GOVERNANCE REPORT

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

The Code does not set out a rigid set of rules, rather it asks organisations to either comply or to explain non-compliance with its provisions. The last revision to the UK Corporate Governance Code was issued by the Financial Reporting Council (FRC) in July 2018.

This report explains how the Society applies the principles in the Code so far as they are relevant to building societies. There are departures from the Code as a result of the business being structured as a mutual, rather than a limited company, and being owned by you, our members, rather than shareholders.

The role of a building society board is one of stewardship, running the Society not just for the benefit of current members, but also for future generations of members. The notion of stewardship demands a long-term perspective on financial stability, customer propositions and investment. Therefore, the focus in the Code on boards promoting long-term sustainable success supports the Society's mutual ethos.

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

BOARD LEADERSHIP & COMPANY PURPOSE

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

The Society is led by an effective Board which meets at least eight times per year. In addition to its sixteen meetings in 2022, the Board held a strategy day to review the Society's overall strategic aims and long term objectives.

It is the Board's responsibility to oversee the delivery of the Society's corporate plan. The Board is also responsible for ensuring that an effective framework of prudent and effective controls is in place to enable risk to be assessed and managed. The Board is accountable to members for the careful direction of Society affairs, the safe stewardship of funds held on members' behalf and the provision of high quality products and services which meet the needs of individual members whilst offering a fair deal to all.

There have been a number of changes to the Board during 2022. John Kelly, Operations Director, resigned from the Board on 23 February 2022 and left the Society on 31 March 2022. Jane Kimberlin was appointed as Senior Independent Director with effect from 9 March 2022. Richard Goddard, Chair of Board Risk Committee and Senior Independent Director, left the Society on 31 March 2022 at the end of his tenure. Darren Ditchburn, Deputy Chief Executive, was co-opted to the Board as an Executive Director on 30 June 2022. Felicity Bambery was co-opted to the Board on 27 July 2022 as a Non-Executive Director. Robert Broadbent, Finance Director, left the Society on 5 November 2022 and was replaced by Steve Clarke who was co-opted to the Board on 30 November 2022. At the end of 2022, the Board consisted of six Non-Executive Directors and four Executive Directors. The Non-Executive Directors meet regularly without the Executive Directors being present.

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

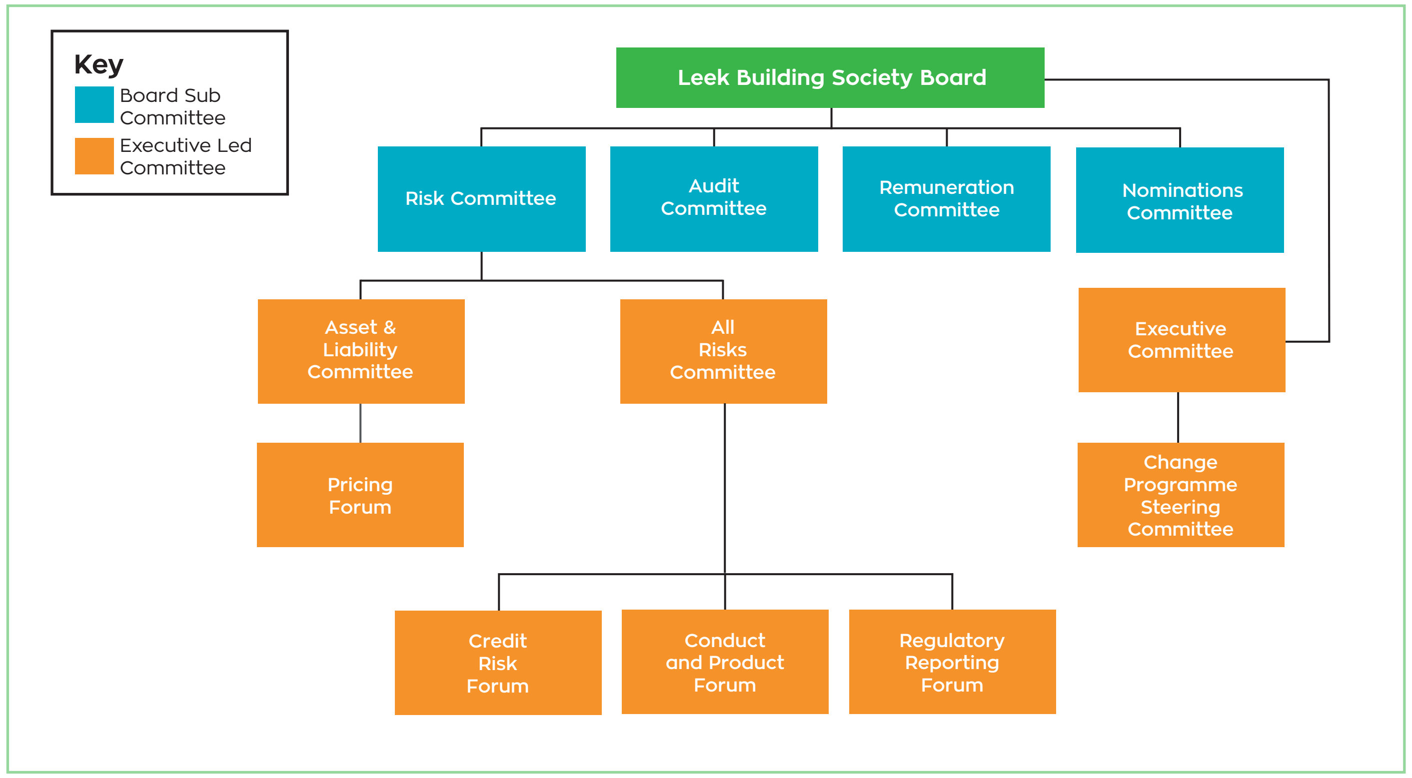
The Board ensures the effectiveness of systems, internal controls and risk management through a combination of processes, including:

- Regular reports are provided to the Board and Board Risk Committee by the Society's Chief Risk Officer (CRO) on the principal risks facing the Society and the adequacy of controls that are in place.
- Regular reports are provided to the Board and the Board Audit Committee by Internal Audit with respect to its independent audits of risk management processes and the effectiveness of internal controls across the Society.
- An annual assessment of the effectiveness and independence of the Society's Risk and Compliance function is conducted by the CRO which is considered by the Board Risk Committee.
- The Board receives a monthly CRO report which provides an independent assessment of current and emerging risks and the effectiveness of the controls and mitigating actions that are in place.
- An independent reporting line between the CRO and the Chair of the Board Risk Committee is maintained at all times.
- The Board reviews the adequacy and security of the Society's arrangements for its employees and contractors to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters. The Board ensures these arrangements allow for proportionate and independent investigation of such matters and appropriate follow up action.

The Board can confirm that during 2022, it carried out a review of the Society's risk management systems and internal control framework and it is satisfied that these are adequate, taking into account the Society's size, risk profile and strategy.

The Society's governance structure (right) includes both Non-Executive and Executive led committees. The Non-Executive led committees comprise the Board Risk Committee, Board Remuneration Committee, Board Audit Committee and Board Nominations Committee. The Non-Executive Directors who chair the aforementioned committees provide feedback to the main Board following each meeting. The Executive led committees comprise the Executive Committee, All Risks Committee, Credit Risk Forum, Asset & Liability Committee, Conduct and Product Forum, Pricing Forum, Change Programme Steering Committee and Regulatory Reporting Forum. The Executive Directors who chair the aforementioned committees provide feedback to the main Board, or relevant Board subcommittee, following each meeting. The responsibilities and activities of the various Board subcommittees are described in detail on pages 41 to 42 of this annual report.

Governance Committee Structure



Board Risk Committee

The Board Risk Committee, a subcommittee of the Board, has a number of responsibilities which are set out in the Board Risk Committee Report on page 54.

Board Audit Committee

The responsibilities of the Board Audit Committee, a subcommittee of the Board, are set out in the Board Audit Committee Report on page 48.

Board Remuneration Committee

The responsibilities of the Board Remuneration Committee, a subcommittee of the Board, are set out in the Board Remuneration Committee Report on page 52.

Board Nominations Committee

The responsibilities of the Board Nominations Committee, a subcommittee of the Board, are set out in the Board Nominations Committee Report on page 50.

The Terms of Reference for the Board and Board subcommittees are available on the Society's website www.leekbs.co.uk. Proceedings of all committees are formally minuted. Minutes are distributed to all Board members and the Chair of each committee reports on key matters covered at the following Board meeting.

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

The Board has defined the Society's purpose, values and strategy and reviews the Society's culture to ensure its alignment with these. The Chair is responsible for leading the development of the Society's culture, while the Chief Executive is responsible for overseeing the adoption of the Society's culture in the day-to-day management of the Society.

The management information reviewed by the Board includes reporting on the Society's culture. A Culture Update is provided to the Board under the Society's four core values on a quarterly basis by way of a culture dashboard and supporting commentary.

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

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

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

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

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

As a mutual organisation, the Society has members rather than shareholders. Member involvement is encouraged by inviting savers and borrowers to engage with the Society in various ways. That is not to say that every member must be an active participant but they should be able to if they so wish. The Society uses a range of methods to promote active participation and engagement with members including regular real-time member feedback via the independent Smart Money People platform, an annual governance survey, certain member engagement events and by providing insightful website content and updates including direct member mailings where email addresses are held. A member newsletter was issued to savings members in September 2022 which included an introductory message from the CEO and details of cost-of-living support for members, the Society's name change, investment in branches, the launch of online savings, charitable donations, savings interest rates and the support available to those struggling with the increasing cost of living. A second newsletter was issued to mortgage members in early 2023. Real-time Smart Money People feedback was shared with, and

CORPORATE GOVERNANCE REPORT

(CONTINUED)

reviewed by, the Board on a monthly basis since the platform's launch in June 2022. In addition, a governance survey was issued to members as part of the Annual General Meeting mailing to obtain member views on a range of areas, including how effectively the Society is run and the extent to which Member interests are at the heart of the Society's decisions. While feedback was generally positive, the Board agreed a number of follow-up actions from this survey which have been implemented.

The 2022 Annual General Meeting (AGM) represented the Society's first in-person AGM since 2019 and provided a valuable opportunity to meet with members in a face-to-face setting. Members who did not attend were also provided with the opportunity to ask questions of the Board ahead of the meeting. Minutes of the AGM, which included all voting details as well as questions raised by members and answers provided, were published on the Society's website following the meeting.

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

The Board ensures that workforce policies and practices are consistent with the Society's values and support its long-term sustainable success. The Board engages directly with employees in a number of ways, including through the hosting by Non-Executive Directors of regular staff forums where a cross-section of colleagues are invited to share their views on a range of matters relating to the Society's culture and management. Three such forums were held in 2022. A number of branch visits were also conducted by Board members which provided additional opportunities for valuable two-way feedback. Staff feedback gained through these mechanisms was shared with the wider Board and considered when making decisions. In addition, Board members observed a number of internal committee and operational meetings. A log summarising Board members' interactions with employees and any issues raised was also maintained and actively managed. In addition, an employee survey was conducted in November, with its results and associated actions reviewed at the subsequent Board meeting.

The Board reviews the adequacy of the Society's arrangements for its employees to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters. The Board ensures these arrangements allow proportionate and independent investigation of such matters and appropriate follow up action. The Society has a Board-approved Whistleblowing Policy and the Society's Whistleblowing Champions are Jane Kimberlin, Senior Independent Director and Rachel Court, Chair. In support of their responsibilities as Whistleblowing Champions, an annual whistleblowing report is provided to the Board to set out the whistleblowing disclosures during the reporting period. Annual testing is also conducted as part of the review of the Whistleblowing Policy to ensure (which they did) that the corresponding processes to escalate a whistleblow worked effectively and that there were no detrimental impacts to the reporter.

DIVISION OF RESPONSIBILITIES

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

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

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

To support Board governance and stability, the Board during the year approved a proposal from the Board Nominations Committee to extend the Chair's tenure by one year. Rachel Court's 9-year tenure was due to come to an end in November 2023 and the Board approved an extension to her end date to November 2024. The relevant sections of the Financial Reporting Council's Corporate Governance Code and Guidelines for Board Effectiveness were reviewed and fully complied with. Rachel remains independent and free of conflicts of interest and continues to perform both as Chair and Non-Executive Director with the highest standards of integrity, diligence and independence whilst robustly holding management to account, demonstrating objective judgement and promoting constructive challenge among other Board members.

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

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

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

On appointment, Non-Executive Directors receive a formal letter clearly setting out the Society's expectations in terms of time commitment, committee service and involvement in activities other than meetings of the Board and/or its committees. The attendance record of Board Directors at Board and Board subcommittee meetings in 2022 is set out right. These meetings were held using a mix of face-to-face and virtual meetings.

Directors are required to declare any potential or actual conflicts of interest that could interfere with their ability to act in the best interests of the Society. The Company Secretary maintains a Directors' Interest Register, which is a record of actual and potential conflicts. Where a conflict may exist or where a matter concerns an individual Director, that Director will excuse himself/herself from the discussions and will not be part of any decision taken. Where Directors have significant other commitments outside the Society, these are set out in the information relating to Directors on page 106.

Attendance record of Board Directors at Board and Board subcommittee meetings

	Name	Board	Board Audit Committee	Board Risk Committee	Board Nominations Committee	Board Remuneration Committee
Non-Executive Directors	Keith Abercromby	14 (16)	6 (6)	6 (6)		
	Felicity Bambery from 27/07/2022	9 (9)	3 (3)	3 (3) 'A' until 27/09/2022		
	Dave Cheeseman	14 (16)	6 (6)	6 (6)	8 (8) 'A' until 27/04/2022	
	Rachel Court	14 (16)			8 (8)	8 (8)
	Richard Goddard to 31/03/2022	4 (4)	2 (2)	2 (2)	2 (2)	
	Jane Kimberlin	16 (16)		6 (6)	8 (8)	8 (8)
	John Leveson	15 (16)	5 (6)			8 (8)
Executive Directors	Robert Broadbent to 05/11/2022	13 (13)	5 (5) 'A'			
	Steve Clarke from 14/11/2022	2 (2)	1 (1) 'A'			
	Andrew Davies	15 (16)	6 (6) 'A'	6 (6) 'A'		
	Darren Ditchburn from 31/01/2022	15 (15) 'A' until 30/06/2022				
	Andrew Healy	16 (16)	6 (6) 'A'	5 (6) 'A'	8 (8)	8 (8) 'A'
	John Kelly to 23/02/2022*	3 (3)				

( ) = number of meetings eligible to attend
'A' = attendee at the meeting
**John Kelly resigned from the Board with effect from 23/02/2022 and left the Society on 31/03/2022*

As stated under Principle A, the Non-Executive Directors meet without the Executive Directors being present on a regular basis.

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

The Society has a Board Secretariat position which is held by the Head of Compliance & Secretariat who ensures that all Directors have appropriate access to information, resources and support services. Should it be required, the Directors can take independent legal advice at the Society's expense.

In addition to attending Board meetings, it is a requirement for Board members to ensure their knowledge is updated appropriately in order to demonstrate their ongoing fitness and propriety – in line with the regulated Senior Managers and Certification Regime as well as the requirements of the UK Corporate Governance Code. During 2022, two dedicated Board training days were held to enable Board members to upskill and refresh their knowledge, in addition to Board members completing required e-learning and other ad hoc training.

COMPOSITION, SUCCESSION AND EVALUATION

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

The role of the Board Nominations Committee is set out on page 50 of the Board Nominations Committee Report. This report includes details of how the Society complies with this principle.

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

The role of the Board Nominations Committee is set out on page 50 of the Board Nominations Committee Report. This report includes details of how the Society complies with this principle.

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

The role of the Board Nominations Committee is set out on page 50 of the Board Nominations Committee Report. This report includes details of how the Society complies with this principle.

The guidance within the UK Corporate Governance Code sets out that smaller firms should consider a Board effectiveness review periodically. The Society completes an internal Board effectiveness review on an annual basis and an external Board effectiveness review every five years. The last external Board effectiveness review was completed in March 2020, therefore the next review will be due for completion in 2025.

CORPORATE GOVERNANCE REPORT

(CONTINUED)

AUDIT, RISK AND INTERNAL CONTROL

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

The role of the Board Audit Committee is set out on page 48 of the Board Audit Committee Report.

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

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

The Board and Board Audit Committee believe that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the necessary information to members to assess performance, strategy and the business model of the Society. The Statement of Directors' Responsibilities is on page 63 and sets out the Board's responsibilities for the preparation of the Society's and Group's annual report and accounts. Business performance is reviewed in detail in the Strategic Report and a statement that the Group's business is a going concern is included in the Directors' Report.

The Board Audit Committee reviewed the Society's accounting policies to ensure that they are in accordance with applicable Accounting Standards and have been applied consistently. The Committee is satisfied that the 2022 Annual Report and Accounts meets this requirement and on 27 February 2023 recommended its approval to the Board.

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

The Society uses the Risk Management Framework (RMF), which is approved by the Board, as part of its strategy to manage risk proactively in accordance with its prudent risk appetite. The Board owns and approves the risk appetite for the Society. The RMF identifies the processes, ownership, responsibilities and risk oversight required to support its effective implementation across the Society. The Society operates a 'three lines of defence' governance model, as shown on page 58, to ensure appropriate responsibility is allocated for the management, reporting and escalation of risks.

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

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

REMUNERATION

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

The remuneration policies for both Executive and Non-Executive Directors are considered to be fully compliant with this principle. The role of the Remuneration Committee is set out in the Board Remuneration Committee Report on page 52.

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

The remuneration policies for both Executive and Non-Executive Directors are considered to be fully compliant with this principle. The role of the Remuneration Committee is set out in the Board Remuneration Committee Report on page 52.

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

The remuneration policies for both Executive and Non-Executive Directors are considered to be fully compliant with this principle. The role of the Remuneration Committee is set out in the Board Remuneration Committee Report on page 52.

Rachel Court
Chair
27 February 2023

IN THE NEWS

Name change for building society

Building society unveiled as Vale sponsor

Partnership with Football League club draws on 'commitment to the local community'

By Les Jackson

Grants of up to £5k offered by society's new foundation

Leek United set up charitable scheme to help organisations across the Midlands

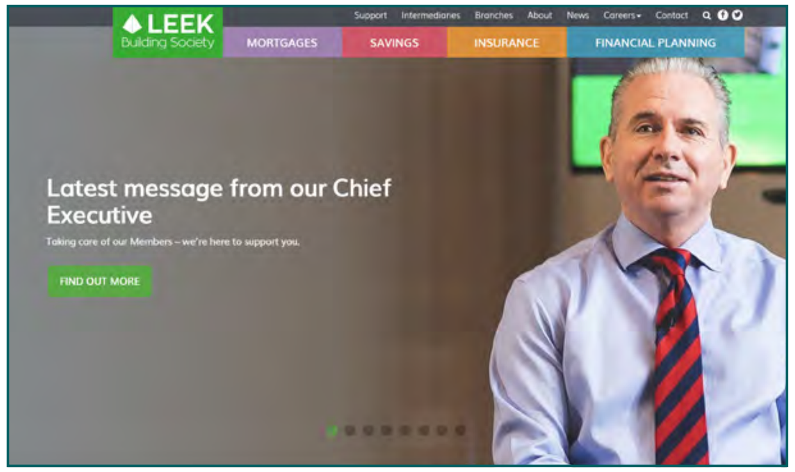
By Les Jackson

Customers are invited to 'pop in' and see new-look branch office

Social supermarket to open in town after Building Society grant

Rob Longmore – HR director at Leek United Building Society along with Kathleen Wilshaw, Caleb Beech, Amanda Beech and Sean Thomson, all from The Green Tree House.

ENGAGING WITH MEMBERS & ACTING ON YOUR FEEDBACK



Throughout 2022, our CEO kept members informed with regular website updates

Leek News

Members' Newsletter - September 2022

Providing the human touch for 160 years

Dear Member,

The pandemic highlighted the importance of digital services but in Leek United, we remain passionate about the difference people make to our business and to our local community. So as a multitude of financial institutions close the doors of their branches, we're going against the grain – we're investing in our branches, refurbishing them and extending our on the ground community support through the services we provide and through our new charitable foundation.

But more than anything what sets us apart as a mutual is that we don't have shareholders, so we can (and do) look at everything from the perspective of how we can best support our members. With the cost of living crisis deepening, this is becoming increasingly important. For example, as the Bank of England base rate has continued to rise over the course of this year, we've supported members by increasing our savings rates four times while on the other hand, we haven't passed on the full base rate increases to those mortgage customers on variable rates.

Andrew Healy, CEO

"we're stronger and more committed than ever to supporting you"

If you're experiencing difficulties with the cost of living, please have a look at our website where you'll find information ranging from who to speak to if you're struggling with your mortgage repayments to helpful tips on ways you may be able to reduce your bills, as well as details of external agencies who offer free help and support.

We're extremely proud of the fact that 95% of our members are satisfied with their experience of our Society but we're not resting on our laurels. As we approach the wonderful milestone of 160 years of service, we're stronger and more committed than ever to supporting you – and we're investing and appropriately modernising our business to ensure we're around for another 160 years. More than anything, you can be assured that our friendly, personal, human touch is here to stay.

Andrew

Investing in our branches

Following our recent refurbishments in Uttoxeter and Cheadle, our Ashbourne branch is currently closed for a makeover. Please drop in to say hello when we re-open on Monday, 10 October and take a look at the magnificent new branch.

But we're not stopping there – next up is our branch on Leek St Edward Street which will be completed by the end of the year before we move on to our remaining branches next year.

Hello Uttoxeter

LEEK Building Society

Subtle name change, same great values

From 1 October, you might notice a small change to our name as we drop the word 'United' and become "Leek Building Society". We've done lots of research which found that members treasure the friendly service we provide, our branch presence and the core values which underpin everything we do. However, a number of existing members and potential new members felt there was scope to make a subtle change to our name to modernise it and at the same time remove the confusion that can arise where the word 'United' can make us sound like a football team.

While we'll make the tweak from the start of October, everything else will remain the same

Our first member newsletter was issued to savings members in 2022, with a second following for mortgage holders in early 2023

Putting our members first has been our key focus for 160 years. That's why we teamed up with the UK's leading review site for Financial Services, Smart Money People, to help us gather your valuable feedback on the products and services you receive from us

You Said...	We Did...
Maintain Communications & Member Engagement	During 2022, we used a range of methods to promote active participation and engagement with members including our annual member survey in April and regular real-time member feedback via the independent Smart Money People platform which was launched in June. Such feedback, whilst generally positive, has always been carefully listened to and acted upon where appropriate. There were consistent website updates, including information to support members with the cost-of-living crisis. A member newsletter was issued to savings members in September which included an introductory message from the CEO and details of cost-of-living support, the Society's name change, investment in branches, the launch of online savings, an update on our charitable foundation and our latest savings interest rates. A second newsletter was issued to mortgage members in early 2023.
Longer Branch Opening Hours	We extended our branch opening hours to better align with demand at those branches which were refurbished during 2022. We will continue to review our branch opening hours throughout 2023.
Higher Savings Interest Rates	We increased our savings rates throughout 2022. We took a very fair and balanced approach to the rising interest rate environment and sought to pass as little as possible of the Bank of England base rate increases on to mortgage borrowers whilst providing highly competitive fixed and variable rate products to savings members. We also continued to provide preferential loyalty products to existing savings members with higher rates of interest than those on offer to new customers.
Improved Online Services	In November, we launched our first online service, Leek Online, which enables members to manage their money safely and securely with increased convenience. This includes opening new savings accounts, viewing important information such as transactions and interest rates, and sending faster payments to a nominated bank account. Mortgage members can also view important information relating to their mortgage including outstanding balance, interest rate payable and payments.

BOARD AUDIT COMMITTEE REPORT

The main purpose of the Audit Committee is to review the Society's financial reporting arrangements, the effectiveness of its internal controls and its risk management framework and exercise oversight of the internal and external audit processes. Through the Committee the Board has established formal policies and procedures to ensure the independence and effectiveness of the internal and external audit functions and satisfy itself on the integrity of the financial statements. The Committee met six times during the financial year. The Committee reports to the Board on its activities and makes recommendations to the Board. The key responsibilities of the Committee are set out below, together with examples of how it discharges these duties.

Membership

Committee Chair: Keith Abercromby
Committee Members: Felicity Bambery, John Leveson, Dave Cheeseman

Committee composition, skills and experience

The Committee acts independently of the executive to ensure that the interests of members are properly protected in relation to financial reporting and internal control. All of the current members of the Committee are independent Non-Executive Directors. The Chair of the Committee, Keith Abercromby, is a Fellow of the Institute of Actuaries with significant recent and relevant accounting and audit experience. Dave Cheeseman, Chair of Board Risk Committee, is a member of the Audit Committee, ensuring the two committees work closely together. The Committee as a whole has competence relevant to the financial services sector.

Audit Committee key responsibilities

Financial reporting	• Monitoring the integrity of the Society's financial statements and reviewing key accounting judgements, policies and estimates. • Reviewing the appropriateness of the going concern basis for preparing the accounts. • Recommending to the Board whether the Annual Report and Accounts, when considered as a whole, are fair, balanced and understandable.
External audit	• Considering the appointment, removal, performance and remuneration of the external auditor. • Reviewing the objectivity and independence of the external auditor and the appropriateness of any non-audit services that are delivered. • Reviewing the scope, planning and matters arising from the annual external audit, including any findings raised in the external auditor's management letter. • Reviewing the effectiveness of the external audit process.
Internal control and risk management	• Reviewing the adequacy and effectiveness of the Society's internal control and risk management frameworks. • Reviewing statements including in the Annual Report and Accounts concerning internal controls and risk management.
Internal audit	• Considering and approving the internal audit plan. • Reviewing internal audit reports and considering management responses to internal audit recommendations. • Monitoring and evaluating the effectiveness of internal audit. • Considering the appointment, removal, performance and remuneration of the internal auditor.

Financial reporting

The Committee considered the following significant accounting judgements and estimates, giving due consideration to reports received from external auditors and discussion with management. Further information on the principal judgements and accounting estimates is provided in Note 1 to the accounts:

Allowance for impairment losses on loans and receivables

The Committee reviewed the impairment allowance required for both the individual and collective mortgage impairment allowances. This assessment is based on the level of arrears and forbearance on customer accounts. The key estimates are the probability of defaults applied to the different arrears and forborne segments, the forced sale discount and the expected levels of loan exposure compared to expected levels of security, including mortgage indemnity guarantee (MIG) where appropriate.

Specific consideration has been given to the cost-of-living crisis and how this will impact impairments. The increases in energy costs in particular have been unprecedented and, combined with rising interest rates, have undoubtedly put pressure on member finances. Whilst the Society adopts a prudent approach to mortgage affordability, it is likely that some borrowers will find it challenging to absorb such increases. Ongoing analysis of key pre-arrears indicators and the capacity of borrowers to absorb higher costs has allowed the Society to identify those borrowers most at risk of default. This has been supplemented by credit reference agency data which provides a broader perspective of our borrowers' financial position, with missed payments on other debt being a forward indicator of a mortgage default. Based on this analysis and anticipated economic conditions through the recovery period for loans in default, the Committee deemed a specific overlay, in addition to the individual and collective impairment allowance, of £0.4m was appropriate.

At year end 2021, the post model overlay included a provision of £0.2m which was put in place to reflect the Society's possible exposure to a small cohort of properties within our portfolio with potentially dangerous cladding. The key estimate being the degree to which the value of such properties had been negatively impacted. Following positive political and industry initiatives to resolve the problem of remediating impacted properties, the Committee concluded that this risk had moderated and that the previous provision was no longer required. This has therefore been fully released.

Effective Interest Rate (EIR)

IAS39 requires all cashflows attributable to mortgage products to be spread over their expected life under what is referred to as an effective interest rate basis. Such cashflows include upfront application fees, the cost of free valuations offered, any cash back provided, broker fees and the cost of any mortgage indemnity guarantee (MIG) insurance. The key judgements made in respect of EIR are the expected behavioural life of the loans, any expected early repayment charges and the likely reversion to Standard Variable Rate.

Retirement benefit obligations

The Committee considered the assumptions utilised in the valuation of the defined benefit pension scheme. The valuation is particularly sensitive to expectations of long-term corporate bond yields, inflation and mortality. Management appointed a third-party specialist for the valuation of the defined benefit pension scheme, which included advice on the assumptions to use and the sensitivity of those assumptions. Having reviewed the sensitivities applied after benchmarking against external data and other organisations, the Committee was satisfied that the pension assumptions were in an appropriate range.

Further information regarding the sensitivities of these assumptions is provided in Note 1 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 cautious end of the range of sensitivities and that they were appropriately dealt with in the accounts.

Accounting policies, annual reporting and approval

The Committee reviewed the Society's accounting policies to ensure that they are in accordance with applicable Accounting Standards and have been applied consistently. The Committee also considered whether the 2022 Annual Report and Accounts, when considered as a whole, were fair, balanced and understandable. The Committee is satisfied that the 2022 Annual Report and Accounts meet this requirement and on 27 February 2023 recommended their approval to the Board.

External audit

The Committee is responsible for assessing the effectiveness of the external audit process and for monitoring the independence and objectivity of the external auditor. Both the Board and the external auditor have adequate safeguards in place to ensure the independence and objectivity of the external auditor.

The Society has established a policy that determines when the external auditor can be used for non-audit work and would not consider the appointment of the external auditor for non-audit work where this could, or could be perceived to, impair their independence.

Fees for non-audit work are disclosed in note 6 to the accounts.

In response to a significant increase in external audit fees over recent years, the Committee undertook a tender process for external audit services during 2022 to ensure optimal value for members. Following a robust selection process, the Board accepted the Audit Committee's recommendation to appoint PwC LLP as external auditor from 2023. A formal resolution to appoint PwC LLP as external auditor will be put before the Society's members at the Annual General Meeting on 26 April 2023.

Internal control and risk management

Details of the Society's risk management framework are set out in the Risk Management Report on pages 58 to 62. The Committee has received formal reports from the Society's Risk & Compliance and Internal Audit functions on the Society's internal controls and following due consideration, is satisfied that the control environment has operated effectively during the year.

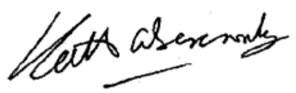
Internal audit

Internal audit services are outsourced to Deloitte LLP. During the year the Committee monitored the delivery of the internal audit plan and the effectiveness of the internal audit function. In doing so it gained assurance that the resources required to deliver the internal audit plan were available.

In the year to 31 December 2022, Internal Audit carried out a number of internal audits with the findings from each report being presented to the Committee. The Committee also considered the adequacy of management responses to internal audit recommendations and, where appropriate, the implications of any significant findings on the effectiveness of the overall internal control system and the risk management framework.

Assessment of effectiveness

In 2022, the Committee conducted an internal review of its own effectiveness. This involved collective consideration by Committee members of how effectively the Committee had discharged its responsibilities, including a self-assessment against an externally produced effectiveness framework. This review concluded that the Committee continued to operate effectively.



Keith Abercromby
Chair of Board Audit Committee
27 February 2023

BOARD NOMINATIONS COMMITTEE REPORT

The purpose of the Board Nominations Committee is to ensure the Society has appropriately skilled individuals to carry out Board and executive management roles. The Committee leads the process for appointments to such positions and ensures robust succession plans are in place for them. It adopts a continuous and proactive process of planning and assessment, taking into account the Society's strategic priorities and the main trends and factors affecting the long-term success of the Society. The Committee met eight times during 2022.

Membership

Committee Chair: Rachel Court
Committee Members: Dave Cheeseman, Jane Kimberlin and Andrew Healy

Committee composition, skills and experience

The majority of the Committee are independent Non-Executive Directors. The Committee's Chair, Rachel Court, has extensive experience within the financial services sector and is well placed to lead the Committee. Other members of the Committee are independent Non-Executive Directors Dave Cheeseman and Jane Kimberlin, in addition to Chief Executive Andrew Healy. Together these members provide a wide range of background experience to equip the Committee to fulfil its purpose. Dave Cheeseman was appointed to the committee in March 2022 following the departure of Richard Goddard who had reached the end of his tenure with the Society.

Board Nominations Committee key responsibilities

Board Composition	• Ensure the Board and its committees have the capabilities required to be effective, including an appropriate range and balance of skills, experience, independence, knowledge and behaviours. • Put in place processes for the recruitment and selection of suitably qualified persons to act as Directors of the Society. • Recommend to the Board as to whether or not Directors should be nominated and supported for re-election. • Review and act upon the results of the annual Board performance evaluation process that relate to the composition of the Board.
Diversity	• Ensure the Board is made up of a diverse mix of individuals to ensure effective decision-making and robust challenge. • Review and approve the Society's policies on and approach to equality, diversity and inclusion.
Succession Planning	• Ensure robust succession plans are in place for Board and executive management roles.

Board Composition

The Board Nominations Committee ensures that collectively, the Board has sufficient breadth and depth of experience to meet the requirements of the business. It uses a skills matrix to inform the overall evaluation of the Board's balance and range of skills, experience, independence, knowledge and behaviours. All Board members undertake an annual self-evaluation against this skills matrix to ensure that any gaps are identified and acted upon, for example through additional training.

The Committee ensures that appropriate arrangements are in place for the recruitment and selection of suitably qualified persons for all Board and executive management roles. There is a formal and rigorous approach to such appointments, with the Board Nominations Committee leading the process and making recommendations to the Board. This ensures that all individuals meet the fitness and propriety standards of the Prudential Regulation Authority and Financial Conduct Authority and that they have the capabilities and experience to discharge their responsibilities under the Senior Managers and Certification Regime. Annual assessments of fitness and propriety standards ensure that Directors and executives continue to have the required capabilities and experience to discharge their responsibilities.

Consideration is given to the length of service of the Board as a whole and membership is refreshed as appropriate. During 2022, the Committee reviewed the Board skills matrix, taking into particular account Non-Executive Director Keith Abercromby's planned departure in April 2023. Of particular focus was that Keith has been Chair of the Board Audit Committee for a number of years. The Committee conducted a rigorous recruitment process to identify a successor for Keith and succeeded in sourcing a range of credible and suitably qualified candidates without the use of an external search agent on this occasion. This process led to Felicity Bambery being selected and subsequently co-opted to the Board as an independent Non-Executive Director and member of both the Board Risk Committee and Board Audit Committee.

In terms of the position of Senior Independent Director (vacated when Richard Goddard retired from the Board in March 2022), Jane Kimberlin, who has served as a Non-Executive Director on the Society's Board for six years, was appointed to this role following a detailed process which took place in 2021 and which was referenced in last year's report.

To support Board governance and stability, the Board approved a proposal from the Board Nominations Committee to extend the Board Chair's position by one year. Rachel Court joined the Board in November 2014 and has held the position of Chair since April 2016. Her nine-year tenure was due to come to an end in November 2023 and after detailed consideration, the Board approved an extension to her end date to November 2024. The relevant sections of the Financial Reporting Council's Corporate Governance Code and Guidelines for Board Effectiveness were reviewed to ensure this extension would be fully compliant and appropriate. Rachel remains independent and free of conflicts of interest and continues to perform both as Chair and Non-Executive Director with the highest standards of integrity, diligence and independence whilst robustly holding management to account, demonstrating objective judgement and promoting constructive challenge among other Board members. It should be noted that Rachel was not involved in either the production of the proposal from the Nominations Committee or the related Board discussions and approval.

In terms of executive management, Darren Ditchburn joined the Society as Deputy Chief Executive, replacing former Operations Director, John Kelly, who stepped down in March 2022. Darren has significant experience within the building society sector and is responsible for IT & Change, Customer Operations and the Branch Network. In addition, in the second half of the year, the Committee led the process to identify a suitable candidate to become the Society's Finance Director following the resignation of Robert Broadbent. This culminated in the appointment of Steve Clarke who joined in November, bringing with him a wealth of relevant sector experience.

Under the Society's Rules, new Directors must stand for election at the Annual General Meeting no later than the financial year after which they were appointed and therefore Felicity Bambery, Darren Ditchburn and Steve Clarke will stand for election at the 2023 Annual General Meeting. The Society has adopted the 'best practice' approach of putting all Non-Executive Directors forward for re-election by Members annually, and all existing Non-Executive Directors were duly re-elected in April 2022.

The Society may use independent search and selection agencies to support recruitment. In 2022, the process to identify a replacement for Robert Broadbent, as referenced above, was concluded resulting in the appointment of Steve Clarke. To support this process, the Committee engaged the services of Fletcher Jones Limited. The Society's only connection with Fletcher Jones Limited is for recruitment and selection.

Diversity

The Board recognises the importance of having a diverse mix of people at all levels within the Society, including, but not limited to, their skills, knowledge, experience, education, profession, race, disability, age and gender. Diversity and inclusion are core considerations in both the appointment of Board members and the continuing development of the Board. The Society is a signatory to HM Treasury's Women in Finance Charter and has recently published progress against the associated commitments which are summarised below:

- Designating a member of the senior executive team with responsibility for gender diversity and inclusion. This is Chief Executive, Andrew Healy.
- Achieving a minimum of 45% representation of females by December 2023 across the combined Board of Directors, Executive Committee and Senior Management. The current figure is 43%, up from 33% at the end of 2021.

During the year, the Society actively engaged with the Discussion Paper *DP 21/2: Diversity and inclusion in the financial sector – working together to drive change*, which was jointly produced by the Financial Conduct Authority, Prudential Regulation Authority and the Bank of England. It should be noted that ahead of any regulatory requirements, a strong and stretching strategy has already been approved by the Board which will facilitate the Society becoming an even more diverse and inclusive place to work.

Succession Planning

A key focus of the Committee during the year has been to ensure robust succession plans are in place for the Board and executives. The Financial Reporting Council's guidance to succession planning has been followed in terms of planning across the following different time horizons:

- Contingency Planning – for sudden and unforeseen departures. Who will be ready to take over, even if only in a caretaker/temporary capacity?
- Medium-term Planning – orderly replacements for e.g. retirements. Those individuals who, with development, could be ready in 1-2 years.
- Long-term Planning – the relationship between the delivery of strategy and objectives and the skills needed now and in the future. Those individuals who, with development, could be ready in 3-5 years.

The Committee has reviewed the existing succession plan and is satisfied that it is suitably robust in light of this guidance. The Committee continues to oversee the development of potential internal candidates for Executive Director positions as well as planning for the succession of NED positions and associated Committee Chairmanships in line with anticipated NED term expires.

While the Chair of the Society's Board of Directors, Rachel Court, is the Chair of the Board Nominations Committee, it should be noted that she does not chair the latter when it is dealing with the appointment of her successor. As noted above, Rachel was not involved in the discussions held during the year regarding the extension of her tenure as Board Chair and Non-Executive Director.

Board Evaluation

The Board undertakes a formal and rigorous annual evaluation of its own performance and that of its committees and individual Directors. This evaluation encompasses composition, committee structure, dynamics, administration, agenda, development and performance. It is the Board Nominations Committee's responsibility to review the results of the Board performance evaluation process that relate specifically to the composition of the Board. Other aspects of this evaluation process are considered by the Board as a whole.

Through the Board evaluation process, feedback is sought as to whether each Director continues to contribute effectively in their role. This feedback is incorporated into each Director's annual performance appraisal. The performance evaluation of the Chair is conducted by the Non-Executive Directors, led by the Senior Independent Director, and takes into account the views of the Executive Directors.

In line with the UK Corporate Governance Code, the Board's effectiveness is also evaluated periodically by external consultants. The most recent external review was carried out by Deloitte LLP in 2020.

Assessment of Effectiveness

In December 2022, the Board Nominations Committee conducted an internal review of its own effectiveness. This involved collective consideration by Committee members of how effectively the Committee had discharged its responsibilities. This review concluded that the Committee continued to operate effectively during the year.

Rachel Court
Chair of the Board Nominations Committee
27 February 2023

BOARD REMUNERATION COMMITTEE REPORT

The purpose of the Board Remuneration Committee is to consider, review and recommend to the Board the overarching Remuneration Policy for the Society. The Committee has responsibility for determining remuneration for Executive Directors and those members of senior management who comprise the Executive Committee as well as for producing the remuneration framework for all employees of the Society.

Through the Committee, fees payable to the Chair of the Board are set and recommendations are made to the Board for fees paid to other Non-Executive Directors, including travel and associated expenses. In carrying out its duties, the Board Remuneration Committee is cognisant of the requirements of the FCA Remuneration Code and the UK Corporate Governance Code.

Membership

Committee Chair: John Leveson
Committee Members: Rachel Court, Jane Kimberlin

Committee composition, skills and experience

The Committee is comprised solely of Non-Executive Directors. The Committee's Chair, John Leveson, has considerable experience in remuneration governance and has over 40 years of experience in a wide range of roles within the building society sector. Prior to his appointment as Chair, John had served on the Committee for 13 months. John is joined on the Committee by Rachel Court and Jane Kimberlin, both of whom bring considerable experience in remuneration and human resources matters. The Chief Executive and HR Director also attend meetings (except for items relating to their remuneration) but are not members. The Committee met eight times during 2022. There were no changes to the Committee's membership during 2022.

Board Remuneration Committee key responsibilities

Remuneration Policy	• Conduct an annual review of the overarching Remuneration Policy for the Society and recommend this to the Board.
Remuneration	• Determine the remuneration of the Board Chair, all Executive Directors and other members of executive management, including pension rights and any compensation payments. • Approve the salary of the Chief Risk Officer based on a recommendation from the Chair of the Board Risk Committee. • Recommend to the Board Chair and Executive Directors fees for Non-Executive Directors as well as travel and other expenses payable. • Conduct an annual review to determine the remuneration of executives and if executive salaries/remuneration packages warrant being adjusted, taking account of factors such as the Society's financial position, inflation and the economic outlook. • Conduct an annual review to determine if a financial bonus should be paid to staff and/or if staff salaries warrant being adjusted, taking account of factors such as the Society's financial position, inflation and the economic outlook.
Remuneration Reporting	• Report to members annually in the Society's Annual Report & Accounts on the activities of the Board Remuneration Committee and also provide the Directors' Remuneration Report. The latter report will be subject to an advisory vote at the Annual General Meeting.

Remuneration Policy

The Society's Remuneration Policy aims to align remuneration with the delivery of the Society's strategy as set out in its corporate plan in order to promote long-term sustainable success. The Committee reviewed the Remuneration Policy during the year and it was subsequently approved by the Board.

Remuneration

The Committee reviews the remuneration of both Executive Directors and Non-Executive Directors and approves any significant changes to the pay structure of the wider workforce. No Director is involved in reviews or decisions regarding his/her own remuneration. During 2022, the Board Remuneration Committee addressed the following key matters:

- Approved a Society wide salary increase following a detailed review process being undertaken which gave consideration to Society performance, financial resilience, cost of living pressures and the prevailing economic situation. This resulted in an 8% increase for staff earning up to £20,000, 5% for employees earning between £20,000 and £35,000 and a 4% increase for those earning over £35,000. Of the Executive Directors, the Deputy Chief Executive, Chief Risk Officer, Director of Lending and HR Director received the 4% salary increase. The Chief Executive received a mid-year salary realignment following a detailed and robust benchmarking exercise. The rationale for this realignment is explained in the Directors' Remuneration Report. The committee also applied the 4% salary increase to the Chief Executive's remuneration given that the aforementioned benchmarking exercise used data from the previous year's accounts of peer organisations.
- Determined that no staff bonus scheme would operate in 2022 but taking account of the exceptional impacts of the cost of living crisis, the Committee approved a one-off payment to all staff of £1,600. This was also paid to the Executive Directors, though the Chief Executive chose to waive his entitlement to this payment.
- Recommended to the Chair of the Board and Executive Directors a 4% increase in fees for Non-Executive Directors which aligned with the approach taken for higher earners across the Society. This was subsequently approved.
- Approved a 4% increase in fees for the Chair of the Board of Directors. The Board Chair did not participate in this process.
- Approved the remuneration package for the Finance Director who joined the Society and was co-opted to the Board in November 2022.
- Recommended to the Chair of the Board of Directors and Executive Directors the updated Non-Executive Directors' Expenses Policy which did not contain any material changes. This was subsequently approved.

Remuneration Reporting

The table in the Directors' Remuneration Report on page 56 summarises Directors' pay and benefits for the year ended 31 December 2022. This report includes the key disclosure requirements of the UK Corporate Governance Code and complies with the FCA Remuneration Code. It will be the subject of an advisory vote at this year's Annual General Meeting.

Board Remuneration Committee Effectiveness

In December 2022, the Board Remuneration Committee conducted an internal review of its own effectiveness. This involved collective consideration by Committee members of how effectively the Committee had discharged its responsibilities. This review concluded that the Committee continued to operate effectively during the year.

John Leveson
Chair of the Board Remuneration Committee
27 February 2023

BOARD RISK COMMITTEE REPORT

The purpose of the Board Risk Committee is to consider all risk related matters, in particular, to ensure the Society has an effective risk management framework, has a clearly defined risk culture, an effective control environment and that risk is being managed robustly. The Committee met six times during the financial year. The Committee reports to the Board on its activities and makes recommendations to the Board. The key responsibilities of the Committee are set out below, together with examples of how it discharges these duties.

Membership

Committee Chair: Dave Cheeseman
Committee Members: Keith Abercromby, Jane Kimberlin, Felicity Bambery

Committee composition, skills and experience

The Committee acts independently of the executive and on behalf of the Board to ensure that the interests of members are properly protected in relation to the management of risk. All of the current members of the Committee are independent Non-Executive Directors. The Chair of the Committee, Dave Cheeseman, is a Fellow of the Institute of Actuaries with significant experience in financial services. The Chair of the Society's Audit Committee, Keith Abercromby, is also a member of the Board Risk Committee ensuring the two committees work closely together. The Committee as a whole has competence relevant to the financial services sector.

Board Risk Committee key responsibilities

Risk strategy & risk appetite	• Ensure the Society has a clearly defined risk strategy and risk appetite statement that aligns to its purpose, values, and strategic objectives. • Recommend to the Board the design, development and implementation of a risk management framework (RMF) consistent with the risk strategy. • Assess whether the risk strategy and broader RMF clearly defines the approach to managing risk; details the aggregate types and extent of risk the Society is prepared to accept; and translates into a robust risk appetite framework that aids effective management decision making.
Risk culture	• Assess whether the Board's stated risk culture expectations have been appropriately translated into a framework of values and desired behaviours. • Monitor a clearly defined set of metrics and indicators to assess the degree to which the desired risk culture is embedded. • Consider whether executive management's attitude towards the internal control environment and identified remedial activities sets the appropriate tone and is supportive of a healthy risk culture.
Risk information and reporting	• Assess the quality and appropriateness of board-level risk information and reporting, ensuring significant matters are escalated promptly. • Review and recommend to the board for approval all material risk information for regulatory submission or external publication. • Ensure a robust stress testing framework is in place, challenging the severity and reasonableness of scenarios and key assumptions.
Risk management and internal control systems	• Ensure executive management has a sound understanding of the Society's current and emerging risks, how they may impact, both positively and negatively and consider the effectiveness of proposed or actual risk mitigations. • Assess the effectiveness of the organisation's emerging risk identification and horizon scanning processes. • Challenge whether executive management has assessed effectively the risks as well as the potential benefits associated with key strategic initiatives. • Monitor and challenge executive management on the adequacy of operational resilience and business continuity arrangements. • Assess the design, implementation and operation of risk management arrangements. • Ensure the internal control environment continues to operate effectively. • Assess the independence and effectiveness of the risk function. • Ensure that the risk appetite framework is appropriately embedded within management decision-making processes.

Risk strategy & risk appetite

In the first quarter of 2022, the Committee reviewed the Society's risk management framework as part of the regular annual update and recommended a number of enhancements, ensuring that it evolves in line with the Society's strategy. In particular, consideration was given to ensuring alignment with the Society's Environmental, Social & Governance (ESG) strategy.

Throughout the year, the Committee has closely monitored the deteriorating macro-economic environment and the potential risks to the Society's mortgage portfolio from the resulting cost-of-living crisis. Lending and affordability criteria have been the subject of robust review and challenge to ensure that borrowing members have the capacity to meet any further interest rate and inflationary shocks. There has also been a close focus on pre-arrears monitoring in order that the Society can identify members who may be at risk of experiencing financial difficulties and can provide early support.

The Committee has continued to pay close attention to all regulatory change, including the FCA's new Consumer Duty. It has ensured that the Society is well advanced in its preparations to meet the requirements of this key piece of regulation including a clearly articulated plan for delivery.

Risk culture

On an ongoing basis the Committee has assessed the degree to which the required risk culture is embedded. This has been primarily achieved through the monthly monitoring of the Risk Culture Dashboard which sets out performance against a suite of key metrics and indicators. An annual CRO report provides an independent second line opinion regarding embeddedness, further supported by Internal Audit's opinion through their Annual Conclusion.

Risk information and reporting

Each meeting has reviewed the risk MI provided with management robustly challenged regarding any required actions where the Society has breached, or is at risk of breaching, its risk appetite early warning triggers.

The Board Risk MI Pack is formally reviewed twice each year to ensure that the level of information remains sufficiently comprehensive. The focus in 2022 has been to enhance the forwarded-looking assessment of performance against risk appetite and the consideration of emerging risks.

The Society has a Stress Testing Policy to ensure a robust and consistent approach is taken. During the year a wide range of stress and scenario testing has been assessed to support strategic decision making and ensure that the Society continues to maintain a sustainable business model.

Risk management and internal control systems

Each meeting has reviewed and challenged the Society's top and emerging risks, ensuring that management have appropriate actions in place to mitigate these. Further details in respect of key and emerging risks are contained within the Risk Management Report on page 58.

The monitoring of the internal control environment has remained a primary objective of the Board Risk Committee. This has been achieved through the delivery of agreed Risk & Compliance thematic deep dives, quarterly Risk & Control Self-Assessments (RCSA), attestations by the Principal Risk Owners, ongoing key control testing and monitoring of material risk events. The overall assessment has been that the control environment has continued to operate effectively.

The Committee has also assessed the second line Risk & Compliance function to be operating with the operate level of independence. Consideration has been given to the level of resource and skillset within the function against the Society's principal risks.

Assessment of effectiveness

In 2022, the Committee conducted an internal review of its own effectiveness. This involved collective consideration by Committee members of how effectively the Committee had discharged its responsibilities. The assessment was made against internal committee criteria, the requirements of the Committee's terms of reference and benchmark best practice criteria published by an external body. This review concluded that the Committee continued to operate effectively.

DR Cheeseman

Dave Cheeseman
Chair of Board Risk Committee
27 February 2023

DIRECTORS' REMUNERATION REPORT

The purpose of the Directors' Remuneration Report is to provide details of the basic salary, variable pay and benefits earned by Directors. It includes the key disclosure requirements of the UK Corporate Governance Code and complies with the FCA Remuneration Code. The Board is committed to best practice in its Remuneration Policy for Directors and in the interests of transparency, this report will be the subject of an advisory vote at this year's Annual General Meeting.

The Directors' remuneration for the year is as follows:

Individual Directors' Emoluments

	2022					2021				
	Salary/ Fees £000's	Benefits /Other (iii) (iv) £000's	Sub Total £000's	Pensions £000's	Total £000's	Salary/ Fees £000's	Benefits /Other (iii) (iv) £000's	Sub Total £000's	Pensions £000's	Total £000's
Non-Executive Directors (NEDs)										
Rachel Court	52	1	53	-	53	49	-	49	-	49
John Leveson	34	1	35	-	35	32	-	32	-	32
Keith Abercromby	36	-	36	-	36	34	-	34	-	34
Jane Kimberlin	33	1	34	-	34	27	-	27	-	27
Dave Cheeseman (from 29/04/21)	35	1	36	-	36	18	1	19	-	19
Felicity Bambery (from 27/07/22)	12	-	12	-	12	-	-	-	-	-
Richard Goddard (i)	10	-	10	-	10	39	-	39	-	39
Executive Directors										
Andrew Healy (ii)	265	18	283	34	317	216	17	233	32	265
Darren Ditchburn (from 30/06/22) (v)	82	5	87	6	93	-	-	-	-	-
Steve Clarke (from 30/11/22)	12	1	13	1	14	-	-	-	-	-
Andrew Davies (from 30/09/21) (v)	144	10	154	22	176	36	3	39	5	44
Robert Broadbent (vi)	111	11	122	17	139	131	13	144	19	163
John Kelly (vii)	82	3	85	6	91	149	13	162	22	184
	908	**52**	**960**	**86**	**1,046**	**731**	**47**	**778**	**78**	**856**

(i) Richard Goddard left the Society on 31 March 2022.
(ii) Andrew Healy voluntarily reduced his salary in 2020 in consideration of the impact of the Covid-19 pandemic. His salary was restored to its original level in 2021. The Board Remuneration Committee unanimously agreed that Andrew's exceptionally strong leadership and performance during 2021, and indeed throughout the pandemic, merited an increase in remuneration to reflect market norms and the increases applied to other staff. Andrew declined the Committee's offer in 2021 to increase his remuneration and the Committee agreed to respect his decision. In 2022, Andrew Healy's salary was increased following detailed benchmarking by the Remuneration Committee of data from peer organisations and subsequently in line with the 4% increase given to higher earning members of staff.
(iii) The Executive Directors, including the Chief Executive, waived their bonus/gratuity payment entitlement in 2021. No bonus scheme operated for executives in 2022, however, taking account of the exceptional impacts of the cost of living crisis, the Committee approved a one-off payment to all staff of £1,600. This was paid to the Executive Directors, though the Chief Executive chose to waive his entitlement to this payment.
(iv) In addition to the cost of living payment noted in (iii), the Executive remuneration included in the 'benefits/other' column above relates to the provision of a car allowance and private medical insurance.
(v) Andrew Davies and Darren Ditchburn received the same 4% increase to their basic salary in 2022 that was given to higher earning members of staff.
(vi) Robert Broadbent left the Society on 5 November 2022.
(vii) John Kelly left the Society on 31 March 2022.

Loans to Directors

A register containing details of loans and transactions between the Society and its Directors, or persons connected with Directors, is available for inspection by members at the Society's principal office in the period of fifteen days prior to the Society's Annual General Meeting on 26 April 2023. The total loans outstanding at 31 December 2022, in respect of 1 person (2021: 2 people) amounted to £219k (2021: £596k).

Chair and Non-Executive Fees

Non-Executive Directors receive fees for the provision of their services, including additional fees for the chairing of the Board and Board committees. They do not have service contracts and do not receive any other benefits, bonus or pension entitlement. Relevant expenses are reimbursed and are included within the 'benefits/other' column shown in the above table.

Fees are set to reflect the time commitment and responsibilities of the roles. The fees payable to the Chair of the Board are determined by the Board Remuneration Committee. The Chair of the Board is a member of the Board Remuneration Committee, however she takes no part in the discussion of her own fees and is not present when this matter is decided. The fees and expenses payable to all other Non-Executive Directors, including additional fees for the chairing of committees and acting as Senior Independent Director, are recommended by the Board Remuneration Committee for approval by the Chair of the Board and Executive Directors.

Fees are reviewed annually and if any recommended increase is more than the annual percentage increase payable to all staff, a clear rationale for the additional increase together with supporting market data must be provided. This review also takes into consideration the principles underpinning the annual Society staff salary review. As reported under the Board Remuneration Committee Report, the Chair and Non-Executive Directors received a 4% increase in their fees which aligned with the same increase to higher earning staff across the Society.

Executive Directors' Remuneration

The policy for Executive Director remuneration is included as part of the overarching Remuneration Policy. Executive remuneration is aligned to the Society's purpose and values and is clearly linked to the successful delivery of the Society's long-term strategy. The main elements of each Executive Director's remuneration package are basic salary, pension benefits, private medical insurance and car allowance.

As reported under the Board Remuneration Committee Report, the salaries of the Deputy Chief Executive and Chief Risk Officer were increased in 2022 in line with increases applied to other staff within the Society. As noted above in footnote (ii) to the table of individual directors' emoluments, the Chief Executive declined the Remuneration Committee's offer to increase his remuneration in 2021. In 2022, the Chief Executive's salary was realigned following a detailed benchmarking exercise undertaken by the Remuneration Committee which was predominantly informed by the 2021 accounts of peer organisations and which also reflected his consistently strong leadership and performance. Given that the data used was from the previous year, the Remuneration Committee agreed to also apply a 4% increase to the realigned figure in line with other higher earning staff within the Society.

No bonus scheme operated for executives in 2022. However, taking account of the exceptional impacts of the cost of living crisis, the Committee approved a one-off payment to all staff of £1,600. This was also paid to the Executive Directors, though the Chief Executive chose to waive his entitlement to this payment.

Of the Executive Directors' remuneration packages, only basic salary is pensionable. As at 31 December 2022, the Chief Executive, Deputy Chief Executive, Finance Director and Chief Risk Officer are members of the Society's defined contribution pension scheme.

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

Reward and Incentives

The Society's remuneration schemes and policies enable the Board Remuneration Committee to override formulaic outcomes to any element of performance-related pay. However, as was the case in 2021, no formulaic schemes were in place during 2022. The Board Remuneration Committee did not appoint any external consultants during 2022.

John Leveson
Chair of the Remuneration Committee
27 February 2023

RISK MANAGEMENT REPORT

The purpose of this report is to:

- Explain the Society's Risk Management Framework;
- Highlight our risk governance arrangements; and
- Set out the principal risks and uncertainties with respect to the achievement of the Society's strategic objectives, together with our mitigating activities.

Risk Management Framework

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

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

FIRST/ MANAGEMENT LINE

BUSINESS

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

SECOND/ OVERSIGHT LINE

RISK MANAGEMENT

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

THIRD/ ASSURANCE LINE

INTERNAL AUDIT

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

Risk Governance

Robust governance arrangements are fundamental to the effective management of risk. The Society's Board has ultimate responsibility for the effective management of risk and approves the RMF, risk appetites and governance arrangements. It is advised on risk related matters by the Board Risk Committee (BRC), a formal sub-committee of the Board. The BRC has explicit terms of reference and its membership is comprised solely of non-executive directors, with meetings routinely attended by executive and senior management. The key responsibilities and activities are set out in the Board Risk Committee report on page 54.

Full details of the Society's governance arrangements are captured in the Corporate Governance Report on page 40.

Principal Risks and Uncertainties Responsibility

The principal business of the Society is the production and distribution of financial products and, in particular, mortgages and deposit-based savings accounts. Regulated investment products are supplied by a third party, Wren Sterling, while home insurance is underwritten by Royal & Sun Alliance Insurance plc. Wholesale financial instruments are used in the management of the balance sheet, with surplus liquidity invested and wholesale funding raised if necessary, though the latter is rarely required. Derivative financial instruments are solely used to manage and mitigate interest rate risk and not for trading activity or speculative purposes.

The principal risks, their controls and the Board's appetite statements are set out in the table below.

	Principal Risk	Mitigants	Risk Appetite
Retail Credit	The risk of losses arising from a retail mortgage debtor's failure to meet their legal and contractual obligations. Potentially arising from mortgage customers falling into arrears or insufficient security value.	The Society operates within appropriate policies and risk appetites and performance is monitored closely. Our prudent lending policy means our mortgage book is of a high quality. Each application is individually underwritten to ensure that loans are affordable. This is evidenced by our low level of arrears.	We adopt a prudent approach to our mortgage lending so that default rates are low and do not adversely impact earnings or capital.
Wholesale Credit	The risk of losses due to a wholesale Treasury counterparty being unable to meet their legal and contractual obligations. The Society's exposure to wholesale credit risk results from investments in financial instruments, used to manage its liquidity portfolio, and from transactions to hedge its interest rate risk.	The Society's Treasury Policy Statement and operational limits set out the criteria and boundaries within which wholesale lending can be undertaken. Each counterparty is required to meet strict external ratings thresholds as well as satisfying internal assessments that consider balance sheet strength, reputational issues and the results of regulatory stress tests. The risk from hedging transactions is mitigated by the placing and receiving of cash collateral equal to the exposure.	We will adopt a prudent approach to lending to wholesale counterparties which will ensure that default rates are low and there is no impact on earnings or capital.
Strategic and Capital	The risk that the strategic direction of the Society and decisions made result in financial loss and have a detrimental impact on capital resources.	The Society has an established corporate planning process, which is subject to rigorous challenge and sets the overall direction for the Society. This is supported by regular stress testing and by conducting an Internal Capital Adequacy Assessment Process (ICAAP) at least annually to assess the Society's current and projected capital requirements. This demonstrates to the Board and regulators that the Society has sufficient capital for its business plans and the level of risk being taken. The Non-Executive Directors provide a robust level of challenge over Executive proposals.	We will ensure that the strategic direction delivers a sufficient return that enables us to deliver capital which provides long term growth as well as financial stability for our members.
Market	The risk of losses arising from changes in market rates or prices. The main exposure for the Society is interest rate risk resulting from funding fixed rate mortgages with variable rate savings products. Additionally, the Society is exposed to basis risk whereby the interest rate on assets and liabilities with similar re-pricing periods move by varying degrees, e.g. assets linked to industry benchmarks funded by variable savings products.	The Society has limited appetite for market risk but acknowledges that, as a mortgage lender, it is not possible or practical to eliminate all risk. To restrict market risk as much as possible the Society has set clearly defined limits within which risk must be managed. These are closely monitored and reported to senior management and the Board on a monthly basis. Interest rate risk is managed by utilising natural hedging opportunities that occur within the balance sheet or entering hedging transactions with external counterparties.	We 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 forecasted market expectations.
Liquidity and Funding	The risk that the Society is unable to meet its financial obligations as they become due and, as a consequence, is unable to support normal business activity and fails to meet regulatory liquidity requirements. There is potential risk to the level of liquidity from an extreme scenario of depositors withdrawing their funds.	The Society's Board has set strict limits in respect of liquidity, which exceed regulatory requirements. These, along with key early warning indicators, are monitored on a daily basis in order to highlight potential issues and allow timely management action. Stress testing of severe, but plausible, scenarios is undertaken on a regular basis. This ensures that we remain prepared and have appropriate contingency measures in place.	We will maintain sufficient liquid resources, over and above the financial minimum, that gives our members confidence that we have the ability to meet our financial obligations as they fall due. The Society will maintain sufficient retail deposits to fully support and fund retail lending at all times. The Society will additionally utilise wholesale or central bank funding when appropriate to support Treasury or liquidity holdings but will ensure that wholesale funding is managed such that an appropriate balance of funding from retail and wholesale sources is maintained.

RISK MANAGEMENT REPORT

(CONTINUED)

	Principal Risk	Mitigants	Risk Appetite
Conduct	The risk of financial loss or reputational damage from not putting the customer's interest at the very heart of the business resulting in poor outcomes or detriment for our members. This can manifest itself through confusing or misleading literature or unnecessarily restrictive or penal product terms and conditions.	The Society, being a member owned organisation, is committed to upholding the highest standards and treating all members & customers fairly. The Board has set out a clear set of values that drives a culture and behaviours that puts the customer first. The Conduct & Product Forum oversees the design and delivery of products and services to ensure they meet the needs of the individual and result in good customer outcomes.	We will ensure that we put our customers at the heart of our business to deliver good customer outcomes.
Pension	The risk that the value of the assets in the Society's defined benefit scheme are insufficient to meet its long-term obligations. The possibility that the Society will have to pay more into the scheme due to changes in 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 identify de-risking opportunities as conditions allow.	We will ensure that we 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 Risk Registers. Given the broad nature of operational risk, consideration has been given to each aspect of the risk. Those identified as particularly applicable to the Society are documented in the table below.	We 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. We will be proactive in our ability to respond to and recover from operational disruption.

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

	Principal Risk	Mitigants	Risk Appetite
Financial Crime	The risk of loss resulting from criminal activity relating to fraud or dishonesty, the handling of the proceeds of crime, or the financing of terrorism.	The Society operates a wide range of controls, both within our customer facing areas and within the Customer Service Centre to mitigate financial crime. It is also committed to working closely with crime prevention authorities and supporting all initiatives that protect the Society and its members.	Financial crime is unethical and unacceptable. Leek Building Society has no risk appetite for facilitating financial crime and is committed to taking timely, proper and reasonable actions in order to minimise, manage and control financial crime risk.
Model and EUC	The risk that models and spreadsheets used in decision-making are not fit for purpose. This could be due to flawed assumptions or calculations or a breach of model integrity.	The Society uses a range of models and complex spreadsheets to derive management information with appropriate access controls implemented and procedural documentation available for the most significant of these. Internal policy clearly articulates standards in respect of the development, implementation and regular validation of models. These standards align to the PRA's principles as set out in Supervisory Statement 3/18.	The Society has no appetite for any severe or high impact models or EUCs not meeting the validation standards set out in Policy. It also has no appetite for any models or EUCs with significant identified errors or deficiencies being used without the prior authorisation of the Board Risk Committee. The Society has no appetite for operating any severe or high impact models or EUCs where there is an identified single point of dependency.
Financial & Regulatory 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. The use of interpretation documents which clearly set out any assumptions or judgements used in the production of returns further supports the robustness of reporting. All returns are subject to approval by an independent reviewer prior to final submission to the regulator meaning that appropriate checks are performed to ensure accuracy.	We will operate robust systems and controls to ensure that financial reporting is timely and accurate.

	Principal Risk	Mitigants	Risk Appetite
Regulatory and Legal	The risk of fines, public censure, limitation on business, or restitution costs arising from failing to understand, interpret, implement and comply with regulatory and legal requirements.	The Society, as a mutual organisation, is committed to fulfilling all its regulatory, legal social obligations. A robust process to monitor all regulatory change is in place, with regular updates provided to senior management and Board committees. The Three Lines of Defence model also provides oversight, challenge and independent assurance.	We will maintain a robust process to ensure that regulatory and statutory requirements are met within agreed timeframes.
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 Conduct & Product Forum which governs the development and launch of new/amended products. It also ensures the delivery of products and services results in good customer outcomes.	All Society products will be designed, approved and launched using appropriate robust governance arrangements.
Information Technology	The risk that the Society or its members suffer financial loss or detriment due to inadequate management or controls of information security, physical security of IT assets, IT maintenance or delivery of IT applications and services.	The Society has robust mechanisms to ensure that IT operates effectively to deliver business performance. IT controls are subject to a quarterly attestation process that is independently challenged by the second line of defence and from regular reviews by Internal Audit.	We 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.
Information Security & Data Governance	The risk that the Society does not meet both regulatory standards and its own requirements for ensuring the accuracy, integrity and security of confidential data relating to customers, staff, suppliers or the Society's business activities and performance.	The Society is committed to protecting its members' personal data. Comprehensive processes and procedures are in place that are fully aligned with General Data Protection Regulation (GDPR) and the Data Protection Act (DPA) 2018. This includes the requirement to provide all staff with comprehensive training on a regular basis and ensuring the rights and freedoms, in relation to data protection, of our members' remains at the fore.	We 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. The Society will proactively manage and secure all information assets.
People	The risk that the Society does not recruit, engage, manage, reward and develop its people in such a way that delivers the organisation's core values, and supports the delivery of current and future business strategy.	The Society recognises that in order to meet the needs of members it requires a skilled and motivated work force. To achieve this, detailed recruitment and selection processes are in place along with competitive remuneration packages. Having attracted the right individuals, there is a focus on training and development as a retention tool. A detailed succession plan is in place for all key roles to address potential vacancies over the short, medium and long term.	We 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 & Outsourcing Risk	The risk of financial loss, regulatory fines, reputational damage or adverse operational impact due to the failure of a material supplier, including an outsourcing partner, to fulfil its contract.	The Society has a detailed policies in respect of Third-Party Supplier Outsourcing risk which set out the way in which third parties are to be managed. Material third parties are subject to regular due diligence.	We will manage our third-party supplier and outsourcing relationships to comply with our policy and procurement procedures to ensure that they meet the Society's commercial needs and comply with the relevant regulatory requirements.
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's Change Programme Steering Committee, chaired by the CEO, provides robust governance over the change agenda. All projects are monitored through to completion and reviews undertaken after they have been completed.	We will manage all change projects in a structured and consistent manner to ensure that the defined benefits are realised.
Business Continuity	The risk that the Society is unable to operate business critical processes and provide business critical services in the event of an unplanned disruption to business as usual operations.	The Society has a Business Continuity Plan that is reviewed and updated annually. Tests are performed to ensure that if the plan needed to be invoked the Society would be able to operate effectively and meet customer needs. The robustness of this plan was evidenced by the ability to operate through the Covid-19 pandemic.	We will operate systems and controls to ensure that business critical operations are supported in the event of unplanned disruption.

RISK MANAGEMENT REPORT
(CONTINUED)

Other Material Risks

In addition to the principal risks detailed previously, the Society is also exposed to other potential risks and uncertainties which may be temporary, emerging or not yet sufficiently developed to incorporate into the primary Risk Management Framework. These are set out below:

Risk	Mitigants
Climate Change The financial services industry, including regulators, continues to develop its understanding of the risks posed by climate change. The Society has identified potential exposure to both physical risks and transition risks in respect of climate change. Physical risks reflect the impact of climate and weather related changes on the Society, including: • Flooding, subsidence or erosion negatively impacting the value of property taken as security; • Increased cost of insurance and household repairs impacts members' ability to service their mortgage; • Impact on services, systems and processes due to the Society's property estate being impacted e.g. by flooding; and • Third-party suppliers being unable to provide required services Transition risks reflect the potential impact from the process of moving to a carbon neutral economy, including: • Changes in government policy, technological and consumer sentiment giving rise to a reassessment of the value of property taken as security or the Society's own property estate; • Transition to a greener economy resulting in higher energy costs and impacting borrower affordability; • Reputational impact of the Society's carbon footprint reducing member attraction and retention; and • Impact on third-party suppliers resulting in increased supply chain costs.	• The Society has appointed the Finance Director to lead the work on climate change and its impact on the Society. • The requirements of the PRA's SS3/19, 'Enhancing banks' and insurers' approaches to managing the financial risks from climate change', have been implemented. • The Society has more clearly defined its environmental, social & governance (ESG) strategy, see page 26. • Climate change risk has been integrated into the Risk Management Framework (RMF), supporting its appropriate identification, management, monitoring and reporting. • The Society's annual ICAAP continues to capture the financial impacts of climate change, underpinned by appropriate stress testing. • The Society closely monitors the regulatory landscape to assess the impacts of any changes. • Full consideration has been given to the Society's own carbon footprint and it has made a commitment to be carbon neutral by 2050.
Affordability Risk Over the last 18 months, increasing wholesale energy costs and wider inflation increases have resulted in a cost-of-living crisis. This, combined with an increase in mortgage interest rates, has put pressure on borrowing members' finances and their ability to maintain their regular mortgage payments. While the Society has not yet seen this risk crystalise in the form of increased arrears, there is a heightened risk that this will materialise in 2023.	• The Society's prudent mortgage underwriting ensures affordability is appropriately stress tested. • Detailed analysis of the mortgage portfolio is undertaken to assess the capacity for maturing cohorts to absorb increased refinancing costs. • Ongoing monitoring of key pre-arrears indicators has allowed the Society to identify those borrowers most at risk of default. This has been supplemented with credit reference agency data to provide a broader perspective of our borrowers' financial position. • Proactive contact strategy towards those members at potential risk of default to provide early support and to signpost debt advice services.

The Board continuously reviews the activities of the Society to ensure they are in accordance with its risk appetite.

DR Cheeseman

Dave Cheeseman
Chair of Board Risk Committee
27 February 2023

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The following Statement, which should be read in conjunction with the Independent Auditor's Report on pages 64 to 70, is made by the Directors to explain their responsibilities in relation to the preparation of the Annual Accounts, Annual Business Statement, Strategic Report and Directors' Report.

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 these statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 which is 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's 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.

RD Court

Rachel Court
Chair
27 February 2023

Independent auditor's report

to the members of Leek United Building Society

1. Our opinion is unmodified

We have audited the Group and the Society Annual Accounts of Leek United Building Society ("the Society") and its subsidiaries ("the Group") for the year ended 31 December 2022 which comprise the Group and Society Income Statement, Statements of Comprehensive Income, Statements of Financial Position, Statements of Changes in Members' Interest, Statements of Cashflows, and the related notes, including the accounting policies in note 1.

In our opinion the annual accounts:

- give a true and fair view of the state of affairs of the Group and of the Society as at 31 December 2022 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.

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 members on 26 April 2017. The period of total uninterrupted engagement is for the six financial years ended 31 December 2022. 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		£375k (2021:£360k) 0.5% (2021: 0.5%) of Net Assets
Coverage		100% (2021: 100%) of Group Net Assets
Key audit matters		**vs 2021**
Recurring risks	Impairment on loans and advances to customers	◄►
	Valuation of defined benefit obligation	◄►

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

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the annual accounts and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters (unchanged from 2021), in decreasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the annual accounts as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

Key Audit Matter	The risk	Our response
Impairment on Loans and advances to customers (Group and Society impairment: £0.5 million; 2021: £0.6 million) *Refer to page 48 (Audit Committee Report), page 78 (accounting policy) and page 83 (financial disclosures)*	**Subjective estimate:** Individual impairment on loans and advances to customers cover loans specifically identified as impaired and a collective impairment is held for all other loans where the impairments are incurred but not yet specifically identified. The directors judge individual impairment on loans and advances to customers by reference to loans that have current or historical arrears, forbearance flagging, product type and other indicators of impairment identified. The completeness of identified cases of individual impairment is subject to risk of error. The impairment on loans and advances to customers is derived from a combination of an impairment model and post model overlays that use both the Group's historical experience and directors' judgement. Due to the Group's limited loss experience, increased judgement is required in the estimate. The key areas where we identified greater levels of management judgement and therefore increased levels of audit focus in the Group's estimation of impairment on loans and advances to customers were the probability that a customer will default on its loan payments (probability of default), the discount applied to property valuations in the event of possession (forced sale discount) and the post model overlays. The effect of these matters is that, as part of our risk assessment, we determined that impairment on loans and advances to customers has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the annual accounts as a whole. The annual accounts (note 1) disclose the sensitivity estimated by the Group.	Our procedures included: — **Benchmarking assumptions:** We compared the key assumptions used in the impairment model of probability of default and forced sale discounts with externally available data. — **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 challenged the key assumptions used in the collective and individual models as well as the overlays, being probability of default and forced sale discounts, against the Group's historical experience. — **Tests of detail:** We profiled the loan book based on risk characteristics of current or historical arrears, forbearance flagging and high LTVs. We tested a sample of loans meeting these criteria by reference to relevant supporting information to challenge the completeness and accuracy of the Group's specific impairment provision estimate. We also performed an expected versus actual receipts analysis on the loans and inspected correspondence between the Society and borrowers for evidence of customer distress, in order to challenge the completeness and accuracy of the provision. — **Overlay**: We challenged the overlays by critically assessing the assumptions used in determining the value of the adjustment recognised and; — **Assessing transparency:** We assessed the adequacy of the Group's disclosures about the degree of estimation involved in arriving at the provision. **Our results** We found the resulting estimate and disclosures of impairment on loans and advances to customers to be acceptable. (2021: acceptable)

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

Key Audit Matter	The risk	Our response
Valuation of defined benefit obligation (Group and Society: £25.8 million; 2021: £40.9 million) *Refer to page 48 (Audit Committee Report), page 79 (accounting policy) and page 101 (financial disclosures)*	**Subjective estimate:** The Group operates a defined benefit pension scheme which is closed to new members. At 31 December 2022, the Group holds a net defined benefit pension scheme deficit of £2.2m (2021: surplus of £1.1m) on the statement of financial position, which includes the gross defined benefit obligation. Small changes in the key assumptions like discount rate, inflation and mortality used to value the Group's defined benefit obligation (before deducting scheme assets) would have a significant effect on the Group's defined benefit obligation. The effect of these matters is that, as part of our risk assessment, we determined that valuation of defined benefit obligation has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the annual accounts as a whole. The annual accounts (note 1) disclose the sensitivity estimated by the Group.	Our procedures included: — **Evaluation of actuary:** We evaluated the competence, independence and objectivity of the Group's actuary in assessing management's reliance upon their expert valuation services. — **Benchmarking assumptions:** We challenged, with the support of our own actuarial specialists, the key assumptions applied to the pension obligation, being the discount rate, inflation rate and mortality/life expectancy against externally derived data; — **Assessing transparency:** Considering the adequacy of the Group's disclosures in respect of the sensitivity of the defined benefit obligation to these assumptions. **Our results** — We found the resulting estimate and disclosures of valuation of defined benefit obligation to be acceptable. (2021: 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 £375k (2021: £360k), determined with reference to a benchmark of Group Net Assets, of which it represents 0.5% (2021: 0.5%).

Materiality for the parent Society financial statements as a whole was set at £374k (2021: 359k), determined with reference to a benchmark of Society Net Assets, of which it represents 0.5% (2021: 0.5%).

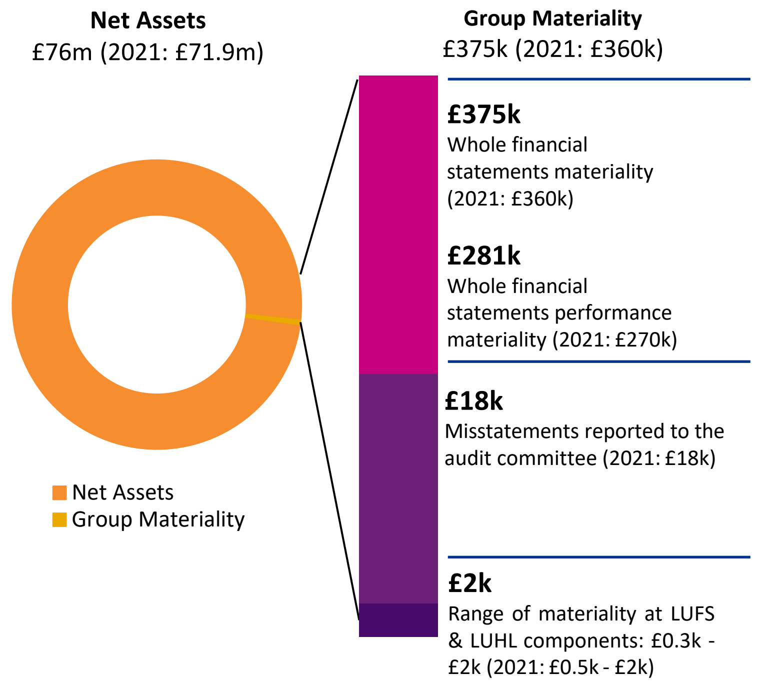
In line with our audit methodology, our procedures on individual account balances and disclosures were performed to a lower threshold, performance materiality, so as to reduce to an acceptable level the risk that individually immaterial misstatements in individual account balances add up to a material amount across the financial statements as a whole.

Performance materiality was set at 75% (2021: 75%) of materiality for the financial statements as a whole, which equates to £281k (2021: £270k) for the Group. We applied this percentage in our determination of performance materiality because we did not identify any factors indicating an elevated level of risk.

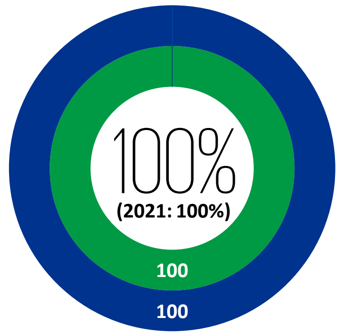
We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £18k (2021: £18k), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the Group's 3 (2021: 3) reporting components, we subjected 3 (2021: 3) to full scope audits for group purposes. The components within the scope of our work accounted for the percentages illustrated opposite.

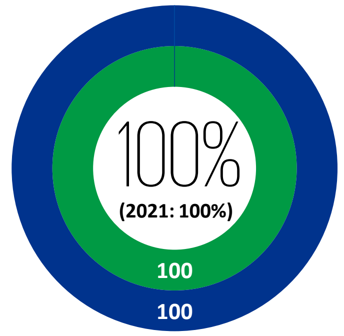
We were able to rely upon the Group's internal control over financial reporting in several areas of our audit, where our controls testing supported this approach, which enabled us to reduce the scope of our substantive audit work; in the other areas the scope of the audit work performed was fully substantive.



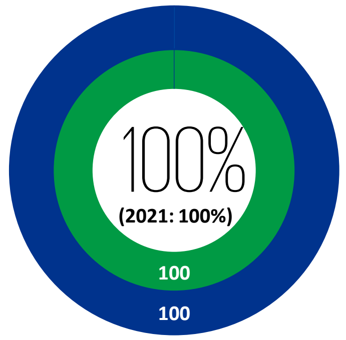
Group Revenue



Group Profit before Tax



Group Total Assets



Full scope for Group audit purposes 2022

Full scope for Group audit purposes 2021

4. Going concern

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

We used our knowledge of the Group, its industry, and the general economic environment to identify the inherent risks to its business model and analysed how those risks might affect the Group's and Society's financial resources or ability to continue operations over the going concern period.

The risks that we considered most likely to adversely affect the Group's and Society's available financial resources over this period was an increase in the level of impairment on loans and advances to customers due to the current economic environment and cost of living crisis. This could impact the Group's available financial resources, leading to insufficient regulatory capital to meet minimum regulatory capital levels over the going concern period.

We also considered less predictable but realistic second order impacts, such as availability of funding and liquidity in the event of a market wide stress scenario, which includes the impact of continuing unfolding of the cost of living crisis and the impact on regulatory capital requirements in the event of an economic slowdown or recession.

We considered whether these risks could plausibly affect the liquidity or regulatory capital in the going concern period by comparing severe, but plausible downside scenarios that could arise from these risks individually and collectively against the level of available financial resources indicated by the Group's financial forecasts.

Our conclusions based on this work:

— we consider that the directors' use of the going concern basis of accounting in the preparation of the annual accounts is appropriate;

— we have not identified, and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Group's or Society's ability to continue as a going concern for the going concern period; and

— we found the going concern disclosure in note 1 to be acceptable.

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 above conclusions are not a guarantee that the Group or the Society will continue in operation.

5. Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of directors, the audit committee, internal audit and inspection of policy documentation as to Group's high level policies and procedures to prevent and detect fraud, and the Group's channel for "whistleblowing", as well as they have knowledge of any actual, suspected or alleged fraud,
- Reading board/ audit committee, risk committee and other relevant meeting minutes,
- Considering the Group's remuneration incentive schemes and performance targets,
- Using analytical procedures to identify any unusual or unexpected relationships.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards, we perform procedures to address the risk of management override of controls, in particular the risk that Group management may be in a position to make inappropriate accounting entries and the risk of bias in accounting estimates and judgements such as impairment on loans and advances to customers and the valuation of defined benefit obligation. On this audit we do not believe there is a fraud risk related to revenue recognition because of system driven non-complex loan interest revenue calculations involving minimal management judgement.

We identified a fraud risk related to impairment on loans and advances to customers in response to management override of controls due to significant judgement involved in the estimate. Further detail in respect of impairment on loans and advances to customers is set out in the key audit matter disclosures in section 2 of this report.

In determining the audit procedures we took into account the results of our evaluation and testing of the operating effectiveness of Group-wide fraud risk management controls. We also performed procedures including:

- Identifying journal entries based on risk criteria and comparing identified entries to supporting documentation. These included journals posted outside normal course of business, journals with specific key word descriptions, unexpected revenue journals and those posted to unusual or seldom used accounts.
- Assessing significant accounting estimates outlined above for bias.

KPMG

5. Fraud and breaches of laws and regulations – ability to detect (contd.)

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

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, and 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.

As the Group is regulated, our assessment of risks involved gaining an understanding of the control environment including the entity's procedures for complying with regulatory requirements. We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

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 Building Societies 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 Group's license to operate. We identified the following areas as those most likely to have such an effect: specific areas of regulatory capital and liquidity, conduct, money laundering and financial crime 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.

Therefore if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

We discussed with the audit committee matters related to actual or suspected breaches of laws or regulations, for which disclosure is not necessary, and considered any implications for our audit.

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the annual accounts, even though we have properly planned and performed our audit in accordance with auditing standards.

Context of the ability of the audit to detect fraud or breaches of law or regulation (cont.)

For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in annual accounts, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non detection of fraud, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

6. 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 annual accounts. Our opinion on the annual accounts does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

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

Annual Business Statement and Directors' Report

In our opinion:

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

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

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

7. 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.

KPMG

8. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 63, the directors are responsible for: the preparation of annual accounts which give a true and fair view; such internal control as they determine is necessary, to enable the preparation of annual accounts that are free from material misstatement, whether due to fraud or error; assessing the Group's and the Society's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the 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 annual accounts as a whole are free from material misstatement, whether due to fraud 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 or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the annual accounts.
A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

9. 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.

Alain de Braekeleer (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
1 Sovereign Square
Sovereign Street
Leeds
LS1 4DA

27 February 2023

Income Statements for the year ended 31 December 2022

	Notes	Group 2022 £000's	Group 2021 £000's	Society 2022 £000's	Society 2021 £000's
Interest receivable and similar income	2	27,899	17,533	27,897	17,530
Interest payable and similar charges	3	(10,082)	(4,507)	(10,082)	(4,507)
Net interest receivable		17,817	13,026	17,815	13,023
Fees and commissions receivable	4	406	621	406	623
Fees and commissions payable		(380)	(313)	(380)	(313)
Net gains from derivative financial instruments	5	4,566	1,075	4,566	1,075
Total net income		22,409	14,409	22,407	14,408
Administrative expenses	6	(12,416)	(10,608)	(12,398)	(10,596)
Depreciation	15	(471)	(327)	(471)	(327)
Operating profit before impairment and other provisions		9,522	3,474	9,538	3,485
Net finance credit on pension scheme	24	20	(13)	20	(13)
Impairment credit on loans and advances to customers	7	52	106	52	106
Profit on ordinary activities before tax		9,594	3,567	9,610	3,578
Tax on profit on ordinary activities	8	(1,860)	(384)	(1,860)	(384)
Profit for the financial year	**26**	**7,734**	**3,183**	**7,750**	**3,194**

The notes on pages 76 to 105 form part of these accounts.

Statements of Comprehensive Income for the year ended 31 December 2022

	Notes	Group 2022 £000's	Group 2021 £000's	Society 2022 £000's	Society 2021 £000's
Profit for the financial year		7,734	3,183	7,750	3,194
Items that will not be reclassified to the Income Statement					
Actuarial (loss)/gain recognised in pension scheme	24	(3,314)	2,006	(3,314)	2,006
Taxation on items that will not be reclassified to the Income Statement	21	828	(703)	828	(703)
Items that may subsequently be reclassified to the Income Statement					
Available for sale reserve	28	(377)	(70)	(377)	(70)
Tax on revaluation reserve from changes in land and buildings	27	4	(28)	4	(28)
Other comprehensive income for the year net of income tax		(2,859)	1,205	(2,859)	1,205
Total comprehensive income for the financial year		**4,875**	**4,388**	**4,891**	**4,399**

The notes on pages 76 to 105 form part of these accounts.

Statements of Financial Position as at 31 December 2022

	Notes	Group 2022 £000's	Group 2021 £000's	Society 2022 £000's	Society 2021 £000's
ASSETS					
Liquid assets:					
Cash in hand and balances with the Bank of England	9	153,904	165,780	153,904	165,780
Loans and advances to credit institutions	10	10,403	8,167	10,347	8,111
Debt securities	11	143,544	123,778	143,544	123,778
		307,851	297,725	307,795	297,669
Derivative financial instruments	12	35,306	6,416	35,306	6,416
Loans and advances to customers	13	888,085	869,274	888,061	869,244
Investments in subsidiary undertakings	14	-	-	1	1
Tangible fixed assets	15	3,443	2,604	3,443	2,604
Intangible fixed assets	15	1,740	1,310	1,740	1,310
Other assets	16	74	127	88	134
Prepayments and accrued income	17	907	579	907	579
Accrued Interest on Derivatives	22	943	-	943	-
Retirement benefit obligations	24	-	1,119	-	1,119
Total assets		**1,238,349**	**1,179,154**	**1,238,284**	**1,179,076**
LIABILITIES					
Shares	18	999,470	973,618	999,470	973,618
Amounts owed to credit institutions	19	144,398	115,088	144,398	115,088
Amounts owed to other customers	20	11,633	16,088	11,633	16,088
Derivative financial instruments	12	1,241	297	1,241	297
Other liabilities	21	1,901	583	1,909	588
Other liabilities – deferred taxation	21	32	660	32	660
Accruals and deferred income	22	740	760	722	748
Accrued Interest on Derivatives	22	-	176	-	176
Retirement benefit obligations	24	2,175	-	2,175	-
Total liabilities		**1,161,590**	**1,107,270**	**1,161,580**	**1,107,263**
RESERVES					
General reserve	26	76,117	70,869	76,062	70,798
Revaluation reserve	27	988	984	988	984
Available for sale reserve	28	(346)	31	(346)	31
Total reserves attributable to members of the Society		76,759	71,884	76,704	71,813
Total reserves and liabilities		**1,238,349**	**1,179,154**	**1,238,284**	**1,179,076**

The notes on pages 76 to 105 form part of these accounts.

These accounts were approved by the Board of Directors on 27 February 2023 and were signed on its behalf by:

Rachel Court
Chair

Andrew Healy
Chief Executive

Steve Clarke
Finance Director

Statements of Changes in Members' Interest as at 31 December 2022

Group for year ending 31 December 2022	Notes	General reserve £000's	Revaluation reserve £000's	Available for sale reserve £000's	Total reserves attributable to members of the Group £000's
Balance as at 1 January 2022		**70,869**	**984**	**31**	**71,884**
Profit for the financial year		7,734	-	-	7,734
Other comprehensive (expense)/income for the year (net of tax)					
Re-measurement of defined benefit scheme obligations		(2,486)	-	-	(2,486)
Net loss from changes in financial assets		-	-	(377)	(377)
Net gain from changes in land and building		-	4	-	4
Total comprehensive income for the year		5,248	4	(377)	4,875
Balance as at 31 December 2022	26,27,28	**76,117**	**988**	**(346)**	**76,759**

Group for year ending 31 December 2021	Notes	General reserve £000's	Revaluation reserve £000's	Available for sale reserve £000's	Total reserves attributable to members of the Group £000's
Balance as at 1 January 2021		**66,384**	**1,012**	**101**	**67,497**
Profit for the financial year		3,183	-	-	3,183
Other comprehensive (expense)/income for the year (net of tax)					
Re-measurement of defined benefit scheme obligations		1,302	-	-	1,302
Net loss from changes in financial assets		-	-	(70)	(70)
Net loss from changes in land and building		-	(28)	-	(28)
Total comprehensive income for the year		4,485	(28)	(70)	4,387
Balance as at 31 December 2021	26,27,28	**70,869**	**984**	**31**	**71,884**

Statements of Changes in Members' Interest as at 31 December 2022 (continued)

Society for year ending 31 December 2022	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 2022		**70,798**	**984**	**31**	**71,813**
Profit for the financial year		7,750	-	-	7,750
Other comprehensive (expense)/income for the year (net of tax)					
Re-measurement of defined benefit scheme obligations		(2,486)	-	-	(2,486)
Net loss from changes in financial assets		-	-	(377)	(377)
Net gain from changes in land and building		-	4	-	4
Total comprehensive income for the year		5,264	4	(377)	4,891
Balance as at 31 December 2022	**26,27,28**	**76,062**	**988**	**(346)**	**76,704**

Society for year ending 31 December 2021	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 2021		**66,302**	**1,012**	**101**	**67,415**
Profit for the financial year		3,194	-	-	3,194
Other comprehensive (expense)/income for the year (net of tax)					
Re-measurement of defined benefit scheme obligations		1,302	-	-	1,302
Net loss from changes in financial assets		-	-	(70)	(70)
Net loss from changes in land and building		-	(28)	-	(28)
Total comprehensive income for the year		4,496	(28)	(70)	4,398
Balance as at 31 December 2021	**26,27,28**	**70,798**	**984**	**31**	**71,813**

Statements of Cash Flows for the year ended 31 December 2022

	Notes	Group 2022 £000's	Group 2021 £000's	Society 2022 £000's	Society 2021 £000's
Cash flows from operating activities					
Profit on ordinary activities before tax		9,594	3,567	9,610	3,577
Depreciation		471	327	471	327
(Increase) in fair value of derivative financial instruments and hedged items		(4,498)	(1,037)	(4,498)	(1,037)
(Increase)/Decrease in effective interest rate adjustment		(527)	77	(527)	77
(Decrease) in impairment on loans and advances		(52)	(106)	(52)	(106)
Amounts recovered in respect of loans previously written off		3	2	3	2
Loss/(Profit) on sale of tangible fixed assets		8	(122)	8	(123)
Non-cash pension (gain)/losses		(20)	13	(20)	13
Total cash flow from operating activities		**4,979**	**2,721**	**4,995**	**2,730**
Changes in operating assets and liabilities					
Increase in loans and advances to customers		(41,682)	(14,122)	(41,688)	(14,127)
(Decrease)/Increase in accruals and deferred income		(196)	157	(202)	157
Increase in prepayments and accrued income		(2,650)	(154)	(2,650)	(153)
Increase/(Decrease) in amounts owed to credit institutions and other customers		24,856	(17,717)	24,856	(17,717)
Decrease in loans and advances to credit institutions		20	4,405	20	4,405
Decrease/(Increase) in other assets		681	(747)	674	(753)
(Increase)/Decrease in other liabilities		(586)	582	(583)	583
Increase in shares		25,852	48,371	25,852	48,371
Taxation paid		(380)	(290)	(380)	(290)
Net cash generated from operating activities		**10,894**	**23,206**	**10,894**	**23,206**
Cash flows from investing activities					
Proceeds from sale of fixed assets		1	170	1	170
Tangible fixed asset additions		(1,164)	(449)	(1,164)	(449)
Intangible fixed asset additions		(585)	(623)	(585)	(623)
Purchase of debt securities		(117,537)	(96,000)	(117,537)	(96,000)
Maturities and disposal of debt securities		98,771	81,486	98,771	81,486
Net cash used in investing activities		**(20,514)**	**(15,416)**	**(20,514)**	**(15,416)**
Net increase in cash and cash equivalents		**(9,620)**	**7,790**	**(9,620)**	**7,790**
Cash and cash equivalents at 1 January		173,927	166,137	173,871	166,081
Cash and cash equivalents at 31 December	**25**	164,307	173,927	164,251	173,871
Net cash generated from operating activities		**(9,620)**	**7,790**	**(9,620)**	**7,790**

The notes on pages 76 to 105 form part of these accounts.

Notes to the Accounts for the year ended 31 December 2022

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 accordance with Financial Reporting Standard 102 in conjunction with IAS39 Financial Instruments: Recognition and Measurement and the Building Societies (Accounts and Related Provisions) Regulations 1998 (as amended).

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

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

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

The Group and Society have chosen to adopt the recognition and measurement provisions of IAS39 - Financial Instruments: Recognition and Measurement, and disclosure requirements of section 11 and 12 of FRS 102 in respect of Financial Instruments.

Going Concern

The Society has two non-trading subsidiaries that together with the Society comprise the Group. The Society conducts annual Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Adequacy Assessment Process (ILAAP) reviews to assess and stress test its capital and liquidity positions respectively, in line with Prudential Regulation Authority (PRA) requirements. These include the need to model the impact on the Society of a range of severe but plausible stresses to residential house prices, unemployment, interest rates and funding outflows. Supported by these reviews, the Directors have prepared forecasts for a period of at least twelve months from the date of approval of the accounts. These forecasts of the Society's profitability, capital, funding and liquidity positions take account of the Society's current position and principal risks as set out in the Risk Management Report, including severe but plausible stress scenarios. These severe but plausible stresses are established and defined in detail during the annual Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Adequacy Assessment Process (ILAAP), in line with PRA requirements. Considerations are given to a range of factors, including but not limited to House Price Index (HPI) fluctuations, changes in customer propensity of default, unemployment, interest rate changes and circumstances that may give rise to funding outflows either on an idiosyncratic level or sector wide. Based on these forecasts, the Directors are satisfied that the Group and Society have adequate resources to continue in business for a period of at least twelve months from the date of approval of the accounts. For this reason, the accounts of the Group and the Society continue to be prepared on the going concern basis.

New and amended accounting standards

In September 2019, the International Accounting Standards Board (IASB) issued Interest Rate Benchmark Reform – Amendments to IFRS9, IAS39 and IFRS7. These amendments, which were also enacted into FRS 102, modify specific hedge accounting requirements to allow hedge accounting to continue for affected hedges during the period of uncertainty before the hedged items or hedging instruments affected by the current interest rate benchmarks e.g. LIBOR are amended as a result of ongoing interest rate benchmark reforms. The IASB has issued temporary amendments to these standards to provide temporary reliefs for instruments and hedges directly impacted by IBOR reform.

In August 2020 the IASB issued Interest Rate Benchmark Reform Phase 2. These amendments (effective for years beginning after 1 January 2021, but with early adoption permitted) address areas that might affect financial reporting during the reform of an interest rate benchmark, including the effects of changes to contractual cashflows or hedging relationships arising from the replacement of an interest rate benchmark with an alternative benchmark rate (replacement issues). The amendments allow for modifications to be made to financial instruments to the extent they are necessary to implement IBOR reform and where the new basis for calculating cashflows is economically equivalent to the previous basis.

Phase 2 reliefs

Both IAS39 and IFRS9 require hedge relationships to be terminated where the contractual terms of the hedging or hedged instrument are changed or where the hedging or hedged instrument is disposed of. The relief allows hedge relationships to continue where changes to the hedging or hedged instruments are necessary as a direct consequence of Interest Rate Benchmark Reform and the new basis is economically equivalent to the previous basis. Documentation in support of hedge accounting must be amended to reflect the changes and any changes in the fair value of the hedging instrument or the hedged risk are recognised immediately in the Income Statement. The Society adopted Phase 2 for the year ended 31 December 2021.

The relief permitted the Society to amend its existing derivative contracts without the requirement to de-designate from their existing hedging relationship, which would otherwise have been required under IAS39, providing the amendments were made on an economic equivalent basis.

In October 2021 the Society transitioned all of its remaining LIBOR linked interest rate swap contracts with a maturity date after 31 December 2021 to SONIA linked contracts on an economic equivalent basis and applied IBOR Phase 2 reliefs to maintain all existing hedging relationships. The Asset and Liability Committee reviewed the arrangements for transition and noted that the process was appropriately designed and that the impact on the Society's interest rate risk management and reported results should be minimal.

At 31 December 2022, the Society has no LIBOR-linked exposures (2021: none).

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 Building Society and all its subsidiary undertakings drawn up to 31 December each year, with the elimination of intercompany balances and transactions. All entities have accounting periods ending 31 December.

Exemptions

The Group has taken the exemption as provided in Section 33.1A of FRS 102 and does not disclose transactions with members of the same group that are wholly owned. See Directors' Remuneration Report on page 56 for disclosure of the Directors' remuneration.

Investments in subsidiary undertakings

Investments in subsidiary undertakings are stated in the Society's balance sheet at cost less any provision for impairment.

Interest income and expense

Interest receivable and interest payable, for all interest bearing financial instruments held at amortised cost, are recognised in the Income and Expenditure Account using the Effective Interest Rate (EIR) method. This method calculates the amortised cost of a financial instrument and allocates the interest income or expense over the expected average life. The EIR method includes all fees received and costs borne by the Society that are an integral part of the yield of the financial instrument. The main impact for the Society relates to mortgages where fees are incorporated in the calculation. Interest income on available-for-sale instruments, derivatives and other financial assets accounted for at fair value is included in interest receivable and similar income.

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

Fees and commissions

Fees and commissions that are material and that are an integral part of the effective interest rate on financial assets and financial liabilities are included in the measurement of the effective interest rate. Other fees and commissions are recognised as the related services are performed.

Financial assets

a) Loans and receivables

Loans and receivables are predominantly mortgage loans to customers and money market advances held for liquidity purposes. They are initially recorded at fair value and subsequently 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 hedging programme 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 and form part of a micro hedging programme. Hedge accounting is an optional treatment but the specific rules and conditions in IAS39 have to be complied with before it can be applied. When transactions meet the criteria specified in IAS39, 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, other than some forward starting swaps that will be treated as unmatched until the hedged mortgages complete. For that period, all fair value changes go through the Income Statement and are then unwound over the life of the swap after matching. 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 23.

c) Available for sale assets – debt securities

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

1. Principal accounting policies (continued)

Further information regarding how fair values are determined can be found in note 23 to the accounts. Upon sale or maturity of the asset, the cumulative gains and losses recognised in other comprehensive income are removed from available for sale reserves and recycled to the Income Statement.

d) Offsetting

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

Impairment of loans and advances to customers

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

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

Forbearance strategy

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

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

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

The key area of judgement relating to Covid-19 that was present in the year ending 31 December 2021 annual accounts has dissipated and all provisions have been released during the year ending 31 December 2022. Consideration of the changing economic conditions has been factored into the assessment of impairment as at 31 December 2022 and forms a key area of judgement for the year ended 31 December 2022. Further information on forbearance is contained within note 23.

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.

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

Pension costs

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

On 24 April 2013, the Society closed its externally funded final salary (defined benefit) scheme 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. A full actuarial valuation has been prepared dated 24 April 2021 but has only been finalised during 2022. The valuation stated that the scheme carried a deficit of £1,011K and proposed monthly payments during 2023 and 2024 to reduce the deficit. The proposal was accepted and additional payments will be made. The charge to the income and expenditure account over the financial year in relation to the defined benefit scheme is shown in note 24.

The pension scheme deficit on the closed scheme at 31 December 2022 has been recognised as a liability on the statement of financial position (2021: Surplus and recognised as an asset).

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.

Net interest income, comprising expected interest income on scheme assets less interest costs on scheme liabilities, is calculated by applying the discount rate to the net balance of the fair value of scheme assets less the defined benefit obligation. This result is recognised in the Income Statement as the net finance credit on pension scheme.

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.

Tangible 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.

Intangible fixed assets and amortisation

The costs of computer software acquired where the Group will derive future economic benefit are capitalised at the acquisition date. Amortisation is charged to the Income Statement on a straight line basis over the estimated useful life of the intangible asset. Current capitalised intangible assets are amortised over 4 or 5 years dependent upon the nature of the asset, as an approximation of its useful economic life.

The Group reviews the amortisation period and method when events and circumstances indicate that the useful life may have changed since the last reporting date. Intangible assets are subject to regular impairment reviews in accordance with section 27 of FRS 102.

Research and development

Expenditure on research activities is recognised in the profit and loss account as an expense as incurred.

Assets under construction

Assets under construction represent expenditure on development activities where the product or process is technically and commercially feasible. The asset is capitalised where the directly associated external and internal costs of developing the asset are identifiable and where it is expected that it will yield future economic benefits. The assets are reviewed for impairment if the above factors indicate that the carrying amount may be impaired. Assets under construction are not amortised until the date they are available for use.

1. Principal accounting policies (continued)

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.

Critical accounting judgements and estimates

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:

a) Impairment losses on loans and advances

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

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

The principal estimates are the likelihood that a loan 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% increase in PD would impact the collective provision in 2022 by £296k. The impact of a 5% increase in the forced sale discount affecting the LGD would impact the collective provision in 2022 by £122k.

Specific consideration has been given to the cost-of-living crisis and how this will impact impairments. The increases in energy costs in particular have been unprecedented and, combined with rising interest rates, have undoubtedly put pressure on member finances. Whilst the Society adopts a prudent approach to mortgage affordability, it is likely that some borrowers will find it challenging to absorb such increases. Ongoing analysis of key pre-arrears indicators and the capacity of borrowers to absorb higher costs has allowed the Society to identify those borrowers most at risk of default. This has been supplemented by credit reference agency data which provides a broader perspective of our borrowers' financial position, with missed payments on other debt being a forward indicator of a mortgage default. Based on this analysis and anticipated economic conditions through the recovery period for loans in default, the Board Audit Committee deemed a specific overlay, in addition to the individual and collective impairment allowance, of £0.4m was appropriate.

b) Employee benefits and recognition of pension deficit

The Group operates a defined benefit pension scheme and has an obligation to pay pension benefits to certain employees. Judgement is exercised in estimating the value of the assets and liabilities of the scheme, and hence its net surplus or deficit. The Group have estimated the assumptions, set out in note 24, after taking advice from qualified independent actuaries. Sensitivities relating to the key estimates are set out below:

Assumption	Sensitivity (increase)	Impact on liabilities
Discount rate	0.50%	c. £1.7m reduction
Inflation (RPI/CPI)[1]	0.50%	c. £0.5m increase
Mortality[2]	0.25%	c. £0.2m increase

[1] The inflations sensitivity sets out the impact on inflation linked liabilities only.
[2] The mortality sensitivity considers the impact of an increase in the long-term trend rate to 1.25% p.a. from 1.00% p.a.

A decrease in discount rate sensitivities would have an equal and opposite impact on pension scheme liabilities, whereas an increase in inflation and mortality would increase the pension liabilities.

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

- Available for sale – measured at fair value using quoted prices based on independent third party valuations
- Derivative financial instruments – calculated by discounted cash flow models using yield curves that are based on observable market data

d) Intangible assets under construction
In 2020, the Society commenced a significant investment programme which incorporated a number of individual projects to support its strategy, including the development of a digital savings platform (implemented November 2022) and a mortgage transformation project to support more efficient processing of mortgage applications.

In certain circumstances the investment spend on this new mortgage transformation project is required to be recognised as an intangible asset. During 2022, £156k has been expensed through the profit and loss account and £140k has been capitalised as an Intangible Asset under Construction, on the balance sheet where it will remain unamortised until it is available for use. As this intangible asset is not yet available for use, it has been subject to an impairment assessment which required the exercise of judgement with regard to the potential future economic benefits that will accrue to the Society. This assessment concluded that this intangible asset is not impaired.

2. Interest receivable and similar income

	Group 2022 £000's	Group 2021 £000's	Society 2022 £000's	Society 2021 £000's
On loans fully secured on residential property	20,430	19,010	20,428	19,007
On other loans	7	7	7	7
On debt securities – interest and other income	1,835	275	1,835	275
On other liquid assets – interest and other income	2,302	183	2,302	183
Net interest income/(expense) on derivative financial instruments	3,325	(1,942)	3,325	(1,942)
	27,899	**17,533**	**27,897**	**17,530**

3. Interest payable and similar charges

	Group 2022 £000's	Group 2021 £000's	Society 2022 £000's	Society 2021 £000's
On shares held by individuals	7,979	4,345	7,979	4,345
On deposits and other borrowings	2,047	159	2,047	159
Net interest expense on derivative financial instruments	56	3	56	3
	10,082	**4,507**	**10,082**	**4,507**

4. Fees and commissions receivable

	Group 2022 £000's	Group 2021 £000's	Society 2022 £000's	Society 2021 £000's
Insurance commission	289	493	289	493
Other fees	117	128	117	130
	406	**621**	**406**	**623**

5. Net gains from derivative financial instruments

	Group 2022 £000's	Group 2021 £000's	Society 2022 £000's	Society 2021 £000's
Gains on hedging instruments	28,841	9,687	28,841	9,687
(Losses) on hedged items attributable to the hedged risk	(23,381)	(9,037)	(23,381)	(9,037)
Net matched position	**5,460**	**650**	**5,460**	**650**
(Losses)/Gains on derivatives not in designated fair value Relationships	(894)	425	(894)	425
Total net gain on derivatives	**4,566**	**1,075**	**4,566**	**1,075**

The net Fair Value (FV) gain from matched derivative financial instruments of £5,460k (2021: gain of £650k) represents the net fair value movement on derivative instruments that are matching risk exposure on an economic basis at the balance sheet date, offset by the net fair value movement on the hedged item (fixed rate mortgages and savings). The increase in the gain this year is attributable to the exposure of these swaps to the exceptionally volatile interest rate environment during the year in the period after being transacted but before being matched in a hedge relationship.

Hedge accounting has not been achieved yet on certain derivatives, given they are unmatched as at the balance sheet date, resulting in a net fair value loss of £894k (2021: FV gain of £425k). This reflects timing differences between the execution of the derivatives and the completion of the associated hedged item, or where the derivative has become ineffective due to the early redemption of the hedged item. The cumulative gain/loss accounted for while the swap is unmatched during the period and as at the balance sheet date will be amortised over the life of the swap after it has become matched (2022: £4,791k, 2021: £551k).

6. Administrative expenses

	Group 2022 £000's	Group 2021 £000's	Society 2022 £000's	Society 2021 £000's
Staff costs (including Executive Directors):				
Wages and salaries	6,274	5,446	6,274	5,446
Social security costs	660	563	660	563
Other pension costs	492	392	492	392
	7,426	**6,401**	**7,426**	**6,401**
Other expenses:				
Remuneration of auditors (excluding VAT)				
Audit of Group and Society accounts	343	253	343	253
Audit of subsidiaries	15	10	-	-
Other services	22	19	22	19
Total auditor remuneration	**380**	**282**	**365**	**272**
Other administrative expenses	4,610	3,925	4,607	3,923
Total administrative expenses	**12,416**	**10,608**	**12,398**	**10,596**

In addition to the auditor remuneration as shown above, the Society also paid audit fees in relation to the defined benefit pension scheme of £18k (2021: £13k).

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

	Group 2022	Group 2021	Society 2022	Society 2021
(i) At principal office:				
Full-time staff	105	95	105	95
Part-time staff	38	36	38	36
(ii) At branch offices:				
Full-time staff	33	29	33	29
Part-time staff	31	31	31	31
Total staff	**207**	**191**	**207**	**191**
(iii) Total full-time equivalents	187	171	187	171

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 26 April 2023 and at the Annual General Meeting. The total loans outstanding at 31 December 2022, in respect of 1 (2021: 2) people amounted to £219k (2021: £596k). As at 31 December 2022 a total of £144,688 (2021: £68,664) was held in Society savings by the Directors.

The analysis of Directors' remuneration can be found in the Directors' Remuneration Report.

7. Impairment (credit)/charge 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 2022	6	598	604
Amounts utilised in the year	-	-	-
Charge/(Release) in the year	11	(110)	(99)
At 31 December 2022	**17**	**488**	**505**

Group and Society

	Loans fully secured on residential property		
	Individual Impairment £000's	Collective Impairment £000's	Total £000's
At 1 January 2021	50	659	709
Amounts utilised in the year	-	-	-
Release in the year	(44)	(61)	(105)
At 31 December 2021	**6**	**598**	**604**

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

Group and Society	2022 £000's	2021 £000's
Change in loan impairment allowance	(99)	(105)
Amounts recovered in respect of loans previously written off	(2)	(1)
Amounts written off during the year	49	-
Income and expenditure account	**(52)**	**(106)**

The impairment allowance as at 31 December 2022 and 2021 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.

The above table includes the impact of the mortgage impairment overlays of £360k for the year ended 31 December 2022 (2021: £460k). Further details are provided in note 1 to these accounts.

8. Tax on profit on ordinary activities

	Group 2022 £000's	Group 2021 £000's	Society 2022 £000's	Society 2021 £000's
(a) UK corporation tax at 19% (2021: 19%):				
Current tax	1,655	369	1,655	369
UK deferred tax at 19% (2021: 19%):				
Deferred tax – current year (see note 21)	205	15	205	15
Total	**1,860**	**384**	**1,860**	**384**

The tax assessed for the year is higher (2021: lower) than the standard rate of corporation tax in the UK of 19% (2021: 19%). The differences are explained below.

	Group 2022 £000's	Group 2021 £000's	Society 2022 £000's	Society 2021 £000's
(b) Factors affecting current tax charge in year:				
Profit on ordinary activities before tax	9,594	3,567	9,610	3,578
Tax on profit at UK standard rate of 19% (2021: 19%)	1,823	678	1,826	680
Expenses not deductible for tax purposes	6	16	6	16
Adjustment re: prior year	(5)	(100)	(5)	(100)
Group relief claimed	-	-	(3)	(7)
Impact of change in rate – deferred tax	-	(194)	-	(194)
Fixed asset difference	23	(29)	23	(29)
Chargeable gains	(3)	18	(3)	18
Deferred tax not recognised	16	(5)	16	-
Total tax charge	**1,860**	**384**	**1,860**	**384**

Current tax has been provided at the rate of 19%. For the year ended 31 December 2022 deferred tax was provided at a rate of 25% being the rate substantively enacted at the balance sheet date.

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

	Note	Group 2022 £000's	Group 2021 £000's	Society 2022 £000's	Society 2021 £000's
Cash in hand		673	639	673	639
Balances at the Bank of England		153,231	165,141	153,231	165,141
Included in cash and cash equivalents	25	**153,904**	**165,780**	**153,904**	**165,780**

Included within the balances at the Bank of England is £1,135,154 (2021: £1,085,196) of cash held at the Bank of England as a mandatory cash ratio deposit.

10. Loans and advances to credit institutions

	Group 2022 £000's	Group 2021 £000's	Society 2022 £000's	Society 2021 £000's
Maturity analysis:				
Repayable on demand	10,403	8,147	10,347	8,091
In more than one year but not more than five years	-	20	-	20
	10,403	**8,167**	**10,347**	**8,111**

There are no amounts outstanding in more than one year but not more than five years in 2022 (2021: £20k).

11. Debt securities

	Group 2022 £000's	Group 2021 £000's	Society 2022 £000's	Society 2021 £000's
Available for sale securities:				
Issued by UK Government	19,789	500	19,789	500
Issued by other borrowers - listed	33,136	28,285	33,136	28,285
Issued by other borrowers - unlisted	90,619	94,993	90,619	94,993
	143,544	**123,778**	**143,544**	**123,778**
Available for sale securities:				
Maturity analysis:				
In not more than one year	128,197	95,493	128,197	95,493
In more than one year	15,347	28,285	15,347	28,285
	143,544	**123,778**	**143,544**	**123,778**

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	2022 £000's	2021 £000's
At 1 January	123,778	109,271
Additions	117,534	96,000
Maturities and disposals	(98,771)	(81,486)
Movement in premium and accrued interest	1,380	63
(Loss) in fair value recognised in Other Comprehensive Income	(377)	(70)
At 31 December	**143,544**	**123,778**

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 and 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 2022				
Unmatched derivatives – interest rate swaps	84,033	266	(1,003)	(737)
Derivatives designated as fair value hedges - interest rate swaps	500,830	35,040	(238)	34,804
Total recognised derivative assets/(liabilities)	**584,863**	**35,306**	**(1,241)**	**34,067**
At 31 December 2021				
Unmatched derivatives – interest rate swaps	44,473	177	(20)	157
Derivatives designated as fair value hedges - interest rate swaps	425,412	6,239	(277)	5,963
Total recognised derivative assets/(liabilities)	**469,885**	**6,416**	**(297)**	**6,120**

Unmatched derivatives relates to swaps which have not been matched against mortgages for hedge accounting purposes as at the relevant balance sheet date. This reflects timing differences between the swaps being transacted and the associated mortgages completing, or in some cases where the swap has become ineffective due to the early redemption of associated mortgages.

13. Loans and advances to customers

	Group 2022 £000's	Group 2021 £000's	Society 2022 £000's	Society 2021 £000's
Loans and advances to customers comprise:				
Loans fully secured on residential property	916,905	874,644	916,881	874,614
Loans fully secured on land	159	161	159	161
Fair value adjustment for hedged risk	(28,979)	(5,531)	(28,979)	(5,531)
	888,085	**869,274**	**888,061**	**869,244**

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 £28,979k (2021: £5,531k) have been made to certain fixed rate mortgages that are in fair value hedging relationships.

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

	Group 2022 £000's	Group 2021 £000's	Society 2022 £000's	Society 2021 £000's
Repayable on demand	591	1,050	591	1,050
In not more than three months	7,349	7,529	7,349	7,529
In more than three months but not more than one year	23,644	23,819	23,644	23,818
In more than one year but not more than five years	154,681	152,848	154,658	152,819
In more than five years	730,127	689,513	730,126	689,513
	916,392	**874,759**	**916,368**	**874,729**
Loan impairment allowance	(505)	(604)	(505)	(604)
Fair value adjustment for hedged risk	(28,979)	(5,531)	(28,979)	(5,531)
Effective interest rate adjustment	1,177	650	1,177	650
	888,085	**869,274**	**888,061**	**869,244**

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 2022 £000's	Society 2021 £000's
Shares	1	1
Loans	-	-
	1	**1**

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 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 provision of financial services. No Director had a beneficial interest in any shares or debentures of the subsidiary undertaking.

The Mortgage Outlet Limited was a wholly owned direct subsidiary of the Society. The company was registered in England and Wales and was dissolved during the year ending 31 December 2022.

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

15. Fixed assets

Tangible Fixed Asset Group and Society	Freehold land and buildings £000's	Equipment, fixtures and fittings £000's	Asset Under Construction £000's	Totals £000's
Cost				
At 1 January 2022	2,547	3,740	129	6,416
Additions	-	132	1,057	1,189
Transfer	-	1,073	(1,073)	-
Disposals	-	(477)	(26)	(503)
At 31 December 2022	2,547	4,468	87	7,102
Accumulated depreciation				
At 1 January 2022	828	2,984	-	3,812
Charge for the year	37	278	-	315
Disposals	-	(468)	-	(468)
At 31 December 2022	865	2,794	-	3,659
Net book value				
At 31 December 2022	**1,682**	**1,674**	**87**	**3,443**

Tangible assets under construction represent the Society's investment in its Head Office building and its branch network.

Tangible Fixed Asset Group and Society	Freehold land and buildings £000's	Equipment, fixtures and fittings £000's	Asset Under Construction £000's	Totals £000's
Cost				
At 1 January 2021	2,583	3,888	245	6,716
Additions	-	55	406	461
Transfer	-	511	(511)	-
Disposals	(36)	(714)	(11)	(761)
At 31 December 2021	2,547	3,740	129	6,416
Accumulated depreciation				
At 1 January 2021	805	3,465	-	4,270
Charge for the year	39	210	-	249
Disposals	(16)	(691)	-	(707)
At 31 December 2021	828	2,984	-	3,812
Net book value				
At 31 December 2021	**1,719**	**756**	**129**	**2,604**

The net book value of land and buildings occupied by the Group and Society for its own activities is £1,682k (2021: £1,719k). Under FRS 102, the Society and Group elected to maintain the book value of fixed assets at their revalued amount as at 31 December 2000 and have elected to use this revaluation as deemed cost at the date of the original valuation. If land and buildings had not been revalued they would have been included at the following amount:

	2022 £000's	2021 £000's
Cost	1,470	1,470
Aggregate depreciation based on cost	(502)	(480)
	968	**990**

15. Fixed assets (continued)

Intangible Fixed Asset Group and Society	Computer Software £000's	Asset Under Construction £000's	Totals £000's
Cost			
At 1 January 2022	2,007	779	2,786
Additions	49	537	586
Transfer	1,176	(1,176)	-
Disposals	-	-	-
At 31 December 2022	3,232	140	3,372
Accumulated depreciation			
At 1 January 2022	1,476	-	1,476
Charge for the year	156	-	156
Disposals	-	-	-
At 31 December 2022	1,632	-	1,632
Net book value			
At 31 December 2022	**1,600**	**140**	**1,740**

Intangible assets under construction represent the Society's investment in new software for Financial Crime and Mortgage Transformation.

Intangible Fixed Asset Group and Society	Computer Software £000's	Asset Under Construction £000's	Totals £000's
Cost			
At 1 January 2021	1,424	746	2,170
Additions	10	678	688
Transfer	581	(581)	-
Disposals	(8)	(64)	(72)
At 31 December 2021	2,007	779	2,786
Accumulated depreciation			
At 1 January 2021	1,398	-	1,398
Charge for the year	78	-	78
Disposals	-	-	-
At 31 December 2021	1,476	-	1,476
Net book value			
At 31 December 2021	**531**	**779**	**1,310**

16. Other assets

	Group 2022 £000's	Group 2021 £000's	Society 2022 £000's	Society 2021 £000's
Amounts due from subsidiary undertakings	-	-	14	8
Other	74	127	74	126
	74	127	88	134

17. Prepayments and accrued income

	Group 2022 £000's	Group 2021 £000's	Society 2022 £000's	Society 2021 £000's
Prepayments	877	550	877	550
Accrued income	30	29	30	29
	907	**579**	**907**	**579**

18. Shares

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

	Group 2022 £000's	Group 2021 £000's	Society 2022 £000's	Society 2021 £000's
Repayable on demand	766,587	798,613	766,587	798,613
In not more than three months	27,053	26,621	27,053	26,621
In more than three months but not more than one year	122,343	71,184	122,343	71,184
In more than one year but no more than five years	83,587	77,233	83,587	77,233
Fair Value Adjustment for Hedged Risks	(100)	(33)	(100)	(33)
	999,470	**973,618**	**999,470**	**973,618**

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 2022 £000's	Group 2021 £000's	Society 2022 £000's	Society 2021 £000's
Repayable in less than one year	35,398	6,088	35,398	6,088
Repayable in more than one year but no more than five years	109,000	109,000	109,000	109,000
	144,398	**115,088**	**144,398**	**115,088**

Amounts payable in less than one year amounting to £35,398k (2021: £6,088) fully reflect amounts placed as collateral with counterparties in respect of derivative contracts.

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 2022 £000's	Group 2021 £000's	Society 2022 £000's	Society 2021 £000's
Repayable on demand	11,633	16,088	11,633	16,088

21. Other liabilities

	Group 2022 £000's	Group 2021 £000's	Society 2022 £000's	Society 2021 £000's
Amounts falling due within one year:				
Corporation tax	1,364	121	1,364	121
Other taxation and social security costs	172	268	172	268
Amounts due to Subsidiary undertakings	-	-	8	6
Other creditors	365	194	365	193
	1,901	**583**	**1,909**	**588**

Deferred Tax

	Group 2022 £000's	Group 2021 £000's	Society 2022 £000's	Society 2021 £000's
The elements of deferred taxation are as follows:				
Difference between accumulated depreciation and Capital allowances	512	343	512	343
Capital gains on revalued land and building	125	129	125	129
Other timing differences	(605)	188	(605)	188
	32	**660**	**32**	**660**

	Group 2022 £000's	Group 2021 £000's	Society 2022 £000's	Society 2021 £000's
Deferred taxation balance at 1 January	660	(86)	660	(86)
Deferred tax charge	204	15	204	15
Items in relation to the Statement of Comprehensive Income:				
Movements in relation to pension scheme	(828)	703	(828)	703
Movements in relation to revalued land and buildings	(4)	28	(4)	28
At 31 December	**32**	**660**	**32**	**660**

All deferred tax balances have been recognised at 25% being the rate substantively enacted at the balance sheet date. An increase in the UK corporation rate from 19% to 25% (effective 1 April 2023) was substantively enacted on 24 May 2021. This will increase the company's future current tax charge accordingly. The deferred tax liability at 31 December 2022 has been calculated based on these rates, reflecting the expected timing of reversal of the related timing differences (2021: 25%).

22. Accruals and deferred income

	Group 2022 £000's	Group 2021 £000's	Society 2022 £000's	Society 2021 £000's
Accrued interest on derivatives	943	-	943	-
Included as assets on the SOFP	943	-	943	-
Accrued interest on derivatives	-	176	-	176
Accruals	734	754	716	742
Deferred income	6	6	6	6
Included as liabilities on the SOFP	**740**	**936**	**722**	**924**

For the year ending 31 December 2022 the accrued interest on derivatives is an income of £943k (2021: Expense £176k). This income is shown as an asset in the Statement of Financial Positon (SOFP) in 2022 and a liability in 2021. Other accruals and deferred income for both 2021 and 2022 are shown as liabilities.

23. 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 All Risks Committee (ARC), Credit Risk Forum (CRF) and the Asset and Liability Committee (ALCO).

ARC'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 ARC also include ensuring the detailed application of the Risk Management Framework and the development of key risk policies and indicators.

The CRF exists to oversee and ensure effective credit risk management of the mortgage portfolio, to challenge relevant management information and other credit risk related matters and ensure that the 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.

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 (2 to 5 year) 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 micro hedging techniques to these (as discussed in note 1). The fair value of these hedges as at 31 December 2022 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

23. Financial instruments (continued)

The following table sets out a summary of the 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 through Other Comprehensive Income 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 amortised cost, adjusted for the fair value attributable to the hedged risk, 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 Financial liabilities held at fair value where in a hedged relationship 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 Fixed interest received converted to variable interest paid Based on notional value of derivative	Fair value through profit and loss Accounted for at trade date

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

23. Financial instruments (continued)

Carrying values as at 31 December 2022	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	-	153,904	-	-	-	153,904
Loans and advances to credit institutions	10,403	-	-	-	-	10,403
Debt securities	-	-	143,544	-	-	143,544
Derivative financial instruments	-	-	-	35,040	266	35,306
Loans and advances to customers	917,064	(28,979)	-	-	-	888,085
Total financial assets	**927,467**	**124,925**	**143,544**	**35,040**	**266**	**1,231,242**
Total non-financial assets						6,166
Total Group assets						**1,237,408**
Financial liabilities						
Shares	-	999,470	-	-	-	999,470
Amounts owed to credit institutions	-	144,398	-	-	-	144,398
Amounts owed to other customers	-	11,633	-	-	-	11,633
Derivative financial instruments	-	-	-	238	1,003	1,241
Total financial liabilities	**-**	**1,155,501**	**-**	**238**	**1,003**	**1,156,742**
Total non-financial liabilities						4,011
General and other reserves						76,655
Total Group reserves and liabilities						**1,237,408**

Carrying values as at 31 December 2021	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	-	165,780	-	-	-	165,780
Loans and advances to credit institutions	8,167	-	-	-	-	8,167
Debt securities	-	-	123,778	-	-	123,778
Derivative financial instruments	-	-	-	6,239	177	6,416
Loans and advances to customers	874,805	(5,531)	-	-	-	869,274
Total financial assets	**882,972**	**160,249**	**123,778**	**6,239**	**177**	**1,173,415**
Total non-financial assets						5,739
Total Group assets						**1,179,154**
Financial liabilities						
Shares	-	973,618	-	-	-	973,618
Amounts owed to credit institutions	-	115,088	-	-	-	115,088
Amounts owed to other customers	-	16,088	-	-	-	16,088
Derivative financial instruments	-	-	-	277	20	297
Total financial liabilities	**-**	**1,104,794**	**-**	**277**	**20**	**1,105,091**
Total non-financial liabilities						2,179
General and other reserves						71,884
Total Group reserves and liabilities						**1,179,154**

23. Financial instruments (continued)

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 2022					
Financial assets					
Available for sale:					
Debt securities	11	52,925	90,619	-	**143,544**
Derivative financial instruments:					
Interest rate swaps	12	-	35,306	-	**35,306**
		52,925	**125,925**	**-**	**178,850**
Financial liabilities					
Derivative financial instruments:					
Interest rate swaps	12	**-**	**1,241**	**-**	**1,241**

	Notes	Level 1 £000's	Level 2 £000's	Level 3 £000's	Total £000's
As at 31 December 2021					
Financial assets					
Available for sale:					
Debt securities	11	28,784	94,994	-	**123,778**
Derivative financial instruments:					
Interest rate swaps	12	-	6,416	-	**6,416**
		28,784	**101,410**	**-**	**130,194**
Financial liabilities					
Derivative financial instruments:					
Interest rate swaps	12	**-**	**297**	**-**	**297**

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 – Valuation is based on a calculation of expected market value based on interest rates and current available market rates at the date of valuation.

Derivatives

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 forward SONIA curve, depending on the variable rate embedded within the swap. The SONIA 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.

23. Financial instruments (continued)

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 Retail Credit Risk Policy. The Society's treasury policies mean that tight criteria are set over where the Society is prepared to place excess funds. The criteria includes 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 2022 £000's	Group 2021 £000's	Society 2022 £000's	Society 2021 £000's
Cash in hand and balances with the Bank of England	153,904	165,780	153,904	165,780
Loans and advances to credit institutions	10,403	8,167	10,347	8,111
Debt securities	143,544	123,778	143,544	123,778
Derivative financial instruments	35,306	6,416	35,306	6,416
Loans and advances to customers	888,085	869,274	888,061	869,244
Total statement of financial exposure[1]	**1,231,242**	**1,173,415**	**1,231,162**	**1,173,329**
Off balance sheet exposure - mortgage commitments[2]	50,973	37,126	50,973	37,126
Total	**1,282,215**	**1,210,541**	**1,282,135**	**1,210,455**

[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 UK Central Government (which includes the Bank of England), banks with a high credit rating (including supranationals) and building societies. The Group performs regular analysis of counterparty credit risk and monitoring of publicly available information to highlight possible indirect exposures.

An analysis of the Group's treasury asset concentration is shown in the table below. There are no material differences between Group and Society.

Industry sector	2022 £000's	2022 %	2021 £000's	2021 %
Banks	90,619	63%	94,993	77%
Building societies	-	-	-	-
Central Government	19,789	14%	500	0%
Supranationals	33,136	23%	28,285	23%
Total	**143,544**	**100%**	**123,778**	**100%**

Geographic region	2022 £000's	AAA %	AA %	A %
United Kingdom	85,214	-	23%	77%
Europe	10,075	-	100%	-
Canada	15,119	-	100%	-
Supranationals	33,136	100%	–	–
Total	**143,544**			

Geographic region	2021 £000's	AAA %	AA %	A %
United Kingdom	85,508	-	1%	99%
Europe	4,994	-	100%	-
Canada	4,991	-	100%	-
Supranationals	28,285	100%	-	-
Total	**123,778**			

23. Financial instruments (continued)

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

Geographic region	2022 £000's	AA %	A %	2021 £000's	AA %	A %
United Kingdom	22,272	9%	91%	4,808	6%	94%
Europe	13,034	-	100%	1,608	-	100%
Total	**35,306**			**6,416**		

There are no impairment charges against any of the Group's treasury assets at 31 December 2022 or 31 December 2021.

b) Loans and advances to customers

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

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

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

Credit risk management information is circulated to the Credit Risk Forum on a monthly basis to ensure that the portfolio remains within the Group's risk appetite. It is the Group's policy to ensure good customer outcomes and lend responsibly by ensuring at the outset that the customer can meet the mortgage repayments. This is achieved by obtaining specific information from the customer concerning income and expenditure but also external credit reference agency data. The Group does not have any exposure to the sub-prime market. The maximum credit risk exposure is disclosed in the table on page 93. Loans and advances to customers are predominantly made up of retail loans fully secured against UK property of £916m (2021: £875m) split between residential and buy to let loans. The Group operates through England and Wales with the portfolio well spread throughout the geographic regions. There are no material differences between Group and Society.

An analysis of the Group's geographical concentration, gross of provisions, is shown in the table below:

		Group			
Geographic region	**Note**	**2022 £000's**	**2022 %**	**2021 £000's**	**2021 %**
West Midlands		170,478	20%	169,780	19%
North		166,992	18%	150,528	17%
London		160,128	17%	154,798	18%
East Midlands		101,217	11%	94,734	11%
South West		86,092	9%	84,847	10%
Outer South East		82,421	9%	81,098	9%
Yorkshire & Humberside		76,483	8%	68,559	8%
Wales and Northern Ireland		43,533	5%	42,510	5%
East Anglia		28,889	3%	27,745	3%
Total		**916,233**	**100%**	**874,599**	**100%**
Other loans (see below)		159		160	
	13	**916,392**		**874,759**	

Other loans represent commercial loans secured on land.

23. 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 repayment is shown below:

	2022	2021
Repayment – Residential mortgage	64%	62%
Interest Only – Residential mortgage	8%	10%
Repayment – Buy to Let	4%	4%
Interest Only – Buy to Let	24%	24%

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, at origination, adjusted by a house price index.

The average LTV of residential mortgages is 40% (2021: 39%). All residential loans above 80% (2021: 80%) LTV are insured.

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

	Group	
LTV analysis	**2022 %**	**2021 %**
Residential		
0% - 30%	15%	16%
30% - 60%	39%	41%
60% - 80%	29%	36%
80% - 90%	8%	6%
90%-100%	9%	1%
>100%	-	-
Average loan to value of residential mortgage loans	**40%**	**39%**

	Group	
LTV analysis	**2022 %**	**2021 %**
Buy to Let		
0% - 30%	8%	8%
30% - 60%	73%	79%
60% - 80%	19%	13%
80% - 90%	-	-
90%-100%	-	-
>100%	-	-
Average loan to value of buy to let mortgage loans	**44%**	**44%**

The quality of the Group's retail mortgage book is reflected in the number and value of accounts in arrears, by value this is 0.43% (2021: 0.53%), of which only 0.11% (2021: 0.21%) is greater than three months in arrears.

The main factor for loans moving into arrears tends to be lifestyle events that are specific to the borrower.

23. Financial instruments (continued)

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

Arrears analysis	2022 £000's	2022 %	2021 £000's	2021 %
Not impaired				
Neither past due or impaired	912,490	99.6%	870,138	99.5%
Past due up to three months but not impaired	2,878	<=0.1%	2,773	0.3%
Impaired				
Past due three to six months	172	<=0.1%	405	<=0.1%
Past due six to 12 months	198	<=0.1%	827	<=0.1%
Past due over 12 months	654	<=0.1%	616	<=0.1%
Total	**916,392**	**100%**	**874,759**	**100%**

Value of collateral held	2022 Indexed £000's	2022 Unindexed £000's	2021 Indexed £000's	2021 Unindexed £000's
Neither past due or impaired	2,212,572	1,753,497	2,168,841	1,727,895
Past due up to three months but not impaired	7,753	5,492	6,411	4,850
Past due over three months and impaired	1,967	1,464	4,034	2,985

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, at origination, of its residential and buy to let portfolios on a quarterly basis.

Mortgage Indemnity Guarantee (MIG) insurance acts as additional security. For mortgage applications from 1 December 2017, MIG has been taken out for all residential loans where the borrowing exceeded 80% of the value of the property at the point of application. During 2018 the length of time for the Mortgage Indemnity Guarantee period was reduced from 10 years to 7 years, with the option to purchase a further 3 years, if required.

The status 'past due up to three months but not impaired' includes any asset where a payment due is received late or missed but no individual provision has been allocated.

The amount included is the entire loan amount rather than just the overdue amount. The status past due over three months and impaired includes assets where an individual provision has been allocated where appropriate.

At 31 December 2022, the Group and Society had nil (2021:1) property in possession with an outstanding balance of nil (2021: £382k) and related collateral of nil (2021: £425k). The property that was in repossession in 2021 was sold during 2022.

Forbearance

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

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

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

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

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

All forbearance arrangements are reviewed and monitored on a monthly basis to assess the ongoing potential risk, suitability and sustainability to the Society. The level and different types of forbearance activity are reported to the Credit Risk Forum on a monthly basis.

23. Financial instruments (continued)

The table below details the number of forbearance cases within the 'Not impaired' category:

Type of forbearance	31 December 2022 Number	31 December 2021 Number
Reduced payment including interest only concessions	7	3
Arrangements	5	8
Payment holidays	16	6
Total	**28**	**17**

In total £3.4m (2021: £2.1m) of loans are subject to forbearance. There is a requirement for a collective impairment allowance in 2022 of £5.3k (2021: less than £0.5k) in relation to forbearance accounts.

Liquidity risk

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

Stress tests are undertaken to measure the Society's ability to meet adverse cash flows on a regular basis. This activity is overseen by the ALCO. The Society also complies with the rules issued by the Prudential Regulation Authority concerning the quality of liquid assets held by banks and building societies. As a consequence, the Society held £152m at 31 December 2022 (2021: £164m) 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 2022	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	766,505	27,263	29,141	95,396	87,071	-	1,005,376
Amounts owed to credit institutions	34,622	776	941	1,923	116,312	-	154,574
Amounts owed to other customers	11,633	-	-	-	-	-	11,633
Derivative financial instruments	-	211	118	89	1,057	-	1,475
Total liabilities	**812,760**	**28,250**	**30,200**	**97,408**	**204,440**	**-**	**1,173,058**

31 December 2021	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	798,537	26,779	30,540	41,031	79,067	-	975,954
Amounts owed to credit institutions	6,056	32	67	137	109,796	-	116,088
Amounts owed to other customers	10,031	-	-	-	-	-	10,031
Derivative financial instruments	-	256	133	42	(13)	-	418
Total liabilities	**814,624**	**27,067**	**30,740**	**41,210**	**188,850**	**-**	**1,102,491**

23. 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 1.1% of capital (£886k) on a net present value basis and £1.2m on profit at 31 December 2022 (2021: 2.6%, £1.9m, £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 and fixed rate savings bonds. The fair values of derivatives designated as fair value hedges are as follows:

	2022 Assets £000's	2022 Liabilities £000's	2021 Assets £000's	2021 Liabilities £000's
Instrument type:				
Interest rate swaps	35,306	1,241	6,416	297
Total	**35,306**	**1,241**	**6,416**	**297**

Capital structure

The Society's policy is to maintain a strong capital base to sustain member, creditor and market confidence and to support the future development of the business. The Society's actual and expected capital position are reviewed against a stated risk appetite which aims to maintain capital at a minimum level above the Total Capital Requirement (TCR) provided by the PRA. The formal annual Internal Capital Adequacy Assessment Process (ICAAP) assists the Society with its capital management and capital levels are subject to regular stress tests to ensure the Society maintains sufficient capital to protect itself against possible future loss events.

The Board manages the Society's capital and risk exposures to maintain capital in excess of regulatory requirements which includes monitoring of:

- Lending decisions – The Society's lending policy is closely monitored by Credit Risk Forum to ensure it aligns with the Society's risk appetite.
- Pricing – Pricing models are utilised for all residential mortgage products. The model includes expected return and capital utilisation enabling the calculation of a return on capital.
- Concentration risk – The design of both mortgage products takes into account the overall mix of products to ensure that concentration levels are maintained within the Society's risk appetite.
- Counterparty risk – Deposits are only placed with approved counterparties in line with the Society's Treasury Policy Statement and are subject to a range of limits. The limits are monitored daily to ensure the Society remains within risk appetite.

There were no breaches of capital requirements or material changes to the Society's management of its capital during the year.

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

23. Financial instruments (continued)

	2022 £000's	2021 £000's
Common Equity Tier 1 (CET1)		
General and other capital reserves	76,759	71,884
Prudent valuation adjustment (unaudited)	(146)	(124)
Pension asset	-	(839)
Intangible assets	(1,740)	(1,311)
	74,873	**69,610**
Tier 2 capital		
Collective provision	488	598
Total regulatory capital	**75,361**	**70,208**
Risk Weighted Assets (unaudited)	410,248	388,150
Capital ratios (unaudited)		
CET1 ratio	18.3%	17.9%
Total capital ratio	18.4%	18.1%
Leverage ratio	6.8%	5.6%

24. Retirement benefit obligations

The Society operates a defined benefit pension scheme in the UK. This is a separate trustee administered fund holding the pension scheme assets to meet long term pension liabilities. A full actuarial valuation is carried out every three years.

The most recent completed actuarial valuation was at 24 April 2021 and finalised during 2022, showed a deficit of £1,011k. The Society agreed with the trustees that it would aim to eliminate the deficit over 2023 and 2024 with additional monthly payments of £41,666 per month.

The results of this valuation were used to produce the accounting valuation below at 31 December 2022. In accordance with the actuarial valuation, the Society has agreed with the trustees that it will meet expenses of the Scheme and levies to the Pension Protection Fund. The Scheme is closed to accrual, but remains salary linked to accrued benefits, with effect from 24 April 2013.

The valuation disclosed in these accounts is carried out by a qualified actuary, independent of the Scheme's sponsoring employer to take account of the actuarial method and assumptions required by section 28 of FRS 102. The majority of assumptions used by the actuary are shown on page 103.

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

	2022 £000's	2021 £000's	2020 £000's
Fair value of scheme assets	23,648	42,066	44,002
Present value of scheme liabilities	(25,823)	(40,947)	(44,876)
(Deficit)/Asset in scheme	**(2,175)**	**1,119**	**(874)**

Reconciliation of opening and closing balances of the defined benefit obligation

	2022 £000's	2021 £000's
Defined benefit obligation at start of year	40,947	44,876
Current service cost	-	-
Interest expense	721	611
Actuarial (gain)	(14,074)	(2,023)
Benefits paid and expenses	(1,771)	(2,517)
Losses due to benefit changes	-	-
Defined benefit obligation at end of year	**25,823**	**40,947**

24. Retirement benefit obligations (continued)

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

	2022 £000's	2021 £000's
Fair value of scheme assets at start of year	42,066	44,002
Interest income	741	598
Return on plan assets (excluding amounts included in net interest cost) - gain	(17,388)	(17)
Contributions by Society	-	-
Benefits paid	(1,771)	(2,517)
Scheme assets at end of year	**23,648**	**42,066**

The actual return on the plan assets over the year ended 31 December 2022 was (£16,587k) (2021: £581k).

Total defined benefit costs recognised in the Income Statement

	2022 £000's	2021 £000's
Current service cost	-	-
Net interest on the definded benefit liability/(asset)	(20)	13
Losses due to benefit changes	-	-
Defined benefit cost recognised in profit and loss account	**(20)**	**13**

Defined benefit costs recognised in Other Comprehensive Income

	2022 £000's	2021 £000's
Return on plan assets in excess of interest income	17,388	17
Experience gains/(loss) arising on the plan liabilities	-	-
Actuarial loss/(gain)	(14,074)	(2,023)
Total amount recognised in Other Comprehensive Income – loss/(gain)	**3,314**	**(2,006)**

Assets	2022 £000's	2021 £000's	2020 £000's
Quoted Market Price:			
Multi asset credit funds	563	2,114	1,863
Corporate bonds	1,131	2,758	2,541
Diversified growth funds	1,471	9,285	9,168
Liability driven investment funds	7,837	9,692	11,377
Other	96	59	22
	11,098	23,908	24,971
No Quoted Market Price:			
Insured pensioners	12,550	18,158	19,031
Total	23,648	42,066	44,002

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.

24. Retirement benefit obligations (continued)

Assumptions	2022 % per annum	2021 % per annum	2020 % per annum
Rate of discount	4.65	1.80	1.40
Retail Price Index inflation	3.15	3.35	3.00
Consumer Price Index inflation	2.65	2.85	2.50
Salary growth	4.15	4.35	4.00
Allowance for revaluation of deferred pensions of CPI or 5% p.a. if less	2.65	2.85	2.50
Allowance for pension payment increases of RPI or 5% p.a. if less	2.85	3.25	2.90
Allowance for pension in payment increases of RPI or 2.5% p.a. if less	1.8	2.25	2.05
Allowance for commutation of pension for cash at retirement	80% of Post A Day on current factors	80% of Post A Day on current factors	80% of Post A Day on current factors

The mortality assumptions adopted at 31 December 2022 imply the following life expectancies:

Male retiring at age 60 in 2022	26.3 years (2021: 26.4 years)
Female retiring at age 60 in 2022	28.9 years (2021: 28.4 years)
Male at age 60 in 2042	27.4 years (2021: 27.6 years)
Female retiring at age 60 in 2042	30.1 years (2021: 29.6 years)

The Society has agreed to pay the insurance premium for death in service benefits.

Mortality assumptions are based on publicly available mortality tables for the UK. Covid-19 has caused a short-term increase in deaths in the UK but the excess deaths have not generally had a material impact on UK pension scheme liabilities. The future impact of Covid on long term mortality improvements is currently uncertain, with potential adverse implications of delayed medical interventions and long covid, along with potential positive implications if the surviving population is less frail or the pandemic causes improved healthcare initiatives. An adjustment has been made to the mortality assumption via the adoption of a non-default 2020 and 2021 weight parameter of 10% for both years. This is broadly equivalent to assuming mortality rates in 2022 are 5% worse than the 2019 assumed rates, but subsequently improve back to these rates over the next 5 years.

25. Cash and cash equivalents

	Group 2022 £000's	Group 2021 £000's	Society 2022 £000's	Society 2021 £000's
Cash in hand and balances at Bank of England	153,904	165,780	153,904	165,780
Loans and advances to credit institutions	10,403	8,147	10,347	8,091
At 31 December	**164,307**	**173,927**	**164,251**	**173,871**

26. General reserve

	Group 2022 £000's	Group 2021 £000's	Society 2022 £000's	Society 2021 £000's
At 1 January	**70,869**	**66,384**	**70,798**	**66,302**
Profit for the financial year	7,734	3,183	7,750	3,194
Net gain/(loss) recognised directly in Other Comprehensive Income	(2,486)	1,302	(2,486)	1,302
At 31 December	**76,117**	**70,869**	**76,062**	**70,798**

The general reserves along with the revaluation reserve and available for sale reserve constitute the Society's Tier 1 Capital for regulatory purposes.

27. Revaluation reserve

	Group 2022 £000's	Group 2021 £000's	Society 2022 £000's	Society 2021 £000's
At 1 January	984	1,012	984	1,012
Tax on revaluation reserve from changes in land and buildings	4	(28)	4	(28)
At 31 December	988	984	988	984

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.

28. Available for Sale reserve

	Group 2022 £000's	Group 2021 £000's	Society 2022 £000's	Society 2021 £000's
At 1 January	31	101	31	101
Net (losses) gains from changes in fair value	(377)	(70)	(377)	(70)
At 31 December	(346)	31	(346)	31

29. Country by Country Reporting

Nature of the Society's activities

Leek Building Society's principal activity is the provision of mortgage and savings products as well as access to 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. Access to 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.

29. Country by Country Reporting (continued)

Total turnover, profit before tax and average number of employees

Total turnover for the year ended 31 December 2022 was £17,842k (2021: £13,334k). 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 2022 was £9,594k (2021: £3,567k). Corporation tax paid during the year ended 31 December 2022 was £395k (2021: £260k).

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 2022 was 187 (2021: 171).

Public subsidies received

The Society received no public subsidies in the year ended 31 December 2022 (2021: nil).

Annual Business Statement

Annual Business Statement for the year ended 31 December 2022

	2022 %	2021 %	Statutory limit %
Statutory percentages			
Lending limit	0.91	0.20	25.0
Funding limit	13.5	11.9	50.0

The above percentages have been calculated in accordance with the Building Societies Act 1986 as amended by the Building Societies Acts 1997 and 2005.

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.

	2022 %	2021 %
Other percentages		
Gross capital as a percentage of shares and borrowings	6.64	6.51
Free capital as a percentage of shares and borrowings	6.25	6.21
Liquid assets as a percentage of shares and borrowings	26.64	26.95
Profit on ordinary activities after taxation as a percentage of year end total assets	0.64	0.27
Management expenses as a percentage of mean total assets	1.07	0.94

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 2022 and 2021 total assets. Management expenses represent the aggregate of administrative expenses and depreciation.

Information relating to Directors as at 31 December 2022

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
 **Felicity Bambery** BA, FCA 08/07/1976	Non-Executive Director	27/07/2022	None
 **Dave Cheeseman** BSc, FIA 01/10/1968	Non-Executive Director	29/04/2021	Holloway Friendly Society Limited Amber River Group
 **Steve Clarke** BA, ACMA 27/11/1976	Building Society Finance Director	30/11/2022	None
 **Rachel Court** JP, BA Oxon 27/06/1966	Non-Executive Director	26/11/2014	Invesco Pensions Ltd Invesco UK Ltd Invesco Asset Management Ltd Leek United Home Loans Ltd Leek United Financial Services Ltd
 **Andrew Davies** 03/08/1967	Building Society Chief Risk Officer	29/09/2021	None
 **Darren Ditchburn** MSc, AdvCeMAP 25/03/1986	Building Society Deputy Chief Executive	30/06/2022	Leek United Home Loans Ltd Leek United Financial Services Ltd
 **Andrew Healy** MoB, BSc, Chartered FCIPD 10/11/1966	Building Society Chief Executive	17/12/2018	Leek United Home Loans Ltd Leek United Financial Services Ltd
 **Jane Kimberlin** BA 25/09/1959	Non-Executive Director	23/11/2016	Creaton Consultants Limited Creaton Community Benefit Society
 **John Leveson** MBA, FCIB 04/09/1959	Non-Executive Director	19/05/2015	H & H Group plc

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.

Internal Auditor
Deloitte LLP
Four Brindley Place
Birmingham
B1 2HZ

Independent Auditor
KPMG LLP
1 Sovereign Square
Sovereign Square
Leeds
LS1 4DA

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

t: 0800 093 0004

finance@leekbs.co.uk
leekbs.co.uk

The pulp used in the manufacture of this paper is from renewable timber produced from sustainable forests and is elemental chlorine free.