2020

ANNUAL REPORT AND ACCOUNTS

Leek United
BUILDING SOCIETY

Contents

Branches in:
Ashbourne
Cheadle
Congleton
Derby
Hanley
Leek St. Edward Street
Leek Derby Street
Macclesfield
Market Drayton
Newcastle
Oakengates
Uttoxeter

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Established 1863

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Registered Number 323B

2020 Highlights

Total Assets
£1.15 billion

Capital Reserves
£67.5 million

Customer Satisfaction
93%

Common Equity Tier 1 Ratio
17.9%

Over £90k donated to Charities & Community causes

Profit before Tax
£0.9 million

Balance sheet	2020	2019
Total Assets	£1.15bn	£1.09bn
Mortgage Balances	£864m	£849m
Shares and Deposits	£942m	£889m
Operating performance		
Net Interest Margin	1.03%	1.17%
Management Expenses Ratio	0.92%	0.97%
Mortgage Arrears	0.20%	0.20%
Profit Before Tax	£0.9m	£2.4m
Financial strength		
Regulatory Capital	£67.3m	£66.8m
Total Capital Ratio	18.0%	17.5%
Liquid Assets	£280m	£240m

Explanations for the above terms can be found in the Strategic Report on pages 11 to 16.

RACHEL
COURT
CHAIR

Chair's Statement

I am pleased to introduce the Society's Annual Report and Accounts for 2020, an extraordinary year that will be mostly remembered for one thing – the scourge of the Covid-19 pandemic.

In this modern, technologically and medically advanced world, who would have believed that virtually every country, city, town and village across the globe could be impacted so severely by a previously unknown disease?

My first thoughts are of course with our members who succumbed to this dreadful disease or who lost loved ones. We have all been impacted and in some ways, it feels inappropriate to be focusing on financial and business performance in this report. However, I hope you will find that in seeking to give you a thorough assessment of the status of the Society, we have done so in a compassionate and considered manner.

The pandemic's initial impact in the United Kingdom was a national lockdown in the spring which included a seven-week period when the housing market was essentially closed. Government guidance was that no one should leave home unless it was essential to do so and while our branches stayed open, our central customer service teams had to quickly adjust to home working. This, to their immense credit, they very quickly did due to a combination of their tremendous flexibility and the strength of the Society's technology which allowed us to leverage the benefits of our investment over the course of the prior year.

Among many other things, the pandemic has demonstrated in a very practical way the effectiveness of our business continuity planning and operational resilience. We were well prepared and sufficiently agile to be able to keep service levels to members high throughout the year. As a Board, we also adapted well, with Board meetings conducted remotely and more frequently during the year.

It is very encouraging to report that our key business results for 2020 were very close to the targets we had set for ourselves prior to the year and of course in advance of the pandemic. A number of adjustments were required over the course of the year to deliver this outturn but I hope you will agree that it represents quite an achievement in such remarkable circumstances. It is particularly pleasing to report that our financial strength at year end provides the confidence to continue our programme of prudent investment in the Society's future technology, processes and branch network.

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.

"It is particularly pleasing to report that our financial strength at year end provides the confidence to continue our programme of prudent investment in the Society's future technology, processes and branch network."

Economic and Market Conditions

The Bank of England reacted promptly to the pandemic through extensive quantitative easing coupled with a reduction in base rate from 0.75% to 0.25% and subsequently to 0.10%, a historic low. Government intervention has been significant also, with support provided for individuals, businesses and charities in order to protect income and support the economy. A temporary reduction in property stamp duty has helped the housing market and the Society warmly and proactively supported the granting of payment holidays to borrowers affected by the Covid-19 outbreak in line with the instructions of the Financial Conduct Authority.

Despite all of the steps taken, the domestic economy has suffered a material contraction. The fragile initial recovery was set back by subsequent national lockdowns and the emergence towards the end of the year of new more contagious strains of Covid-19. Furthermore, while the UK has successfully completed its withdrawal from the European Union, the resultant economic impact is difficult to predict.

The housing market has so far shown remarkable resilience but house price growth has slowed and prices are widely predicted to fall in the short term, in significant part due to higher unemployment which can also be expected to impact negatively on mortgage affordability.

There is an expectation that interest rates will remain at their present historic low for some time, with even the possibility of rates falling to below zero. The financial services market continues to experience increased competition and technological advances which in addition to the low interest rate environment, will place pressure on the Society's margins. However, we see a competitive market for savings and mortgages as being positive for members and it very much remains our intention to continue to offer fair-priced savings and mortgage products, to lend responsibly and to support borrowers to achieve their housing aspirations.

In summary, the Board considers that economic and market conditions will remain extremely challenging in 2021. However, the Society is considered to be robustly positioned to deal with any headwinds it may face.

Our Board

In March 2020, Non-Executive Director Colin Kersley stepped down from the Board. I am sure you will join me in thanking Colin for his extremely valuable contribution to the Society since he joined us in 2016 and in wishing him well for the future. The Board has concluded that its overall composition is appropriate to meet business needs for the time being and that there remains a satisfactory blend of skills on the Board. We have therefore reduced the number of Non-Executive Directors from six to five, pending the recruitment of a Chair of Board Risk Committee Designate during 2021 in readiness for Richard Goddard's scheduled departure from the Board in 2022.

Thank You

The past year has tested us in ways that none of us could possibly have envisaged. I would like to thank my fellow Board members for their immense support and dedication throughout the year. I am also enormously grateful to our management team and staff for their passion, focus and commitment to maintain the Society's performance and high standards in the face of incredible personal and business challenges.

Finally and most importantly, I would like to extend my sincere thanks to you, our members, for your continued loyalty which I assure you we never take for granted. I very much appreciate your understanding and support as we adjusted our ways of working over the course of the year. As the situation with Covid-19 continues to evolve, one thing that remains constant is our commitment to supporting you. I hope you will stay safe and healthy and that as many of you as possible will be able to attend our Annual General Meeting which will be held virtually on Wednesday, 28th April.

Rachel Court
Chair
24 February 2021

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ANDREW HEALY

CHIEF EXECUTIVE

Chief Executive's Review

As I look back on 2020, I am extremely proud that the Society not only navigated safely through an incredibly challenging year but that we continued our journey of progress in terms of modernisation and strengthening our financial and operational platform for the future. In the face of an unprecedented pandemic, our entire team of staff had to dig deep like never before in order to continue to provide members with high levels of service and I simply cannot praise their efforts enough. The extent to which they individually and collectively responded to the onset of Covid-19 restrictions, changed working practices and reached out to support members was quite magnificent. Indeed it has been heartwarming to receive so many wonderful tributes from members regarding our staff during the year.

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Robust Financial Platform

As a mutual building society, we do not seek to maximise profits but to achieve a level of profitability that is sufficient to balance member value with the need to have a robust capital position to fund future investment in our business. The Society delivered a resilient operational and capital performance in 2020 despite difficult market conditions, maintaining strong service levels and making significant progress with our investment programme while continuing to grow both our mortgage and savings books. However, as with many organisations, our short term financial performance was impacted by the economic environment and profitability is lower year on year driven by the impact of the Bank of England base rate reductions which served to compress net interest margins and an increase in provisions for credit losses in our mortgage portfolio arising from the challenging economic environment. Against this backdrop, we have strived to improve the efficiency of our operations with our management expenses ratio improving year on year.

Further detail on the Society's financial position and year on year performance is contained in the Strategic Report which follows my review.

Mortgages

While market conditions fluctuated over the course of the year, new mortgage lending was overall quite strong and we finished the year with mortgage balances of £864m (2019: £849m). The Society's lending proposition has remained focused on providing a range of competitive fixed and discounted mortgages to owner occupiers as well as, to a lesser extent, to Buy to Let landlords.

As the pandemic began to take hold in Spring 2020, it became apparent that a number of our borrowers would need assistance to overcome reductions to their usual income and in accordance with Financial Conduct Authority pronouncements, we provided payment deferrals of three or six months to such members. In total, deferrals were granted to more than 850 members, equivalent to approximately 12% of our borrowers. Our Mortgage Collections and Operations teams, backed up by support from their branch colleagues, worked tirelessly to support these members in the caring manner on which we pride ourselves. Fortunately, over 98% of borrowers who took temporary deferrals were able to resume payments after their deferral period ended but we of course continue to be willing to give assistance to anyone needing our help.

Notwithstanding the increased provisions mentioned above, the Society's mortgage book continues to be of high quality with below industry average arrears levels which we are hopeful will continue to be the case. As an additional protection, all lending over 80% LTV at inception continues to be covered by mortgage indemnity insurance against losses incurred if a property were to be taken into possession in the first seven years.

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

Our commitment, competitiveness and high standards were recognised during 2020 with a number of industry-level mortgage awards. For the third consecutive year, the Society was awarded Best Variable Rate Mortgage Lender at the national Personal Finance Awards and highly commended in the Moneynet Best First Time Buyer Mortgage Provider category. We also won Best Variable Rate Lender and were highly commended for Best Regional Building Society in the prestigious What Mortgage Awards.

Savings

The Society continues to be very strongly funded by our members through a broad range of savings products, with member balances growing by £53m during the year despite the unprecedented low interest rate environment. We responded to the reductions in Bank base rate in a balanced manner and offered competitive savings and mortgage rates throughout the year. However, we took the difficult decision to lower the interest rate on a selection of savings accounts in December having held off reducing these rates for as long as possible. As a regional building society, we are unable to shape market rates but we are committed to providing fair and sustainable rates to our loyal customer base and we continue to offer preferential loyalty products for existing members.

Investment Programme

2020 saw the Society's investment programme pick up pace as we selected third party vendors in a number of areas and advanced the development of the organisation's technology, processes and branch network. During 2021 this programme will progress to deliver full online and mobile access to savings accounts for members. We will also start to invest in modernising our branch estate to meet members' advisory needs more effectively, commencing with a major refurbishment of our flagship branch in Derby Street, Leek.

Artist's impression of our soon to be refurbished branch in Leek, Derby Street

In progressing plans to invest in our branch network, it unfortunately became apparent that it would be necessary to end the Society's relationship with our two remaining agencies in Wirksworth and Stone in January 2021. These agencies and their committed staff have served the Society's members diligently for many years, and I am extremely grateful for their excellent work on our behalf throughout this time. However,

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agencies are quite different to branches in that they are by their nature run by a third party yet we retain responsibility for their management and compliance with regulatory requirements, a model which presents additional risks to the Society. In addition, our agencies can only offer transaction services whereas we believe our outlets should offer a much broader range of services to meet the needs of our members and to be cost effective. As a mutual, we have a responsibility to our overall member base to take action where it is needed but we fully recognise that the closure of these agencies has impacted our loyal members in these local communities. We have communicated directly with all such members to offer support and to explain how they may continue to operate their Leek United accounts.

Our Service

We take great pride in the Society in our steadfast focus on our members. The pandemic made it extremely challenging to deliver our normal high level of service, not least as we were forced to reduce opening hours in our branches in order to protect our staff. However, we nimbly amended our procedures and processes and our branch and central teams worked as one to augment our physical service with enhanced telephone services.

In our branches, we dedicated the first hour of each day to supporting elderly and vulnerable customers to conduct their business safely. We also introduced phone and video services for members to help them avoid the need to visit our branches.

While we were not able to hold a 'face-to-face' Annual General Meeting or other physical meetings during 2020 because of the pandemic, we conducted a number of member surveys to obtain your views. We are extremely proud that 93% of members stated they were satisfied with their overall experience of the Society.

Our People

In Leek United, we fully recognise and indeed treasure the pivotal importance of our people to our excellent customer service, high risk management standards and immensely positive culture. Never before have our staff been more important than in 2020 and as I said at the outset of this review, their efforts throughout the year have been magnificent. They have shown incredible resilience, strength and courage to support our members and to ensure our Society continued to operate in line with our values. Throughout the Covid-19 crisis, our staff have consistently reached out to our members to give every support possible in the most difficult of circumstances. They have provided special assistance to any members who might be struggling, including calling up such members to check on their wellbeing and to provide alternatives to travelling into our branches.

While I know that at times members will have been inconvenienced by changes such as reduced opening hours, I feel sure you will appreciate the exceptional commitment of our staff in putting themselves at risk to support you. I have been consistently uplifted and delighted by the compassion and commitment of all my colleagues and it was a particularly proud moment when the Society won a prestigious national people management award during the year from the renowned Chartered Institute of Personnel and Development.

Our people are naturally key to the successful execution and implementation of the Society's strategy. In recent years, an organisational structure has been put in place which supports the delivery of our strategic plan and this is supported by appropriate succession planning and staff development.

In internal employee surveys during the year, our staff repeatedly advised us that they are proud to work for the Society and that Leek United is a great place to work. At Board and executive level, we are determined to continue to build on the excellent culture that is in place within the Society.

Community

Despite the challenges of an unprecedented year, I am delighted to report that the Society continued to wonderfully support local community groups and charities and that in total, more than £90,000 was raised for such causes – an exceptional amount in my opinion.

Of course many of these organisations were hit hard by the pandemic as income fell and normal fundraising events had to be cancelled. Through the creativity and determination of our staff, we raised some £26,000 for three local charities following a hugely successful campaign of fundraising events. This campaign saw all of the Society's staff, including the executive team and the Board, organise and participate in more than 20 different events such as a virtual quiz, online auction and a 600 miles endurance challenge. These events generated £13,000 which was then matched by the Society pound for pound, leading to the grand total of £26,000 which was split equally between Home-Start Staffordshire Moorlands,

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Treetops Hospice Care, Derbyshire and East Cheshire Hospice. The Society's members played a big part also. Our affinity savings account range allowed members to support local communities as they saved, through accounts which paid a percentage of the interest earned to a charity or club. We were delighted to be able to make our largest ever donation of £61,000 from this source to the County Air Ambulance Trust.

During the year, we took steps to establish a Charitable Foundation to provide focus for our charitable and community activities within our heartland counties. We are in the process of incorporating the foundation and establishing appropriate governance and control frameworks to ensure its success.

Lesley Knight from the County Air Ambulance Trust with our cheque

Corporate and Social Responsibility

It is a key component of the Society's mission and purpose to be socially responsible and to make a positive difference to the lives of our customers, employees and the local community.

During 2020, we undertook an environmental audit and we took a number of actions to actively manage our carbon footprint such as employing a specialist waste management company to ensure the highest possible proportion of our waste is recycled, deploying LED lighting in branches and head office, installing new printers in our offices to improve efficiency and reducing the volume and type of printing activity undertaken.

During the Covid-19 pandemic, our investment in technology has allowed our staff to work from home and this has provided the opportunity to replace historic paper processes, to reduce printing and to significantly reduce our commuter miles and the associated carbon impacts. As the challenges posed by the pandemic eventually lift, we will seek to retain the best of our new ways of working to ensure we remain as efficient and environmentally responsible as possible.

We also recognise the risks and challenges posed by climate change. Finance Director, Robert Broadbent, is leading our work in this area and a detailed risk assessment has been undertaken to recognise the physical and transitional risks associated with climate change. Physical risks relate to specific weather events such as flooding or longer-term events such as rising sea levels. A key element of this risk is to property, both the Society's own properties and properties held as security for lending. Transition risks can arise from the process of adjustment towards a low-carbon economy. The Society is increasingly mindful of these risks when making business decisions, including mortgage underwriting decisions.

As mentioned under Community above, we are in the process of establishing a Charitable Foundation and I look forward to sharing details of this once the necessary approvals have been obtained.

Future Outlook

2020 has proven that we have a wonderful team from the front counter right the way through to our Boardroom, a team who consistently live our strong values and who demonstrate an unflinching commitment to the highest standards of service, corporate governance, compliance and risk management. There are of course many challenges ahead as we continue to manage the impacts and uncertainties arising from the Covid-19 crisis which is far from over. However, as you will consistently see throughout this annual report, the Society is in robust shape and is ready to tackle, as we always have throughout our 158-year history, the economic and other headwinds that will come our way. I strongly share the view of our Chair and wider Board that a positive and successful future lies ahead for Leek United as a vibrant, independent building society.

Andrew Healy
Chief Executive
24 February 2021

> **"There are of course many challenges ahead as we continue to manage the impacts and uncertainties arising from the Covid-19 crisis which is far from over. However, as you will consistently see throughout this annual report, the Society is in robust shape and is ready to tackle, as we always have throughout our 158-year history, the economic and other headwinds that will come our way."**

Our Community Support

The Society's partnership with Leek Cricket Club remained strong in 2020

We continued to support Leek Town Football Club

Our proud support for Stoke City Football Club continued throughout the year

Our staff took part in a range of fundraising activities to support the local community throughout 2020

What our Members say...

“Thank you very much for your help. I’d give you 11 out of 10.”

“Good products, good service, very good staff and excellent help in the community.”

“Thank you for being so kind. I’ll never forget that.”

“I’m so grateful for all of your help. Everyone is so friendly and amazing and you’ve been my life-saver during lockdown.”

“Wherever you go, or whoever you speak to, you’re always welcomed with a smile and the best service.”

Strategic Report

The purpose of this Strategic Report is to provide a 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.

As a mutual, 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 both maintain our strong capital position and to continue to invest in our capability and infrastructure.

The Society’s strategy is summarised pictorially below.

VISION – To be the best building society in our heartland.

MISSION – To excel in meeting the savings and mortgage needs of our members by providing them with high quality, competitive 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 our members, employees and the local community.

VALUES – Members First | Flexibility | Integrity | Teamwork

Leek United BUILDING SOCIETY

STRATEGIC PILLARS – BRANCHES | DIGITAL | PROCESSES

CORE FOUNDATIONS – Resilient Technology | Robust Risk Management | People Excellence

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.

Flexibility
We make ourselves accessible by our members through whatever means they choose.

Teamwork
We work together and collaborate for the good of our members and to make our work more enjoyable. Working for Leek United and serving our members is a privilege. But it is also fun.

Strategic Report (continued)

Key strategic objectives

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

As stated above, as a mutual building society, we do not seek to maximise profits. We strive to achieve a level of profitability that is sufficient to balance member value with the need to ensure the resilience of our capital position, to fund future investment in our business and to maintain high levels of member confidence.

We have conducted extensive research into what current and potential new members want from their local building society. The overwhelming message is that they expect flexible online and mobile technology in order to be able to manage their finances themselves while being simultaneously supported by the availability of a branch network which provides access to face-to-face advice when it is needed.

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

The investment programme will provide full online and mobile access to savings accounts for members, giving the capability to join the Society and to manage member accounts with ease. To modernise and enhance the capability of branches to meet current and new member needs in terms of advice and support with their finances, we will also invest in refurbishing and remodelling our branch network.

While we will continue to invest in the Society's branches, this year saw us make the difficult decision to end our relationship with our two agencies based in Stone and Wirksworth from January 2021 as explained in more detail in the Chief Executive's Report. As a mutual, we have a responsibility to our overall member base to take action where it is needed but we fully recognise that the closure of these agencies impacted our loyal members in these local communities as well as the excellent staff employed by these agencies, and we have sought to provide support to those members impacted in finding ways to manage their finances going forward.

Key Performance Indicators

The Society delivered a resilient financial performance in 2020 despite challenging market conditions. The Board uses key performance indicators (KPIs) to monitor the development and performance of the Society. A number of these KPIs are included below together with explanatory comment in order to help provide a good understanding of the Society's performance and status.

Key Performance Indicators

		2020	2019
Balance sheet	Total Assets	£1.15bn	£1.09bn
	Mortgage Balances	£864m	£849m
	Shares and Deposits	£942m	£889m
Operating performance	Net Interest Margin	1.03%	1.17%
	Management Expenses Ratio	0.92%	0.97%
	Mortgage Arrears	0.20%	0.20%
	Profit before Tax	£0.9m	£2.4m
Financial strength	Regulatory Capital	£67.3m	£66.8m
	Total Capital Ratio	18.0%	17.5%
	Liquid Assets	£280m	£240m

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

Business Review

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 (as adopted for use in the EU)".

Total assets

The Society's assets continued to grow during 2020, reflecting our strategic objective of achieving sustained growth to protect against rising costs and the effects of margin compression and an expected rise in long term funding costs. Total assets increased by 5%, from £1,091m at the end of 2019 to £1,148m at the end of 2020. Mortgage book growth was funded by increased levels of customer deposits.

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Mortgage balances

Total mortgage balances at end 2020 stood at £864m (2019: £849m) net of provisions, interest rate and fair value adjustments. Net lending of £13m was achieved in the year.

New lending amounted to £161m in 2020 (2019: £165m) reflecting a strong performance in the context of market conditions and the challenges posed by the pandemic – in particular, the effective closure of the housing market for a number of months. Redemptions in the year were £111m (2019: £107m).

Shares and deposits

Savings balance growth of £53m was achieved during the year, with total balances at end 2020 of £942m (2019: £889m).

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

Following the bank rate reductions in March 2020, the Society responded with reductions to the interest rates offered on its savings products. These reductions were carefully balanced against decisions affecting our mortgage SVR rate to ensure the interests of both saving and borrowing members were considered. Even after these reductions, the majority of the Society's accounts continued to pay rates of interest which benchmarked favourably against the wider market and it remains an important objective to protect our savings members from the full impact of the prevailing low interest rate environment as far as it is possible to do so.

The Society drew £132m from the Bank of England's Term Funding Scheme (TFS) in 2017 and 2018 which is repayable over the course of 2021 and 2022. In March 2020, the Bank of England launched the Term Funding Scheme with additional incentives for lending to small and medium sized commercial entities (TFSME). This scheme provides four-year funding at a low rate of interest. As a Sterling Monetary Framework participant, the Society is eligible to participate in this scheme and has had its application to the TFSME approved. This will enable the refinancing of a portion of existing TFS borrowings and will support lending activities in 2021 and beyond. The amount of TFS borrowings that cannot be refinanced using the TFSME scheme will be repaid out of surplus liquidity, with the Society already carrying sufficient surplus liquidity to facilitate this. The Society has a robust funding plan in place to ensure repayment of planned TFSME borrowings in 2025, primarily through increases in member savings balances and the efficient management of our liquidity.

Net interest margin

The Society's net interest margin decreased during the year to 1.03% (2019: 1.17%), impacted by the reduction in Bank rate from 0.75% at the start of the year to 0.25% and subsequently to its current level of 0.10%. The Board seeks to take a balanced view of the needs of borrowing and saving members and to offer consistently competitive products to both groups. With the central bank rate expected to stay at or near its current low level in the medium term, the Board anticipates margin will remain under pressure and our future plans take this into account.

Management expenses ratio

The management expenses ratio is a very simple measure of efficiency and it is extremely pleasing that through robust cost control and governance, this ratio reduced in 2020 to 0.92% (2019: 0.97%). Total costs reduced by £0.2m (1.7%) compared to the prior year which is especially positive given the challenges of the pandemic, despite which the Society did not utilise the Government job retention scheme (furlough) and did not implement redundancies or reduce staff working hours.

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

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 that are in arrears by the equivalent of three or more monthly repayments totalled 16 accounts as at 31 December 2020, representing 0.20% of mortgage accounts (2019: 14 accounts, 0.20%). There were no cases in arrears of 12 months or more as at 31 December 2020 (2019: no cases). In certain circumstances, we may offer forbearance measures to support customers who are experiencing financial difficulty in order to help them get back on their feet.

An impairment allowance is held where appropriate and cases that do not have an individual impairment allowance are included within the collective impairment allowance. During the year, one property was taken into possession (2019: 0 properties).

Since March 2020, the Society has been assisting and supporting its members who have been financially impacted by Covid-19. This has included offering payment deferrals to borrowers experiencing or reasonably expected to experience payment difficulties because of Covid-19, unless it was considered by the Society that another option was in the borrower's best interest. The Society has put in place a series of measures to support such members, initially assisting more than 800 borrowing members requesting a payment deferral.

Governmental measures, particularly the job retention scheme and the mortgage payment deferral scheme, have supported mortgage customers throughout the pandemic. A post model adjustment of £0.4m has been added to the Society's impairment allowance to reflect the risk of potential incurred losses within its mortgage portfolio that have not yet resulted in increased mortgage arrears.

Profit before tax

The Society's pre-tax profit in 2020 was £0.9m (2019: £2.4m). As a mutual building society, we do not seek to maximise profits but to achieve a level of profitability that is sufficient to balance member value with the need to have a robust capital position to fund future investment in our business. The Society delivered a resilient operational and capital performance in 2020 despite difficult market conditions, maintaining strong service levels and making significant progress with our investment programme while continuing to grow both our mortgage and savings books. However, as with many organisations, our short term financial performance was impacted by the economic environment and profitability is lower year on year driven by the impact of the Bank of England base rate reductions which served to compress net interest margins and an increase in provisions for credit losses in our mortgage portfolio arising from the challenging economic environment. Against this backdrop, we have strived to improve the efficiency of our operations with our management expenses ratio improving year on year.

Capital Strength

The level of profit generated in 2020 has ensured that the Society's capital position remains robust, with reserves as at 31 December 2020 of £67.5m (2019: £66.6m). This outturn predominantly reflects the impact of profit for the year.

The ratio of gross capital as a percentage of total shares and borrowings was 6.3% at 31 December 2020 (2019: 6.5%) and the ratio of free capital as a percentage of total shares and borrowings was 6.0% (2019: 6.3%). Free capital is the total reserves and collective loss provision less fixed assets. The core tier 1 ratio at year end stood at 17.9% (2019: 17.4%) and the leverage ratio stood at 5.7% (2019: 6.0%). Our strong capital position provides confidence that the Society can continue to grow and invest in the manner projected within our strategic plan.

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

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

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

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

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

Capital disclosures	2020	2019
Total Reserves	£67.5m	£66.6m
Prudent Valuation adjustment	(£0.1m)	(£0.1m)
Intangible Assets	(£0.8m)	(£0.1m)
Tier 1 Capital	£66.6m	£66.4m
Tier 2 Capital – collective impairment allowance	£0.7m	£0.4m
Capital Resources	£67.3m	£66.8m
Risk Weighted Assets	£373.2m	£380.7m
Pillar 1 and 2A requirement	£36.3m	£36.9m
Core Tier 1 Ratio	17.9%	17.4%
Assets for leverage purposes	£1,158.8m	£1,100.6m
Leverage Ratio	5.7%	6.0%

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

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, the Society's total liquid assets stood at £280m (2019: £240m). The amount of liquidity repayable on demand is £166m (2019: £113m).

A key measure of liquidity introduced under the Capital Requirements Directive is the Liquidity Coverage Ratio (LCR). At 31 December 2020, the Society reported an LCR of 454% (2019: 313%), significantly in excess of minimum regulatory requirements.

Future outlook and uncertainties

The Society's Risk Management Report on pages 39 to 43 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 uncertain economic and market conditions for 2021 can be expected to impact financial performance. House price growth has slowed and is widely predicted to fall in the short term, a situation likely to be compounded by significantly rising unemployment which will impact mortgage affordability. As reported earlier, the Society has already supported and continues to support a number of its borrowing members seeking temporary mortgage forbearance in the form of mortgage payment deferrals as a direct result of Covid-19. However, the full impact to the Society is uncertain and will be determined by the extent of damage inflicted on the UK economy as this becomes more apparent. Whilst the Board is confident in the quality of the Society's lending, short term profitability could be impacted by increases in charges for impairment given the level of economic uncertainty. There is an expectation that interest rates will remain at their present historic low for some time, with even the possibility of rates falling to below zero. The UK has successfully completed its withdrawal from the European Union and whilst the end of the Brexit transition period is unlikely to have a significant direct impact on the Society, the resultant economic impact is difficult to predict.

The financial services market is seeing rapidly accelerating digital transformation among direct competitors as well as ongoing intense competition which notwithstanding the Society's 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 offer fair-priced savings and mortgage products, to lend responsibly and to support borrowers to achieve their housing aspirations. Whilst technological development is an ongoing focus as outlined, the Board remains fully committed to the branch network which will also see ongoing 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. Steps are also being taken to enhance 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. In addition, we perform regular stress testing as part of our Internal Capital Adequacy Assessment Process (ICAAP) and Individual Liquidity Adequacy Assessment Process (ILAAP) regulatory assessments as well as our forward looking corporate plan. Through these robust processes, we test a wide range of severe stresses across each of the Society's principal risks. These include house price reductions, reduced mortgage book quality, net interest margin compression, cost pressures, regulatory pressures, liquidity changes and operational events 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 23.

In summary, the Board considers that market conditions will remain challenging in 2021. However, the Society is considered to be robustly positioned to navigate through the economic, competitive and other headwinds it may face.

Rachel Court
Chair
24 February 2021

> "The Board considers that market conditions will remain challenging in 2021. However, the Society is considered to be robustly positioned to navigate through the economic, competitive and other headwinds it may face."

RACHEL COURT
CHAIR

In The News

Building society raises £26k for care charities

CUSTOMERS of Leek United Building Society have helped to raise £26,000 for three local charities, following a hugely successful campaign of fundraising events run by the staff.

The campaign saw all 200 of the society's management and staff hold more than 20 different events, including a virtual quiz, a charity auction and a 600-mile endurance challenge.

These events generated £13,000, which was then matched by the society pound for pound, leading to a grand total of £26,000.

This will be split equally between Home-Start Staffordshire Moorlands, Treetops Hospice Care, Derbyshire and East Cheshire Hospice.

Andrew Healy, Leek United Building Society's chief executive, said: "The past few months have been difficult for everyone, not least our local charities whose income has fallen as a result of events being cancelled and shops being closed.

"I'm really delighted with how our wonderful team of staff have rallied to support these three charities.

"They've been not only kind but also exceptionally creative in coming up with fun ways to generate badly-needed funds just when they're needed most."

Laura McWha, corporate partnerships at Treetops, said: "We are overwhelmed with the support that Leek United Building Society has shown Treetops.

"We are delighted with how much money has been raised thanks to the ongoing fundraisers that the team organised.

"The donation will go towards our emergency appeal so that we can continue caring for local people with life-limiting illnesses during and after the pandemic.

"Thank you so much to all involved in making this such an enormous success, we are extremely grateful."

Hospice's £9,000 windfall

EAST Cheshire Hospice has received a windfall of almost £9,000 thanks to the fundraising efforts of a building society.

The Leek United Building Society, which has a branch on Chestergate, has held events including virtual quiz, auction and 600-mile endurance challenge.

This raised £13,000, which the society then matched to raise £26,000 and split between three worthy causes.

Home-Start Staffordshire Moorlands and Treetops Hospice Care were the other two.

Kate Bowmar, from East Cheshire Hospice, said: "All of us at East Cheshire Hospice are so grateful for the long term support of Leek United Building Society.

"The money donated from this fundraising campaign will mean we can continue to provide vital end of life care in our local community at a time when fundraising events have been significantly impacted."

Building society raises £61k for charity

MEMBERS of Leek United Building Society have helped to raise more than £60,000 for the County Air Ambulance Trust.

This is in spite of challenges posed by the Covid-19 pandemic.

The building society, which has a branch in Victoria Square, Ashbourne, makes a donation to the charity for every pound saved into its Air Ambulance Affinity Account.

This year, £61,067 has been generated for the trust - the society's largest ever donation to a single charity.

Leek United chief executive Andrew Healy said: "The County Air Ambulance Trust helps to save lives and we're delighted to support their great work.

"Since we launched our Air Ambulance Affinity Account back in 2008, we've had a great response from our members."

"This donation - our largest yet - takes our total fund-raising for the trust over the years to more than £340,000.

"I would like to thank our members and staff for continuing to make a real and worthwhile difference to the local community through their wonderful support for local charities and causes.

"When Leek United launched its Air Ambulance Affinity Account in 2008, the idea behind it was simple - the more members saved, the greater the donation the society would make towards the County Air Ambulance Trust."

Lesley Knight, of the trust said: "Leek United and its members' support is vital to our charity now more than ever.

"It's been a tough few months, but knowing we can rely on this donation means that we can continue our lifesaving work.

"It will enable us to fund medical equipment and a third Critical Care Car which will be based in Stoke on Trent, in partnership with Midlands Air Ambulance.

"Thank you to the team at Leek United for being so passionate about our work and to your members - we are very grateful that you chose us."

Andrew Healy

Building society's award for staff care

THE way Leek United Building Society has cared for its employees during the Coronavirus crisis has been praised as it was handed a national award.

The society, which has a branch in Victoria Square, won the SME category at the annual People Management Awards, which are run by the globally recognised Chartered Institute of Personnel and Development.

Judges said the society's focus on its people and culture, including the way it has handled the coronavirus crisis, was outstanding and made it one of the best award entries they had seen for many years.

They praised the way Leek United's approach to its colleagues was evident "through virtually every page of business strategy and activity" and was "fundamental to lasting organisational success".

After receiving the award at a specially-adapted virtual ceremony, chief executive Andrew Healy said: "This prestigious award represents a wonderful recognition of all the hard work and sacrifice of our staff, particularly since the start of the pandemic.

"Their dedication and focus on maintaining support for customers has been terrific during such a challenging period for everyone, including, of course, our employees themselves and their families."

The People Management Awards are the leading awards in the UK HR industry and recognise the very best work in the sector over the past year, as judged by a panel of experts.

Andrew Healy is chief executive of Leek United

Directors' Profiles

Non-Executive Directors

01

Rachel Court
JP, BA(Hons) Oxon

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

Skills and Experience

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

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

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

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

Current external positions

Rachel currently holds the following external appointments:

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

02

Keith Abercromby
BSc, FIA

Independent Non-Executive Director since March 2016.

Skills and Experience

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

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

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

Current external positions

Keith currently holds the following external appointments:

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

03

Richard Goddard
MA, FCA

Independent Non-Executive Director since November 2011 and Senior Independent Director since June 2016.

Skills and Experience

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

Richard worked at KPMG as a senior audit manager. In 1993, he joined the Co-operative Bank where he developed robust, effective financial controls and led the finance team through two significant mergers. During his career at the Co-operative Bank, Richard was an Executive Director and also served as a Non-Executive Director at its joint venture, Unity Trust Bank.

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

Current external positions

Richard currently holds the following external appointments:

- Director of RCG Business Consultancy.

04

Jane Kimberlin
BA (Hons)

Independent Non-Executive Director since November 2016.

Skills and Experience

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

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

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

Jane is a member of the Board Risk Committee, 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.
- Liveryman, Worshipful Company of Information Technologists.

05

John Leveson
MBA, FCIB

Independent Non-Executive Director since May 2015.

Skills and Experience

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

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

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

Current external positions

John currently holds the following 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 (continued)

Executive Directors

06

Andrew Healy
MoB, BSc, MCIPD

Chief Executive and Executive Director since December 2018.

07

Robert Broadbent
BSc (Hons), ACA

Finance Director and Executive Director since April 2019.

08

John Kelly,
ACA, BA (Hons)

Operations Director and Executive Director since February 2017.

Skills and Experience

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

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

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

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

Current external positions

- None

Skills and Experience

Robert, a Chartered Accountant, has more than 20 years of experience in financial services including positions at both Board and executive level. In April 2019 he was appointed Finance Director and was formally elected to the Society's Board at the AGM in April 2020. He is responsible for managing the Society's capital, funding and liquidity positions. An integral part of his role is ensuring the integrity of financial and regulatory reporting whilst ensuring the Society maintains an effective stress testing framework. He is also responsible for managing the customer operations team and holds executive responsibility for the Society's work in the area of climate change.

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

He is a member of the Institute of Chartered Accountants in England & Wales. Robert attends the Board Risk Committee and Board Audit Committee. He chairs the Credit Risk Forum and Pricing Forum and is a member of the Executive Committee, the Asset and Liability Committee, the All Risks Committee and the Investment Programme Steering Committee.

Current external positions

- None

Skills and Experience

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

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

John attends the Board Risk Committee and Board Audit Committee. John is also a member of the Executive Committee, All Risks Committee, Asset and Liability Committee and Investment Programme Steering Committee.

Current external positions

- None

What our staff say...

"Leek United genuinely cares for its staff and members."

"I really feel there's so much to look forward to. I've never felt so inspired and excited."

"Our organisation is run on strong values and principles."

"I'm sure that many firms are only really thinking about the bottom line but Leek United is demonstrating that regard for its people is at the forefront of senior management thinking."

"There's great communication from the top downwards. I always feel involved and appreciated."

"I have massive respect for the strong decisions taken during lockdown. In particular the way the Society has looked after staff and the well-being of our families."

Directors' Report

The Directors have pleasure in presenting the Annual Report and Accounts for the year ended 31 December 2020.

The 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 31 to the Accounts

The following served as Directors of the Society during the year.

Keith Abercromby	Non-Executive Director	
Robert Broadbent	Finance Director	
Rachel Court	Non-Executive Director	
Richard Goddard	Non-Executive Director	
Andrew Healy	Chief Executive	
John Kelly	Operations Director	
Colin Kersley	Non-Executive Director	Resigned 31 March 2020
Jane Kimberlin	Non-Executive Director	
John Leveson	Non-Executive Director	

Biographies of the Directors appear on pages 18 to 20.

In accordance with the requirements of the 2018 update to the 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.

No Director had any beneficial interest in the shares or debentures of any of the 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 the contract. The number of creditor days at 31 December 2020 was 17 (2019: 8).

Political Donations and Gifts

The Society has not made any political gifts or donations in the year to 31 December 2020 (2019: £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

The Board is recommending that KPMG LLP is reappointed as external auditor of the Society for the financial year ending 31 December 2021. A resolution for their appointment will be proposed at the forthcoming Annual General Meeting of the Society.

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 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 that 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 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
24 February 2021

Corporate Governance Report

The UK Corporate Governance Code (the Code) is a set of principles of good corporate governance predominantly aimed at listed companies. Whilst Leek United Building Society is not 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 United Building Society is committed to good practice in corporate governance and this report explains how the Society has regard to the Code.

> **"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."**

BOARD LEADERSHIP & COMPANY PURPOSE

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

The Society is led by an effective Board which meets at least nine times per year. In addition to its schedule of meetings, the Board held two strategy days during 2020 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 has been one change to the Board during 2020, with Non-Executive Director, Colin Kersley leaving the Society with effect from 31 March 2020. At the end of 2020, the Board consisted of two Non-Executive Directors and three Executive Directors. The Non-Executive Directors meet regularly without the Executive Directors being present.

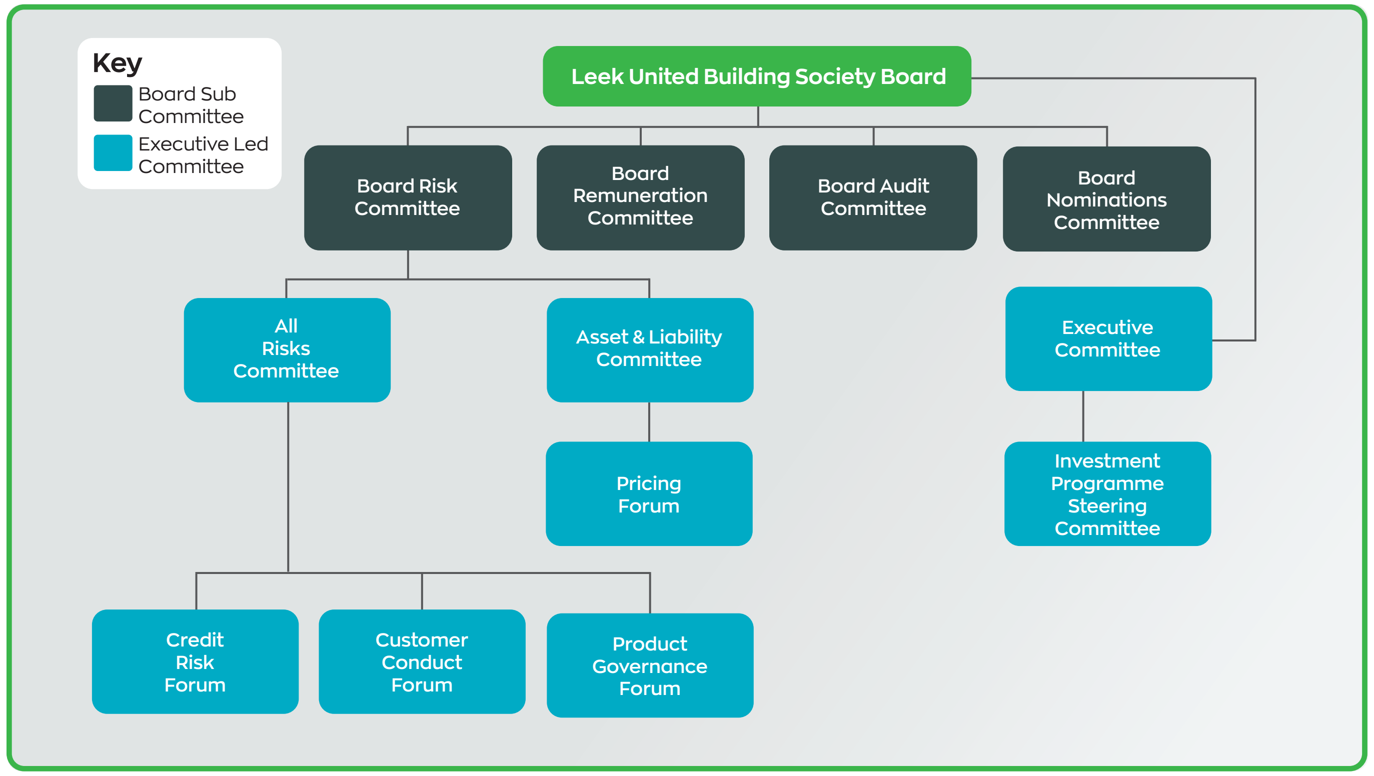
Certain responsibilities are delegated by the Board to the Society's executives and management team. The Board has agreed a management structure which creates strong corporate governance and accountability. In line with the regulated Senior Managers and Certification Regime, the Society maintains a Management 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 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 provided to the Board and the Board Audit Committee by Internal Audit with respect to its independent audits of risk management processes and the effectiveness of internal controls across the Society.
- An annual assessment of the effectiveness and independence of the Risk and Compliance function is conducted by the CRO which is considered by the Board Risk Committee.
- The Board receives a monthly CRO report which provides an independent assessment of current and emerging risks and the effectiveness of the controls and mitigating actions that are in place.
- An independent reporting line between the CRO and the Chair of the Board Risk Committee is maintained at all times.
- The 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 2020, 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 (opposite) 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, Customer Conduct Forum, Pricing Forum, Product Governance Forum and Investment Programme Steering Committee. 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 30 to 36 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 34.

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 30.

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 36.

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 32.

The Terms of Reference for the Board and Board subcommittees are available on the Society's website www.leekunited.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. The Society seeks the views of its members in a number of ways, including via customer satisfaction surveys. The survey results are shared with the Board with actions put in place to address any areas requiring improvement. During 2020, two customer satisfaction surveys were conducted. In addition, a governance survey was issued to members as part of the Annual General Meeting mailing to obtain member views on the performance of the Board and the Society's strategy. Furthermore, a branch survey was conducted to obtain members' views on branch opening hours, facilities, products and services.

Corporate Governance Report (continued)

Throughout the Covid-19 pandemic, member communications have been a key focus and the Society's website has been updated on a continuous basis.

To protect members and colleagues from the Covid-19 outbreak, the 2020 Annual General Meeting (AGM) was held remotely, with the limited number of participants – including the Board of Directors, legal advisers and independent scrutineer – in separate locations. Whilst members were unable to attend in person, they were 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 attending team meetings where a mechanism for two-way feedback is provided. In addition, Board members observe a number of internal committee and operational meetings. A log summarising Board members' interactions with employees and any issues raised is also maintained and actively managed. The Board reviews the adequacy and security of the Society's arrangements for its employees to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters. The Board ensures these arrangements allow proportionate and independent investigation of such matters and appropriate follow up action. The Society has a Board-approved Whistleblowing Policy and the Society's Whistleblowing Champions are Richard Goddard, Senior Independent Director and Rachel Court, Chair.

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.

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 five Non-Executive Directors and three Executive Directors. All of the Non-Executive Directors are considered to be independent under the Code. Richard Goddard is the Society's Senior Independent Director. Richard acts as a sounding board for the Chair and serves as an intermediary for the other Non-Executive Directors where necessary. He also has responsibility for leading 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 2020 is set out opposite. Since March 2020, all Board and Board subcommittee meetings have been held virtually as a result of the Covid-19 pandemic. The figure in brackets is the number of meetings the Director was eligible to attend.

	Name	Board	Board Audit Committee	Board Risk Committee	Board Nominations Committee	Board Remuneration Committee
Non-Executive Directors	Keith Abercromby	16 (16)	5 (5)	6 (6)		
	Rachel Court	15 (16)			6 (6)	4 (4)
	Richard Goddard	16 (16)	5 (5)	6 (6)	6 (6)	
	Jane Kimberlin	16 (16)		6 (6)	4 (4) From 29/04	4 (4)
	John Leveson	13 (16)	2 (3) From 24/06	3 (3) From 30/04		4 (4)
	Colin Kersley Until 31/03/2020	5 (5)	2 (2)		2 (2)	
Executive Directors	Robert Broadbent	16 (16)	5 (5) 'A'	4 (6) 'A'		
	Andrew Healy	16 (16)	5 (5) 'A'	6 (6) 'A'	6 (6)	4 (4) 'A'
	John Kelly	16 (16)	4 (5) 'A'	4 (6) 'A'		

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

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 89.

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 Non-Executive Directors have appropriate access to information, resources and support services. Should it be required, the Directors can take independent legal advice at the Society's expense.

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 2020, 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 32 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 32 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 32 of the Board Nominations Committee Report. This report includes details of how the Society complies with this principle.

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 30 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.

Corporate Governance Report (continued)

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 44 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 2020 Annual Report and Accounts meets this requirement and on 22 February 2021 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 39, 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 36.

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.

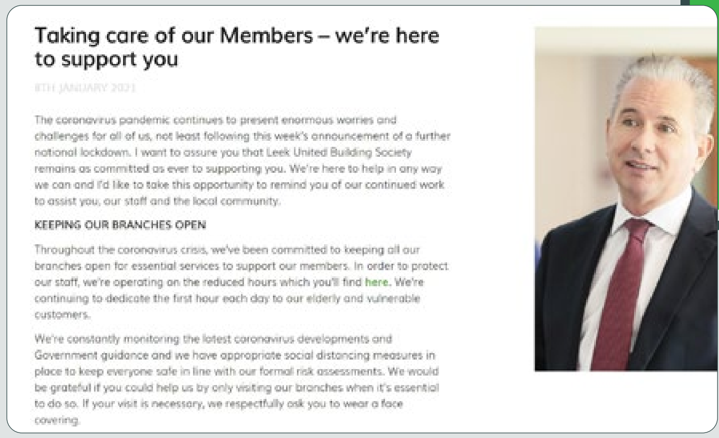
The remuneration policies for both Executive and Non-Executive Directors are considered to be fully compliant with this principle. The role of the Remuneration Committee is set out in the Board Remuneration Committee Report on page 36.

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 36.

Rachel Court
Chair
24 February 2021

Engaging with Members & Colleagues


Taking care of our Members – we're here to support you

8TH JANUARY 2021

The coronavirus pandemic continues to present enormous worries and challenges for all of us, not least following this week's announcement of a further national lockdown. I want to assure you that Leek United Building Society remains as committed as ever to supporting you. We're here to help in any way we can and I'd like to take this opportunity to remind you of our continued work to assist you, our staff and the local community.

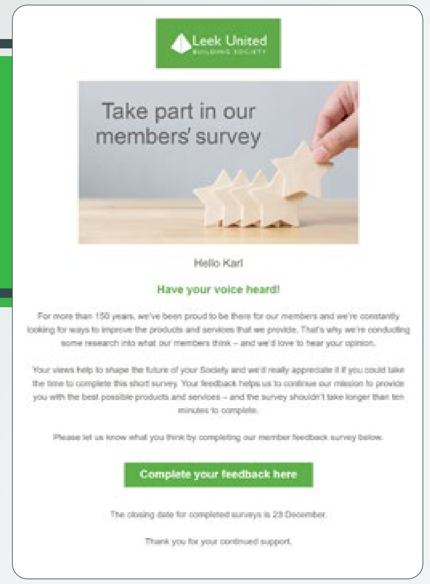
KEEPING OUR BRANCHES OPEN

Throughout the coronavirus crisis, we've been committed to keeping all our branches open for essential services to support our members. In order to protect our staff, we're operating on the reduced hours which you'll find here. We're continuing to dedicate the first hour each day to our elderly and vulnerable customers.

We're constantly monitoring the latest coronavirus developments and Government guidance and we have appropriate social distancing measures in place to keep everyone safe in line with our formal risk assessments. We would be grateful if you could help us by only visiting our branches when it's essential to do so. If your visit is necessary, we respectfully ask you to wear a face covering.

Members were kept up to date throughout the year.

We conducted a number of member surveys.


Leek United

Take part in our members' survey

Hello Karl

Have your voice heard!

For more than 150 years, we've been proud to be there for our members and we're constantly looking for ways to improve the products and services that we provide. That's why we're conducting some research into what our members think – and we'd love to hear your opinion.

Your views help to shape the future of your Society and we'd really appreciate it if you could take the time to complete this short survey. Your feedback helps us to continue our mission to provide you with the best possible products and services – and the survey shouldn't take longer than ten minutes to complete.

Please let us know what you think by completing our member feedback survey below.

Complete your feedback here

The closing date for completed surveys is 23 December.

Thank you for your continued support.

Chief Executive, Andrew Healy updated staff throughout the year, including weekly messages and regular video updates.

Non-Executive Director, John Leveson addressing staff by video link.

Motivational speaker, Paul McNeive, addressed staff in a live virtual conference in November.

"I'm hugely impressed with the culture at Leek United. A putting people first culture. What I'm getting in bundles is a sense of appreciation of being involved in something that's worthwhile. - Paul McNeive"

Andy Armitage, Director of Customer Services, making a video address to staff.

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 five 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: Richard Goddard, John Leveson

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 is a Fellow of the Institute of Actuaries with significant recent and relevant accounting and audit experience. The Committee as a whole has competence relevant to the financial services sector.

Board 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 allowance. 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 insurance where appropriate. The Audit Committee have also considered the overlay made to the collective mortgage impairment allowance to reflect the increased credit risk in the book as a result of Covid-19, where the key judgment has been identifying the loans which are at increased risk as a result of Covid-19 and estimating the probability of defaults applied to these loans.

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 2020 Annual Report and Accounts, when considered as a whole, were fair, balanced and understandable. The Committee is satisfied that the 2020 Annual Report and Accounts meets this requirement and on 22 February 2021 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 current external auditor is KPMG LLP, who were appointed in April 2017 following a competitive tender. 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.

Internal control and risk management

Details of the Society's risk management framework are set out in the Risk Management Report on pages 39 to 43. 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 internal controls that underpin the year-end financial reporting process were appropriately designed and have operated effectively.

Internal audit

Internal audit is outsourced to Deloitte LLP. During the year the Committee has monitored the delivery of the internal audit plan and the effectiveness of the internal audit function. In doing so it gave due consideration that the resources required to deliver the internal audit plan were available.

In the year to 31 December 2020, Internal Audit carried out a number of internal audits with the findings from each report being presented to the Committee. The Committee also considers 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 2020, the Committee conducted an internal review of its own effectiveness. This involved collective consideration by Committee members of how effectively the Committee discharged its responsibilities. This review concluded that the Committee continued to operate effectively.

Keith Abercromby
Chair of Board Audit Committee
24 February 2021

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 six times during 2020.

Membership

Committee Chair:	Rachel Court
Committee Members:	Richard Goddard, Colin Kersley (to 31 March 2020), Jane Kimberlin (from 29 April 2020) 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 Richard Goddard 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.

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 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.

Consideration is given to the length of service of the Board as a whole and membership is refreshed as appropriate. During 2020, the Committee reviewed the Board skills matrix, taking into particular account Non-Executive Director Colin Kersley's departure in March and the forthcoming need to replace Richard Goddard as Senior Independent Director and Chair of Board Risk Committee when his term with the Society ends in 2022. It was the Committee's view that even after Colin's departure, there remained a good blend of skills and that the Board's overall composition was appropriate to meet business needs for the time being. Following a recommendation to the Board, this led to a reduction in the number of Non-Executive Directors from six to five, pending the forthcoming recruitment of a Chair of Risk Committee Designate.

Non-Executive Directors would not usually serve for more than nine years. However, Richard Goddard, Senior Independent Director and Chair of the Society's Board Risk Committee, has been on the Board since 2011 and will continue to serve until 2022. The Board considers Richard to be independent and this is assessed through his contribution in Board meetings and through evaluation of his ongoing fitness and propriety. Richard's extension of service will provide important oversight stability which is considered particularly important in the context of the Society's ongoing change agenda.

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 capabilities and experience to discharge their responsibilities under the Senior Managers and Certification Regime.

The Society may use independent executive search and selection agencies to support the recruitment of Board members and in late 2020, a process commenced to identify a replacement for Richard Goddard in advance of his planned departure as referenced above. To support this process, the Committee engaged the services of Nurole Limited. The Society's only connection with Nurole Limited is for recruitment and selection. It is anticipated that this process will conclude with a new Non-Executive Director appointment in Q2 2021.

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. During 2020, no new Directors were appointed. 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 2020.

In terms of executive management, Andy Armitage, Director of Customer Services, was recruited in 2019 and took up duty in April 2020.

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. In June 2020, the Society became a signatory to HM Treasury's Women in Finance Charter committing to:

- 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 2023 across the combined Board of Directors, Executive Committee and Senior Management (those who report directly to a member of the Executive Committee). The current figure is 40%.

The Board is currently comprised of 25% women, the Executive Committee ratio is 17% and the percentage of women in Senior Management is 47%.

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.

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.

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 during 2020.

Assessment of Effectiveness

In 2020, the Board Nominations Committee conducted an internal review of its own effectiveness. This involved collective consideration by Committee members of how effectively the Committee discharged its responsibilities. This review concluded that the Committee continued to operate effectively.

Rachel Court
Chair of the Board Nominations Committee
24 February 2021

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:	Richard Goddard
Committee Members:	Keith Abercromby, Jane Kimberlin

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, Richard Goddard, is a Chartered Accountant with significant experience in financial services and is also the Society's Senior Independent Director. 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.

Board Risk Committee Report (continued)

Risk strategy & risk appetite

In the first quarter of 2020, the Committee reviewed the Society's risk management framework as part of the regular annual update and recommended a number of enhancements. A further review took place to ensure that the framework continued to align to the Society's strategy and Corporate Plan which was updated in the fourth quarter. In particular, consideration was given to the planned roll out of a digital customer proposition in 2021 and increased use of cloud outsourcing.

The Committee reviewed the Board risk appetites as part of the annual review to ensure full alignment to the Society's strategic objectives. Full consideration was given to the macro-economic impacts resulting from the Covid-19 pandemic and potential consequences for financial objectives.

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 was formally reviewed twice during the year to ensure that the level of information remains sufficiently comprehensive. Enhancements in respect of reporting Covid-19 related payment holidays and concessions were requested and provided.

The Committee reviewed and approved its 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.

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), ongoing key control testing and monitoring of material risk events.

A key area of focus for 2020 has been the risk to the control environment from the increased level of remote working as a result of the Covid-19 pandemic. Throughout this period the Committee has closely monitored management's business continuity response. Additionally, the Chair of BRC requested an independent second line review in order to identify any control weaknesses. This was further supported by an internal audit covering the Society's Covid-19 response. 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 appropriate level of independence. Consideration has been given to the level of resource and skillset within the function against the Society's principal risks. During the year a Technology Risk Manager was recruited to bolster the oversight capability in respect of information technology and information security risks.

Assessment of effectiveness

In 2020, 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.

Richard Goddard
Chair of Board Risk Committee
24 February 2021

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 the area of remuneration governance and has over 36 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 four times during 2020. There were no changes to the Committee membership during 2020.

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 if a financial bonus should be paid to executives and/or if executive salaries 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 Remuneration Committee reviewed the Remuneration Policy during the year and it was subsequently approved by the Board.

Executive and Non-Executive Directors' Remuneration

The Committee reviews the remuneration of both Executive Directors and Non-Executive Directors. No Director is involved in reviews or decisions regarding his/her own remuneration.

Remuneration Reporting

The table in the Directors' Remuneration Report on page 37 summarises Directors' pay and benefits for the year ended 31 December 2020. 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 April 2020, the Board Remuneration Committee conducted an internal review of its effectiveness for 2019. This involved consideration by Committee members of how effectively the Committee had discharged its responsibilities and concluded that the Committee continued to operate effectively. A review for 2020 will take place in April 2021.

John Leveson
Chair of the Board Remuneration Committee
24 February 2021

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

	2020					2019				
	Salary/ Fees £000's	Benefits /Other (iii) (vi) £000's	Sub Total £000's	Pensions £000's	Total £000's	Salary/ Fees £000's	Benefits /Other (iii) £000's	Sub Total £000's	Pensions £000's	Total £000's
Non-Executive Directors (NEDs)										
Rachel Court	45	-	45	-	45	44	1	45	-	45
Richard Goddard	36	-	36	-	36	35	1	36	-	36
John Leveson	31	1	32	-	32	30	3	33	-	33
Keith Abercromby	31	2	33	-	33	30	3	33	-	33
Jane Kimberlin	26	-	26	-	26	25	2	27	-	27
Colin Kersley (i)	6	-	6	-	6	25	1	26	-	26
Executive Directors										
Andrew Healy (ii) (iii) (iv) (from 17/12/2018)	211	16	227	32	259	216	29	245	32	277
John Kelly (iii) (iv)	146	12	158	22	180	146	12	158	22	180
Andrew Morris (v)	-	-	-	-	-	39	3	42	6	48
Robert Broadbent (iii) (iv) (from 25/06/2019)	128	12	140	19	159	67	5	72	10	82
	660	**43**	**703**	**73**	**776**	**657**	**60**	**717**	**70**	**787**

(i) Colin Kersley left the Society on 31 March 2020.
(ii) Andrew Healy made a voluntary decision to reduce his salary during the second half of 2020 in consideration of the impact of the Covid-19 pandemic.
(iii) The Executive Directors waived their bonus entitlement in 2019.
(iv) The Executive Directors waived any increase in salary in 2020.
(v) Andrew Morris left the Society on 24 March 2019.
(vi) Executive remuneration included in the benefits / other column above relates wholly to the provision of a car allowance and private medical insurance.

Directors' Remuneration Report (continued)

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'sprincipal office in the period of fifteen days prior to the Society's Annual General Meeting on 28 April 2021. The total loans outstanding at 31 December 2020, in respect of 2 (2019: 2) people amounted to £655k (2019: £709k).

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.

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, are recommended to the Board by the Board Remuneration Committee for approval by the Board.

Fees are reviewed annually and take account of the fees payable to Non-Executive Directors and Chairs of building societies that are similar in size and complexity to Leek United Building Society. This review also takes into consideration the principles underpinning the annual Society staff salary review. In addition, every three years these fees are formally benchmarked against UK financial services businesses of similar size and complexity which are outside the building society sector. The review of Non-Executive Director fees for 2020 resulted in percentage increases in fees which were the same as the increase awarded to the Society's staff.

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.

Only basic salary is pensionable. As at 31 December 2020, the Chief Executive and Finance Director are members of the defined contribution pension scheme. No changes to pension contribution rates were made during 2020 for Executive Directors, members of the wider executive team or the wider workforce. The UK Corporate Governance Code recommends the alignment of pension contribution rates for Executive Directors and other staff but recognises that it may not be practical to alter existing contractual commitments. The Board Remuneration Committee has decided that with effect from the beginning of 2021, pension contribution rates for new Executive Directors, members of the wider executive team and staff will be aligned.

The Executive Directors and other members of senior management who comprise the executive team waived their right to be considered for a salary increase in 2020. In addition, the Chief Executive made the voluntary decision to reduce his salary during the second half of the year in consideration of the impact of the Covid-19 pandemic.

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. The performance related pay scheme in place for 2020 had both organisational and individual hurdles in place. Given the impact of the Covid-19 pandemic in this extraordinary year, organisational hurdles could not be fully met and, therefore no performance related payment was made.

The Board Remuneration Committee did not appoint any external consultants during 2020.

John Leveson
Chair of the Board Remuneration Committee
24 February 2021

JOHN LEVESON
CHAIR OF BOARD REMUNERATION COMMITTEE

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

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

First / Management Line	Second / Oversight Line	Third / Assurance Line
BUSINESS	RISK MANAGEMENT	INTERNAL AUDIT
• 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	• Design Risk Management Framework • Develop processes for implementation of, and monitoring of adherence to, the framework • Promote strong risk management culture • Challenge and Oversight	• Independent review of the design and implementation of Risk Management Framework

Risk Management Report (continued)

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 34.

Full details of the Society's governance arrangements are captured in the Corporate Governance Report on page 24.

Principal Risks and Uncertainties

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

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 debtor's failure to meet their legal and contractual obligations. Potentially arising from mortgage customers falling into arrears or insufficient security value.	The Society operates within appropriate policies and risk appetites and performance is monitored closely. Our prudent lending policy means our mortgage book is of a high quality. Each application is individually underwritten to ensure that loans are affordable. This is evidenced by our low level of arrears.	The Society will adopt a prudent lending approach to our mortgage customers which will ensure that our default rates are low and do not impact on earnings or capital.
Wholesale Credit	The risk of losses due to a wholesale treasury counterparty being unable to meet their financial obligations. The Society's exposure to wholesale credit risk results from investments in financial instruments, used to manage its liquidity portfolio, and from transactions to hedge its interest rate risk.	The Society's Treasury Policy Statement and operational limits set out the criteria and boundaries within which wholesale lending can be undertaken. Each counterparty is required to meet strict external ratings thresholds as well as satisfying internal assessments that consider balance sheet strength, reputational issues and the results of regulatory stress tests. The risk from hedging transactions is mitigated by the placing and receiving of cash collateral equal to the exposure.	The Society will adopt a prudent approach to lending to wholesale counterparties which will ensure that default rates are low and there is no impact on earnings or capital.
Strategic and Capital	The risk that the strategic direction of the Society and decisions made result in financial loss and have a detrimental impact on capital resources.	The Society has an established corporate planning process, which is subject to rigorous challenge and sets the overall direction for the Society. This is supported by 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.	The Society will ensure that the strategic direction delivers a sufficient return that enables it to deliver capital, which provides long-term growth as well as financial stability for our members.
Market	The risk of losses arising from changes in market rates or prices. The main exposure for the Society is interest rate risk resulting from funding fixed rate mortgages with variable rate savings products. Additionally, the Society is exposed to basis risk whereby the interest rate on assets and liabilities with similar re-pricing periods move by varying degrees, e.g. assets linked to industry benchmarks funded by variable savings products.	The Society has limited appetite for market risk but acknowledges that, as a mortgage lender, it is not possible or practical to eliminate all risk. To restrict market risk as much as possible the Society has set clearly defined limits within which risk must be managed. These are closely monitored and reported to senior management and the Board on a monthly basis. Interest rate risk is managed by utilising natural hedging opportunities that occur within the balance sheet or entering hedging transactions with external counterparties.	The Society will manage our interest rate and basis risk positions to ensure that losses due to adverse movements in market rates do not impact significantly over and above our forecast market expectations.
Liquidity and Funding	The risk that the Society is unable to meet its financial obligations as they become due and, as a consequence, is unable to support normal business activity and fails to meet regulatory liquidity requirements. There is potential risk to the level of liquidity from an extreme scenario of depositors withdrawing their funds.	The Society's Board has set strict limits in respect of liquidity, which exceed regulatory requirements. These, along with key early warning indicators, are monitored on a daily basis in order to highlight potential issues and allow timely management action. Regular stress testing of severe, but plausible, scenarios is undertaken on a regular basis. This ensures that we remain prepared and have appropriate contingency measures in place.	The Society will maintain sufficient liquid resources, over and above the financial minimum, that give our members confidence that we have the ability to meet our financial obligations as they fall due. The Society will maintain sufficient retail deposits to fully support and fund retail lending at all times. The Society will additionally utilise wholesale or central bank funding when appropriate to support treasury or liquidity holdings but will ensure that wholesale funding is managed such that an appropriate balance of funding from retail and wholesale sources is maintained.
Conduct	The risk that the Society does not demonstrate that it is putting the customer's interest at the very heart of the business. This can manifest itself through literature that is confusing or misleading and through product terms & conditions that are unnecessarily restrictive or penal.	The Society, being a member owned organisation, is committed to upholding the highest standards and treating all members & customers fairly. The Board has set out a clear set of values that drives a culture and behaviours that puts the customer first.	The Society will ensure that we put our customers at the heart of our business operations to deliver an excellent customer service.
Pension	The risk of financial deficit in the Society's defined benefit scheme. The possibility that the Society will have to pay more than expected into its employees' pension schemes which could be impacted by factors such as mortality rates, asset values and yield prices.	The defined benefit pension scheme is closed to further accrual. The Society works closely with the pension trustees to try and seek further de-risking opportunities as conditions allow.	The Society will ensure that it can meet its contractual and regulatory requirements so that it can meet its existing and future liabilities.
Operational	This is the risk of a loss or reputational damage resulting from inadequate or failed internal processes, people and systems or from external events.	The Society manages these risks as an integral part of its operations, utilising controls, such as the Risk & Control Self-Assessment tool and 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 overleaf.	The Society will maintain efficient operational processes and controls to ensure that we can optimise our resources and reduce the impact of operational risks on the Society's performance and reputation.

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

	Principal Risk	Mitigants	Risk Appetite
Financial Crime	Losses resulting from criminal activity relating to fraud or dishonesty; misconduct in; or misuse of information relating to, a financial market, or the handling of the proceeds of crime.	The Society operates a wide range of controls, both within our customer facing areas and within the Customer Service Centre to mitigate financial crime. It is also committed to working closely with crime prevention authorities and supporting all initiatives that protect the Society and its members.	Financial crime is unethical and unacceptable. Leek United Building Society has no risk appetite for financial crime risk and is committed to take timely, proper and reasonable actions in order to minimise, manage and control financial crime risk.
Model and EUC	The risk that models and spreadsheets used in decision-making are not fit for purpose. This could be due to flawed assumptions or calculations or a breach of model integrity.	The Society uses a wide range of models and complex spreadsheets to derive management information with appropriate access controls implemented and procedural documentation available for the most significant of these.	The Society will ensure that all financial models and End User Computing applications are governed robustly to ensure accuracy and security is maintained.
Financial Reporting	The risk that financial reporting internally, to members, to financial markets or to the Society's regulators is inaccurate, misleading or late.	The Society has a detailed schedule which stipulates all of the regulatory returns that need to be submitted during the year. All returns are subject to approval by an independent reviewer prior to final submission to the regulator meaning that appropriate checks are performed to ensure accuracy.	The Society will operate robust systems and controls to ensure that financial reporting is timely and accurate.

Risk Management Report (continued)

	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 UK and EU regulatory 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.	The Society 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 Product Governance Forum which governs the development and launch of new/amended products. In addition, the Customer Conduct Forum 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.	The Society will maintain robust processes and controls to ensure that Society systems continue to deliver critical business activities and that security measures are appropriate to safeguard assets.
Data Governance	The risk that the Society does not meet both regulatory standards and its own requirements for ensuring the accuracy, integrity and security of confidential data relating to customers, staff, suppliers or the Society's business activities and performance.	The Society is committed to protecting its members' personal data. Comprehensive processes and procedures are in place that are fully aligned with General Data Protection Regulation (GDPR) and the Data Protection Act (DPA) 2018. This includes the requirement to provide all staff with comprehensive training on a regular basis and ensuring the rights and freedoms, in relation to data protection, of our members' remains at the fore.	The Society will maintain robust systems and controls to adhere to data protection legislation as it relates to UK financial services businesses and thus prevent legal action regarding non-compliance.
People	The risk that the Society does not select, engage, manage, reward and develop its people in such a way that delivers the organisation's core values, and supports that delivery of current and future business strategy.	The Society has a very detailed recruitment and selection process to ensure that appropriate staff are employed. There are detailed policies and procedures in place across the Society for the management of personnel. The Society recognises that in order to meet the needs of members it requires a skilled and motivated work force. To achieve this, detailed recruitment and selection processes are in place along with competitive remuneration packages. Having attracted the right individuals, there is a focus on training and development as a retention tool. A detailed succession plan is in place for all key roles to address potential vacancies over the short, medium and long term.	The Society will engage with and manage all members of staff in a way that will support the delivery of the objectives set out in the Corporate Plan.
Third Party Supplier	The risk of financial loss, regulatory fines, reputational damage or adverse operational impact due to the failure of a critical supplier to fulfil its contract.	The Society has detailed policies in respect of Third Party Supplier risk and outsourcing risk which set out the way in which third parties are to be managed. Critical third parties are subject to due diligence on an annual basis.	The Society does not have any appetite to enter into or remain in contract with critical third party suppliers that are unable to demonstrate financial probity, their ability to meet the appropriate levels of service as detailed in the contractual agreement, social responsibility, and adherence to legislative and regulatory obligations.
Change Management	Risk of ineffective and inefficient implementation of change within the Society which could lead to financial loss, failure to meet legal and regulatory requirements or customer service standards.	The Society's Investment 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.	The Society will manage all change projects in a structured and consistent manner to ensure that the defined benefits are realised.
Business Continuity	The risk that the Society is unable to operate business critical processes and provide business critical services in the event of an unplanned disruption to business as usual operations.	The Society has a Business Continuity Plan that is reviewed and updated annually. Tests are performed to ensure that if the plan needed to be invoked the Society would be able to operate effectively and meet customer needs. The robustness of this plan has been evidenced by the Society's ability to operate through the Covid-19 pandemic.	The Society will continue to operate systems and controls to ensure that business critical operations are supported in the event of unplanned disruption.

Other Material Risks

In addition to the principal risks detailed above, 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
Covid-19 During 2020, the whole of the UK has been significantly impacted by the Covid-19 pandemic. While the UK government has introduced a number of short-term economic support measures, the real longer-term impact of the pandemic on the UK and global economy remains uncertain.	• The Society successfully invoked its business continuity plan with the vast majority of CSC staff working effectively from home. All branches have remained open throughout, albeit with revised opening hours. • A key risk identified was a potential weakening of the control environment due to increased home working. To provide assurance, the Society's Risk function has undertaken an independent review. The overall assessment has been that the control environment has continued to operate effectively. • The Board has reviewed the Society's strategy, updated its Corporate Plan and undertaken an Internal Capital Adequacy Assessment Process, all fully supported by detailed stress and scenario analysis. This fully considered the impact of the Bank of England Base Rate remaining low or being reduced further which has implications for the level of interest income the Society earns. • The Society adjusted its lending criteria to reduce its exposure to higher LTV lending in the face of a potential down turn in HPI. Resourcing in respect of arrears and concessions management has been increased to support us in helping our borrowing members through this difficult period.
Brexit In January 2020, the UK left the European Union (EU) and entered into an 11 month transition period. While the recently agreed EU/UK trade deal removes a number of potential risks, the real implications of the trade deal on the UK economy are yet to become clear.	• Both prior and following the UK's referendum on EU membership, the Society has modelled the potential impacts of Brexit, including appropriate stress testing and scenario analysis. Brexit has no direct impact to the Society. • The Society maintains strong levels of both capital and liquidity to mitigate against any potential economic downside risks.
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, in particular, the impact of flooding on the value of property taken as security. Transition risks reflect the potential impact from the process of moving to a carbon neutral economy. Changes in government policy, technological and consumer sentiment could rise to a reassessment of the value of property taken as security or the Society's own property estate.	• The Society has appointed a senior executive, Robert Broadbent, to lead the work on climate change and its impact on the Society. • A climate change plan has been developed and submitted to the PRA outlining the Society's approach to embedding the management of climate change risk. • An initial assessment has indicated minimal exposure at present to physical risks but further investment is being made to improve the Society's analytical capability. • The Society closely monitors the regulatory landscape to assess the impacts of any changes.

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

Richard Goddard
Chair of Board Risk Committee
24 February 2021

Statement of Directors' Responsibilities

The following Statement, which should be read in conjunction with the Independent Auditor's Report on pages 45 to 52, 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 the Group and Society financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 the Financial Reporting Standard applicable in the UK and Republic of Ireland.

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

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

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

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

Directors' responsibilities for accounting records and internal controls

The Directors are responsible for ensuring that the Group:

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

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

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

Rachel Court
Chair
24 February 2021

KPMG

Independent auditor's report

to the members of Leek United Building Society

1. Our opinion is unmodified

We have audited the Group and Society annual accounts of Leek United Building Society for the year ended 31 December 2020 which comprise the Group and Society Income Statements, Statements of Comprehensive Income, Statements of Financial Position, Statements of Changes in Members' Interests, Statements of Cash Flows and the related notes, including the accounting policies in note 1.

In our opinion the annual accounts:

— give a true and fair view of the state of affairs of the Group and Society as at 31 December 2020 and of the income and expenditure of the Group and 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 directors on 26 April 2017. The period of total uninterrupted engagement is for the 4 financial years ended 31 December 2020. 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	£320k (2019: £325k) 0.47% (2019: 0.49%) of Net Assets	
Coverage	100% (2019:100%) of Group profit before tax	
Key audit matters		**vs 2019**
Recurring risks	Impairment of Loans and advances to customers	▲
	Valuation of defined benefit liability	◄►
Event driven	**New:** Going concern including impact of COVID-19	▲

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, 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 Report and 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 of loans and advances to customers (Group and Society impairment: £0.7 million; 2019: £0.4 million) *Refer to page 30 (Audit Committee Report), page 59 (accounting policy) and page 65 (financial disclosures)*	**Subjective estimate:** Impairment of loans and advances to customers cover loans specifically identified as impaired and a collective impairment of all other loans for those impairments incurred but not yet specifically identified. The directors judge individual 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 collective impairment on loans and advances to customers is derived from a model that uses a combination of the society's historical experience and directors' judgement, due to the society's limited loss experience, increased judgement is required in the estimate. 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 of loans and advances to customers were the probability that a customer will default on its loan payments (probability of default) and the discount applied to property valuations in the event of possession (forced sale discount). The overall level of impairment on loans and advances to customers recognised is also sensitive to the application of overlays made by the Group in respect of COVID-19. The effect of these matters is that, as part of our risk assessment, we determined that impairment of loans and advances to customers has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the annual accounts as a whole. The annual accounts (note 1) disclose the sensitivity estimated by the Group.	Our procedures included: — **Benchmarking assumptions:** We compared the key assumptions used in the collective model of probability of default and forced sale discounts with externally available data, — **Sensitivity analysis:** We assessed the collective model and specific individual impairments for their sensitivities to changes in the key assumptions of probability of defaults and forced sale discounts by performing stress testing to help us assess the reasonableness of the assumptions and identify areas of potential additional focus. — **Historical comparison:** We assessed the key assumptions used in the collective and individual models, being probability of default and forced sale discounts, against the Group's historical experience. — **Tests of detail:** We identified a selection of loans using risk based sampling which includes specific items identified based on risk characteristics of current or historical arrears, forbearance flagging, size to identify individual loans which may have unidentified impairments. We tested the provision attached to these loans by reference to relevant supporting information such as property type and valuation to challenge the completeness and accuracy of the Group's specific impairment provision estimate. — **COVID-19 overlay**: We assessed the COVID-19 adjustment 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 of impairment of loans and advances to customers to be acceptable. (2019: acceptable)]

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

Key audit matter	The risk	Our response
Valuation of defined benefit liability (Group and society £44.8 million; 2019: £40.2 million) *Refer to page 30 (Audit Committee Report), page 60 (accounting policy) and page 85 (financial disclosures)*	**Subjective estimate:** The Group operates a defined benefit pension scheme which is closed to new members. At year-end, the Group holds a net defined benefit pension scheme liability on the statement of financial position, which includes gross pension obligations. Small changes in the assumptions and estimates used to value the Group's defined benefit liability (before deducting scheme assets) would have a significant effect on the Group's net defined benefit obligation. The effect of these matters is that, as part of our risk assessment, we determined that valuation of defined benefit liability has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the annual accounts as a whole. The annual accounts (note 26) disclose the sensitivity estimated by the Group.	Our procedures included: — **Evaluation of actuary:** We evaluated the competence, independence and objectivity of the society's actuary in assessing management's reliance upon their expert valuation services. — **Evaluation of scheme administrator:** We evaluated the operating effectiveness of relevant controls, through an inspection and assessment of the administrator's internal controls report, to determine the reliance upon this party as a service organisation. — **Benchmarking assumptions:** We challenged, with the support of our own actuarial specialists, the key assumptions applied to the pension liability, being the discount rate, inflation rate and mortality/life expectancy against externally derived data; — **Assessing transparency:** Considering the adequacy of the Group's disclosures in respect of the sensitivity of the defined benefit liability to these assumptions. **Our results** — We found the resulting estimate of valuation of defined benefit liability to be acceptable. (2019: acceptable)

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

Key audit matter	The risk	Our response
Going Concern including the impact of COVID-19 *Refer to page 30 (Audit Committee Report), page 58 (accounting policy)*	**Unprecedented level of uncertainty:** — The Annual Report and Accounts explain how the Board has formed a judgement that it is appropriate to adopt the going concern basis of preparation for the Group and Society. — That judgement is based on an evaluation of the inherent risks to the Group's and Society's business model and how those risks might affect the Group and Society's financial resources or ability to continue operations over a period of at least a year from the date of approval of the Annual Report and Accounts . — The risks most likely to adversely affect the Group's and Society's available financial resources over this period were: ▪ Significant increase in impairment losses due to erosion of collateral and rise in defaults due to unemployment; ▪ Decline in capital and liquidity reserves below regulatory requirements due to COVID-19 stresses; — There are also less predictable but realistic second order impacts due to COVID-19, such as reduced market spending and the erosion of customer confidence, which could result in a rapid reduction of available financial resources. — The risk for our audit was whether or not those risks were such that they amounted to a material uncertainty that may have cast significant doubt about the ability to continue as a going concern. Had they been such, then that fact would have been required to have been disclosed.	Our procedures included: — **Our sector experience:** We considered the directors' assessment of COVID-19 related sources of risk for the Group's and Society's businesses and financial resources compared with our own understanding of the risks. We considered the directors' plans to take action to mitigate the risks. — **Challenge of assumptions:** We assessed the Group's and Society's forecast profitability, and the Group's capital and liquidity models to identify key assumptions. We challenged the reasonableness of assumptions underpinning the Group's and Society's forecasts. — **Sensitivity analysis:** We assessed the stressed scenarios used by the Group and Society in forecasting profitability, capital and liquidity and the viability of possible management actions. — **Assessing transparency:** We critically assessed the completeness and accuracy of the matters covered in the going concern disclosure within the annual accounts using our knowledge of the relevant facts and circumstances developed during our audit work, considering the economic outlook, key areas of estimation uncertainty, including in particular the level of impairment of loans and advances to customers, and mitigating actions available to the Society to respond to these risks. **Our results** — We found the going concern disclosure without any material uncertainty to be acceptable.

We continue to perform procedures over the impact of uncertainties due to the UK exiting the European Union on our audit; however, we have not assessed this as one of the most significant risks in our current year audit and, therefore, it is not separately identified in our audit report this year.

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

Materiality for the group annual report and accounts as a whole was set at £320k (2019: £325k), determined with reference to a benchmark of Group net assets, of which it represents 0.47% (2019: 0.49%).

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 annual report and accounts as a whole.

Performance materiality for the Group was set at 75% (2019: 75%) of materiality for the annual report and accounts as a whole, which equates to £240k (2019: £245k). We applied this percentage in our determination of performance materiality because we did not identify any factors indicating an elevated level of risk.

Materiality for the parent society annual accounts as a whole was set at £319k (2019: £324k), determined with reference to a benchmark of Society net assets of which it represents 0.47% (2019: 0.49%).

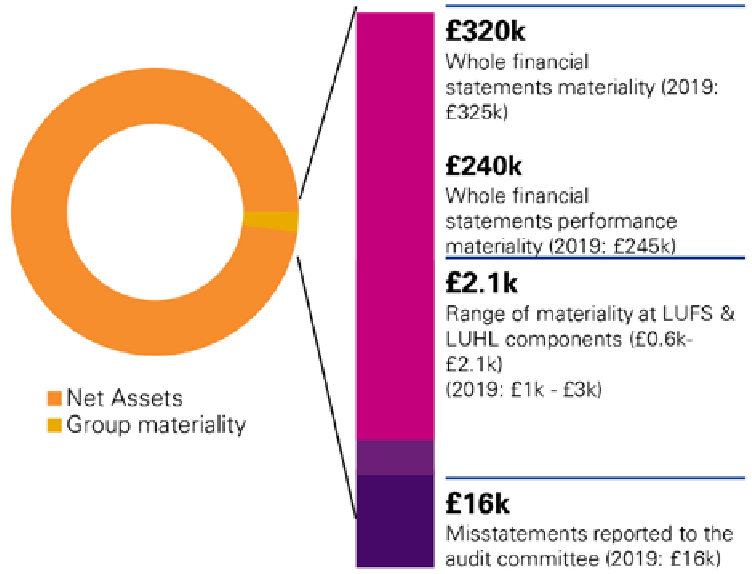
We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £16k (2019: £16k), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the Group's 3 (2019: 3) reporting components, we subjected 3 (2019: 3) to full scope audits for Group purposes.

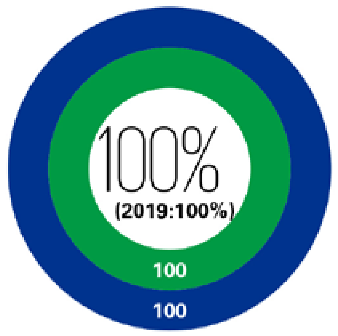
The components within the scope of our work accounted for the percentages illustrated opposite.

Net Assets
£67.3m (2019: £66.5m)

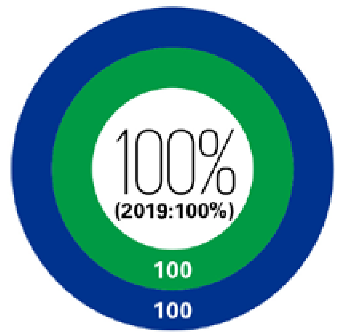
Group materiality
£320k (2019: £325k)



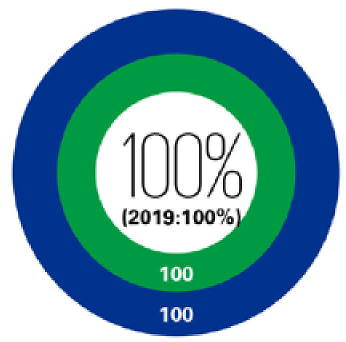
Group revenue



Group profit before tax



Group total assets



Full scope for group audit purposes 2020

Full scope for group audit purposes 2019

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").

An explanation of how we evaluated management's assessment of going concern is set out in the related key audit matter in section 2 of this report.

Our conclusions based on this work:

— we consider that the directors' use of the going concern basis of accounting in the preparation of 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 x 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 Society's high level policies and procedures to prevent and detect fraud. Including the internal audit function 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.

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

As required by auditing standards, we perform procedures to address the risk of management override of controls, in particular the risk that Society management may be in a position to make inappropriate accounting entries and the risk of bias in accounting estimates and judgements such as provision for dispute/ impairment and pension assumptions. 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 of 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 of 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 and those posted to unusual accounts.
- Assessing significant accounting estimates for bias.

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.

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

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 Society'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 financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these 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 and Accounts together with the annual accounts. Our opinion on the Annual Report and 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.

8. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 44, 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.

Jessica S.S. Katsouris

Jessica Katsouris (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
1 St Peter's Square
Manchester
M2 3AE
24 February 2021

Income Statements for the year ended 31 December 2020

	Notes	Group 2020 £000's	Group 2019 £000's	Society 2020 £000's	Society 2019 £000's
Interest receivable and similar income	2	18,019	21,483	18,016	21,480
Interest payable and similar charges	3	(6,433)	(8,867)	(6,433)	(8,867)
Net interest receivable		11,586	12,616	11,583	12,613
Fees and commissions receivable	4	565	841	566	841
Fees and commissions payable		(289)	(345)	(289)	(345)
Net (losses)/gains from derivative financial instruments	5	(291)	(239)	(291)	(239)
Total net income		11,571	12,873	11,569	12,870
Administrative expenses	6	(10,090)	(10,259)	(10,100)	(10,239)
Depreciation	15	(226)	(240)	(226)	(240)
Operating profit before impairment and other provisions		1,255	2,374	1,243	2,391
Net finance credit on pension scheme	26	(26)	(12)	(26)	(12)
Impairment (charge)/credit on loans and advances to customers	7	(302)	(8)	(302)	(8)
Provisions for liabilities – FSCS levy	24	(2)	20	(2)	20
Profit on ordinary activities before tax		925	2,374	913	2,391
Tax on profit on ordinary activities	8	(34)	(425)	(34)	(425)
Profit for the financial year	28	**891**	**1,949**	**879**	**1,966**

The notes on pages 58 to 88 form part of these accounts.

Statements of Comprehensive Income for the year ended 31 December 2020

	Notes	Group 2020 £000's	Group 2019 £000's	Society 2020 £000's	Society 2019 £000's
Profit for the financial year		891	1,949	879	1,966
Items that will not be reclassified to the Income Statement					
Actuarial gain/(loss) recognised in pension scheme	26	63	(1,405)	63	(1,405)
Taxation on items that will not be reclassified to the Income Statement	16	(78)	239	(78)	239
Items that may subsequently be reclassified to the Income Statement					
Available for sale reserve	30	66	107	66	107
Tax on items that may subsequently be reclassified to the Income Statement	30	3	3	3	3
Tax on revaluation reserve from changes in land and buildings	29	(8)	3	(8)	3
Other comprehensive income/(expense) for the year net of income tax		46	(1,053)	46	(1,053)
Total comprehensive income for the financial year		**937**	**896**	**925**	**913**

The notes on pages 58 to 88 form part of these accounts.

Statements of Financial Position as at 31 December 2020

	Notes	Group 2020 £000's	Group 2019 £000's	Society 2020 £000's	Society 2019 £000's
ASSETS					
Liquid assets:					
Cash in hand and balances with the Bank of England	9	156,845	102,588	156,845	102,588
Loans and advances to credit institutions	10	13,717	11,311	13,661	11,170
Debt securities	11	109,271	125,664	109,271	125,664
		279,833	239,563	279,777	239,422
Derivative financial instruments	12	25	276	25	276
Loans and advances to customers	13	864,199	848,729	864,163	848,687
Investments in subsidiary undertakings	14	-	-	1	24
Tangible fixed assets	15	2,446	2,150	2,446	2,150
Intangible fixed assets	15	772	58	772	58
Other assets	16	40	63	41	138
Other assets - taxation	16	86	135	86	135
Prepayments and accrued income	17	488	458	488	458
Total assets		**1,147,889**	**1,091,432**	**1,147,799**	**1,091,348**
LIABILITIES					
Shares	18	925,248	873,194	925,248	873,194
Amounts owed to credit institutions	19	132,033	132,250	132,033	132,250
Amounts owed to other customers	20	16,859	16,153	16,859	16,153
Derivative financial instruments	12	4,017	1,326	4,017	1,326
Other liabilities	21	582	425	586	426
Accruals and deferred income	22	779	613	767	598
Provisions for liabilities	23	-	-	-	-
Retirement benefit obligations	26	874	911	874	911
Total liabilities		**1,080,392**	**1,024,872**	**1,080,384**	**1,024,858**
RESERVES					
General reserve	28	66,384	65,508	66,302	65,438
Revaluation reserve	29	1,012	1,020	1,012	1,020
Available for sale reserve	30	101	32	101	32
Total reserves attributable to members of the Society		67,497	66,560	67,415	66,490
Total reserves and liabilities		**1,147,889**	**1,091,432**	**1,147,799**	**1,091,348**

The notes on pages 58 to 88 form part of these accounts.

These accounts were approved by the Board of Directors on 24 February 2021 and were signed on its behalf by:

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

Statements of Changes in Members' Interest as at 31 December 2020

Group for year ending 31 December 2020	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 2020		**65,508**	**1,020**	**32**	**66,560**
Profit for the financial year		891	-	-	891
Other comprehensive (expense)/income for the year (net of tax)					
Re-measurement of defined benefit scheme obligations		(15)	-	-	(15)
Net gains from changes in financial assets		-	-	69	69
Net loss from changes in land and building		-	(8)	-	(8)
Total comprehensive income for the year		876	(8)	69	937
Balance as at 31 December 2020	28, 29, 30	**66,384**	**1,012**	**101**	**67,497**

Group for year ending 31 December 2019	Notes	General reserve £000's	Revaluation reserve £000's	Available for sale reserve £000's	Total reserves attributable to members of the Society £000's
Balance as at 1 January 2019		**64,725**	**1,017**	**(78)**	**65,664**
Profit for the financial year		1,949	-	-	1,949
Other comprehensive (expense)/income for the year (net of tax)					
Re-measurement of defined benefit scheme obligations		(1,166)	-	-	(1,166)
Net gains from changes in financial assets		-	-	110	110
Net gains from changes in land and building		-	3	-	3
Total comprehensive income for the year		783	3	110	896
Balance as at 31 December 2019	28, 29, 30	**65,508**	**1,020**	**32**	**66,560**

Statements of Changes in Members' Interest as at 31 December 2020 (continued)

Society for year ending 31 December 2020	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 2020		**65,438**	**1,020**	**32**	**66,490**
Profit for the financial year		879	-	-	879
Other comprehensive (expense)/ income for the year (net of tax)					
Re-measurement of defined benefit scheme obligations		(15)	-	-	(15)
Net gains from changes in financial assets		-	-	69	69
Net loss from changes in land and building		-	(8)	-	(8)
Total comprehensive income for the year		864	(8)	69	925
Balance as at 31 December 2020	28, 29, 30	**66,302**	**1,012**	**101**	**67,415**

Society for year ending 31 December 2019	Notes	General reserve £000's	Revaluation reserve £000's	Available for sale reserve £000's	Total reserves attributable to members of the Society £000's
Balance as at 1 January 2019		**64,638**	**1,017**	**(78)**	**65,577**
Profit for the financial year		1,966	-	-	1,966
Other comprehensive (expense)/income for the year (net of tax)					
Re-measurement of defined benefit scheme obligations		(1,166)	-	-	(1,166)
Net gains from changes in financial assets		-	-	110	110
Net gains from changes in land and building		-	3	-	3
Total comprehensive income for the year		800	3	110	913
Balance as at 31 December 2019	28, 29, 30	**65,438**	**1,020**	**32**	**66,490**

Statements of Cash Flows for the year ended 31 December 2020

	Notes	Group 2020 £000's	Group 2019 £000's	Society 2020 £000's	Society 2019 £000's
Cash flows from operating activities					
Profit on ordinary activities before tax		925	2,374	913	2,391
Depreciation		226	240	226	240
Decrease in fair value of derivative financial instruments and hedged items		287	239	287	239
Decrease/(increase) in effective interest rate adjustment		111	(263)	111	(263)
Increase in impairment on loans and advances		302	8	302	8
Amounts recovered in respect of loans previously written off		2	2	2	2
Net gains on disposal and amortisation of debt securities		-	-	-	-
(Profit) on sale of tangible fixed assets		-	(8)	-	(8)
Non-cash pension losses		26	56	26	56
Total cash flow from operating activities		**1,879**	**2,648**	**1,867**	**2,665**
Changes in operating assets and liabilities					
Increase in loans and advances to customers		(13,230)	(21,103)	(13,236)	(21,107)
Increase/(decrease) in accruals and deferred income		166	(118)	169	(127)
Increase in prepayments and accrued income		(797)	(977)	(798)	(977)
Increase/(decrease) in amounts owed to credit institutions and other customers		489	(3,946)	489	(3,946)
(Increase) in loans and advances to credit institutions		(3,029)	(876)	(3,029)	(876)
Decrease/(increase) in other assets		23	(57)	120	(59)
Decrease/(increase) in other liabilities		117	(80)	121	(80)
Increase in shares		52,054	23,098	52,054	23,098
Decrease in provisions for liabilities		-	(71)	-	(71)
Pension contributions		-	(1,877)	-	(1,877)
Taxation paid		(28)	(121)	(28)	(121)
Net cash generated from operating activities		**37,644**	**(3,480)**	**37,729**	**(3,478)**
Cash flows from investing activities					
Proceeds from sale of fixed assets		-	8	-	8
Tangible fixed asset additions		(746)	(172)	(746)	(172)
Intangible fixed asset additions		(490)	(42)	(490)	(42)
Purchase of debt securities		(126,749)	(122,887)	(126,749)	(122,887)
Maturities and disposal of debt securities		143,975	127,374	143,975	127,374
Net cash used in investing activities		**15,990**	**4,281**	**15,990**	**4,281**
Net increase in cash and cash equivalents		**53,634**	**801**	**53,719**	**803**
Cash and cash equivalents at 1 January		112,503	111,702	112,362	111,559
Cash and cash equivalents at 31 December	27	166,137	112,503	166,081	112,362
Net cash generated from operating activities		**53,634**	**801**	**53,719**	**803**

Notes to the Accounts for the year ended 31 December 2020

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 IAS 39 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 IAS 39 - 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 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 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 that 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 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. For this reason, the accounts continue to be prepared on the going concern basis.

New and amended accounting standards

In September 2019, the IASB issued Interest Rate Benchmark Reform – Amendments to IFRS9, IAS39 and IFRS7. These amendments, which were also enacted into FRS102, 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 on-going interest rate benchmark reforms. The amendments are relevant to the Society given that it hedges and applies hedge accounting to its LIBOR exposures.

The application of the amendments impacts the Society's accounting in the following ways:

- The Society has fixed rate advances in the form of residential mortgage lending to customers which it includes in a portfolio fair value hedge of LIBOR risk components of these advances. This benchmark interest rate component was separately identifiable at the time of initial designation, and as noted above, the amendments permit continuation of hedge accounting even if in the future the hedged benchmark interest rate, LIBOR, may no longer be separately identifiable; and
- The Society will not discontinue hedge accounting should the retrospective assessment of hedge effectiveness fall outside the 80 – 125 per cent range and the hedging relationship is subject to interest rate benchmark reforms. For those hedging relationships that are not subject to the interest rate benchmark reforms the Society continues to cease hedge accounting if retrospective effectiveness is outside the 80 – 125 per cent range.

The Society no longer enters into LIBOR-linked financial instruments to hedge new residential mortgage lending. All new residential mortgage lending is now hedged by SONIA-linked financial instruments.

Basis of consolidation

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

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

Exemptions

The Group has taken the exemption as provided in Section 33.1A of FRS 102 and does not disclose transactions with members of the same group that are wholly owned. See Directors' Remuneration Report on page 37 for disclosure of the Directors' remuneration.

1. Principal accounting policies (continued)

Investments in subsidiary undertakings
Investments in subsidiary undertakings are stated 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 is 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 recorded at amortised cost, including any effective interest rate adjustment, less any impairment losses other than where an adjustment is made as part of a fair value hedging arrangement.

b) Financial asset at fair value through profit and loss
The Group uses derivatives only for interest rate risk management purposes. It does not use derivatives for trading purposes. A fair value hedge is used to hedge exposures to variability in the fair value of financial assets and liabilities, such as fixed rate mortgages.
Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into, and are subsequently re-measured at their fair value. Fair values of derivative financial instruments are calculated by discounted cash flow models using yield curves that are based on observable market data. All derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative. Changes in the fair value of derivatives are recognised immediately in the income statement together with changes in the fair value of the hedged item that are attributable to the hedged risk within net gain/(losses) from derivative financial instruments.
All derivatives entered into by the Group are for the purposes of providing an economic hedge. Hedge accounting is an optional treatment but the specific rules and conditions in IAS 39 have to be complied with before it can be applied. When transactions meet the criteria specified in IAS 39, the Group applies fair value hedge accounting so that changes in the fair value of the underlying asset or liability that are attributable to the hedged risk are recorded in the income statement to offset the fair value movement of the related derivative. The Group has classified all of its derivatives as fair value hedges. To qualify for hedge accounting at inception, the hedge relationship must be clearly documented. At inception, the derivative must be expected to be highly effective in offsetting the hedged risk and effectiveness must be tested throughout the life of the hedge relationship.
If the hedging derivative expires or is sold, terminated, or exercised, or the hedge no longer meets the criteria for fair value hedge accounting, or the hedge designation is revoked, hedge accounting is discontinued prospectively. If the underlying instrument is sold or repaid, the unamortised fair value adjustment is immediately recognised in the income statement and, therefore, as a consequence within the statement of changes in members' interests. A summary of the effects of hedging and the associated fair value adjustments can be found in notes 12 and 25.

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

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

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

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.

1. Principal accounting policies (continued)

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 FCA issued guidance on how they expect mortgage lenders and administrators to treat customers fairly during the Covid-19 situation. The Directors consider that the Society's forbearance options described above already complied with the guidance and has taken (and continues to take) all reasonable steps to support its borrowing members impacted by Covid-19 applying forbearance in accordance with the guidance.

Consideration of Covid-19 has been factored into the assessment of impairment as at 31 December 2020 and forms a key area of judgement for the year ended 31 December 2020.

Further information on forbearance is contained within note 25.

Impairment losses on debt securities

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

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

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

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

On 24 April 2013, the Society closed its externally funded final salary (defined benefit) scheme administered by Jardine Lloyd Thompson to further accrual. Contributions payable to the scheme are determined by a qualified actuary on the basis of a triennial valuation using the projected unit method, and are charged to the income and expenditure account over the periods benefiting from the employees' services. The last full actuarial valuation was carried out on 24 April 2018. The charge to the income and expenditure account over the financial year in relation to the defined benefit scheme is shown in note 26.

The pension scheme deficit on the closed scheme at 31 December 2020 has been recognised as a liability on the statement of financial position.

1. Principal accounting policies (continued)

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

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

Cash and cash equivalents

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

Taxation

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

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

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

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

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 years, 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 FRS102.

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.

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 may include observable data indicating that there has been an adverse change in the payments status or borrower's local economic conditions, including forbearance measures such as a transfer to interest only products and term extensions that correlate with defaults on assets in the Group.

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

The principal estimates are the proportion of loans that will become impaired/default, known as the probability of default (PD) and, on these cases, how much will be lost, known as loss given default (LGD). This is principally driven by house prices at the point of realisation of collateral. The impact of a 1% change in PD would impact the collective provision in 2020 by £260k. The impact of a 5% increase in the forced sale discount affecting the LGD would impact the collective provision in 2020 by £176k.

As a result of Covid-19 the Directors have included an overlay to ensure that adequate provisions are held against loans in arrears or losses that may have been incurred but not indentified.

The Society has put in place a series of forbearance measures to support any of its borrowing members impacted by Covid-19. During the financial year ended 31 December 2020 the Society had applied forbearance measures to over 800 cases with mortgage balances totalling £117m with almost all of these arranged in the period March to June 2020 and related to the Covid-19 situation. At the end of the initial arrangement only 2% of these of borrowers continue to require support.

The full economic impact of Covid-19 is as yet unknown. In determining the additional level of impairment that has been incurred, but not yet identified, in loans and advances the Directors have considered there to be an increase in probability of default in Covid-19 forbearance cases, as a result of the deterioration in economic conditions.This assessment resulted in an overlay impairment charge of £369k being made. The estimate of an increase in probability of default in Covid-19 forbearance cases were a key determinant of the management overlay impairment charge.

The principal estimates are the proportion of loans that will become impaired/default, known as the probability of default (PD) and, on these cases, how much will be lost, known as loss given default (LGD). This is principally driven by house prices at the point of realisation of collateral. The impact of a 1% change in PD would impact the provision in 2020 by £41k. The impact of a 5% increase in the forced sale discount affecting the LGD would impact the provision in 2020 by £203k.

Further information on forbearance can be found in note 25.

b) Employee benefits

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

Assumption	Sensitivity (increase)	Impact on liabilities
Discount rate	0.1%	c. £898k reduction
Inflation (RPI/CPI)[1]	0.1%	c. £267k increase
Life expectancy	1 year	c. £1,795k increase

([1]) The inflation sensitivity sets out the impact on inflation linked liabilities only.

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

The base mortality table has been updated to use more recently available tables compared to those adopted at the prior year end, with the S3 standard mortality tables being used, specifically S3PMA table for male members and the S3PFA_M table for female members.

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

During 2020 the Society commenced a significant investment programme to deliver the required improvements in the organisation's systems, processes and branch network. The investment programme will provide full online and mobile access to savings accounts for members.

In certain circumstances the investment spend on this new digital savings platform is required to be recognised as an intangible asset. The identification of which elements of this investment spend meet the accounting standard criteria for capitalisation, in particular that incurring the costs will result in future economic benefits to the Society, is considered a significant management judgement. During 2020 £126k has been expensed through the profit and loss account and £746k has been capitalised as an Intangible Asset under Construction, on the balance sheet where it will remain unamortised until it is available for use. This is anticipated to be in Q2 2021.

2. Interest receivable and similar income

	Group 2020 £000's	Group 2019 £000's	Society 2020 £000's	Society 2019 £000's
On loans fully secured on residential property	18,630	20,071	18,627	20,068
On other loans	7	9	7	9
On debt securities – interest and other income	844	1,288	844	1,288
On other liquid assets – interest and other income	265	686	265	686
Net (expense) on derivative financial instruments	(1,727)	(571)	(1,727)	(571)
	18,019	**21,483**	**18,016**	**21,480**

3. Interest payable and similar charges

	Group 2020 £000's	Group 2019 £000's	Society 2020 £000's	Society 2019 £000's
On shares held by individuals	6,089	7,790	6,089	7,790
On deposits and other borrowings	344	1,077	344	1,077
	6,433	**8,867**	**6,433**	**8,867**

4. Fees and commissions receivable

	Group 2020 £000's	Group 2019 £000's	Society 2020 £000's	Society 2019 £000's
Insurance commission	439	710	439	710
Other fees	126	131	127	131
	565	**841**	**566**	**841**

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

	Group 2020 £000's	Group 2019 £000's	Society 2020 £000's	Society 2019 £000's
(Losses) on hedging instruments	(2,745)	(2,413)	(2,745)	(2,413)
Gains on hedged items attributable to the hedged risk	2,651	2,306	2,651	2,306
Net matched position	**(94)**	**(107)**	**(94)**	**(107)**
(Losses) on derivatives not in designated fair value relationships	(197)	(132)	(197)	(132)
Total net (loss) on derivatives	**(291)**	**(239)**	**(291)**	**(239)**

The net fair value (FV) loss from matched derivative financial instruments of £94k (2019: loss of £107k) represents the net fair value movement on derivative instruments that are matching risk exposure on an economic basis, offset by the net fair value movement on the hedged item. Some accounting volatility arises on these items due to accounting ineffectiveness on designated hedges. Hedge accounting is also not achievable on certain items, resulting in a net FV loss of £197k (2019: FV loss of £132k) on unmatched derivatives. 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.

6. Administrative expenses

	Group 2020 £000's	Group 2019 £000's	Society 2020 £000's	Society 2019 £000's
Staff costs (including Executive Directors):				
Wages and salaries	5,222	5,189	5,222	5,189
Social security costs	531	538	531	538
Other pension costs	386	375	386	375
	6,139	**6,102**	**6,139**	**6,102**
Other expenses:				
Remuneration of auditors				
Audit of Group and Society accounts	253	181	253	181
Audit of subsidiaries	12	20	-	-
Other services	19	8	19	8
Total auditor remuneration	**284**	**209**	**272**	**189**
Other administrative expenses	3,667	3,948	3,689	3,948
Total administrative expenses	**10,090**	**10,259**	**10,100**	**10,239**

In addition to the auditor remuneration as shown above, the Society also paid audit fees in relation to the defined benefit pension scheme of £22k (2019: £12k).

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

	Group 2020	Group 2019	Society 2020	Society 2019
(i) At principal office:				
Full-time staff	97	92	97	92
Part-time staff	31	32	31	32
(ii) At branch offices:				
Full-time staff	32	35	32	35
Part-time staff	32	35	32	35
Total staff	**192**	**194**	**192**	**194**
(iii) Total full-time equivalents	172	172	172	172

Directors' loans and transactions

A register of loans and transactions with Directors and connected persons is maintained and is available for inspection by members at the Society's principal office up to and including 24 April 2021 and at the Annual General Meeting. The total loans outstanding at 31 December 2020, in respect of 2 (2019: 2) people amounted to £655k (2019: £709k). As at 31 December 2020 a total of £19,892 (2019:£22,043) was held in Society savings by the Directors.

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

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

Group and Society

	Loans fully secured on residential property		
	Individual Impairment £000's	**Collective Impairment £000's**	**Total £000's**
At 1 January 2020	22	393	415
Amounts utilised in the year	(13)	-	(10)
Charge in the year	41	266	304
At 31 December 2020	**50**	**659**	**709**

Group and Society

	Loans fully secured on residential property		
	Individual Impairment £000's	**Collective Impairment £000's**	**Total £000's**
At 1 January 2019	15	390	405
Amounts utilised in the year	-	-	-
Charge in the year	7	3	10
At 31 December 2019	**22**	**393**	**415**

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

Group and Society	**2020 £000's**	**2019 £000's**
Change in loan impairment allowance	294	10
Amounts recovered in respect of loans previously written off	(2)	(2)
Amounts written off during the year	10	-
Income and expenditure account	**302**	**8**

The impairment allowance as at 31 December 2020 and 2019 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 overlay of £369k for the year ended 31 December 2020. Further details are provided in note 1 to these accounts.

8. Tax on profit on ordinary activities

	Group 2020 £000's	**Group 2019 £000's**	**Society 2020 £000's**	**Society 2019 £000's**
(a) UK corporation tax at 19% (2019: 19%):				
Current tax	68	47	68	47
UK deferred tax at 19% (2019: 17%):				
Deferred tax – current year (see note 16)	(34)	378	(34)	378
Total	**34**	**425**	**34**	**425**

The tax assessed for the year is lower (2019: lower) than the standard rate of corporation tax in the UK of 19% (2019: 19%). The differences are explained below.

	Group 2020 £000's	**Group 2019 £000's**	**Society 2020 £000's**	**Society 2019 £000's**
(b) Factors affecting current tax charge in year:				
Profit on ordinary activities before tax	925	2,374	913	2,391
Tax on profit at UK standard rate of 19% (2019: 19%)	176	451	173	454
Expenses not deductible for tax purposes	36	49	41	49
Adjustment re: prior year	(85)	(34)	(85)	(34)
Group relief claimed	-	-	(5)	(3)
Impact of change in rate – deferred tax	(94)	(44)	(94)	(44)
Changes to treatment of debt securities	4	3	4	3
Deferred tax not recognised	(3)	-	-	-
Total tax charge	**34**	**425**	**34**	**425**

A reduction in the UK Corporation tax rate from 19% to 17% (effective from 1 April 2020) was substantively enacted on 6 September 2016. In the 11 March 2020 Budget, it was announced that the UK corporation tax rate will remain at the current level of 19% and not reduce to 17% from 1 April 2020. This was substantively enacted on 17 March 2020. Deferred tax is calculated using the rate expected to apply when the relevant timing differences are forecast to unwind. Accordingly, the Society's profits have been taxed at an effective rate of 19% (2019: 19%). The deferred tax asset at 31 December 2020 has been calculated based on the rate of 19% (2019: 17%) substantively enacted at that date.

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

	Note	**Group 2020 £000's**	**Group 2019 £000's**	**Society 2020 £000's**	**Society 2019 £000's**
Cash in hand		734	668	734	668
Balances at the Bank of England		156,111	101,920	156,111	101,920
Included in cash and cash equivalents	**27**	**156,845**	**102,588**	**156,845**	**102,588**

10. Loans and advances to credit institutions

	Group 2020 £000's	**Group 2019 £000's**	**Society 2020 £000's**	**Society 2019 £000's**
Maturity analysis:				
Repayable on demand	9,292	9,915	9,236	9,774
In more than one year but not more than five years	4,425	1,396	4,425	1,396
	13,717	**11,311**	**13,661**	**11,170**

Amounts outstanding in more than one year but not more than five years of £4,425k (2019: £1,396k) fully reflect amounts placed as collateral with counterparties in respect of derivative contracts.

11. Debt securities

	Group 2020 £000's	Group 2019 £000's	Society 2020 £000's	Society 2019 £000's
Available for sale securities:				
Issued by UK Government	500	14,955	500	14,955
Issued by other borrowers - listed	40,533	17,201	40,533	17,201
Issued by other borrowers - unlisted	68,238	93,508	68,238	93,508
	109,271	**125,664**	**109,271**	**125,664**
Available for sale securities:				
Maturity analysis:				
In not more than one year	68,738	108,463	68,738	108,463
In more than one year	40,533	17,201	40,533	17,201
	109,271	**125,664**	**109,271**	**125,664**

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	2020 £000's	2019 £000's
At 1 January	**125,664**	**128,950**
Additions	126,749	122,887
Maturities and disposals	(143,975)	(127,374)
Movement in premium and accrued interest	768	1,094
Gain in fair value recognised in Other Comprehensive Income	65	107
At 31 December	**109,271**	**125,664**

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

12. Derivative financial instruments

Group & Society	Contract Notional Amount £000's	Fair Value Assets £000's	Fair Value Liabilities £000's	Fair Value Net Asset (Liability) £000's
At 31 December 2020				
Unmatched derivatives – interest rate swaps	66,712	-	(268)	(268)
Derivatives designated as fair value hedges - interest rate swaps	378,993	25	(3,749)	(3,724)
Total recognised derivative assets/(liabilities)	**445,705**	**25**	**(4,017)**	**(3,992)**
At 31 December 2019				
Unmatched derivatives – interest rate swaps	41,084	8	(79)	(71)
Derivatives designated as fair value hedges - interest rate swaps	353,098	268	(1,247)	(979)
Total recognised derivative assets/(liabilities)	**394,182**	**276**	**(1,326)**	**(1,050)**

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 2020 £000's	Group 2019 £000's	Society 2020 £000's	Society 2019 £000's
Loans and advances to customers comprise:				
Loans fully secured on residential property	860,493	847,675	860,457	847,633
Loans fully secured on land	163	166	163	166
Fair value adjustment for hedged risk	3,543	888	3,543	888
	864,199	**848,729**	**864,163**	**848,687**

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 £3,543k (2019: £888k) 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 2020 £000's	Group 2019 £000's	Society 2020 £000's	Society 2019 £000's
Repayable on demand	387	250	387	250
In not more than three months	7,116	6,763	7,115	6,762
In more than three months but not more than one year	22,877	20,514	22,876	20,512
In more than one year but not more than five years	145,226	135,581	145,193	135,547
In more than five years	685,032	684,311	685,031	684,306
	860,638	**847,419**	**860,602**	**847,377**
Loan impairment allowance	(709)	(415)	(709)	(415)
Fair value adjustment for hedged risk	3,543	888	3,543	888
Effective interest rate adjustment	727	837	727	837
	864,199	**848,729**	**864,163**	**848,687**

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 2020 £000's	Society 2019 £000's
Shares	1	2
Loans	-	22
	1	**24**

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

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

The Mortgage Outlet Limited is a wholly owned direct subsidiary of the Society. The company is registered in England and Wales. All shares are £1 ordinary shares. The principal activity of the subsidiary was the provision of mortgage broking services. No Director had a beneficial interest in any shares or debentures of the subsidiary undertaking. The company ceased trading on 31 December 2009. From 1 January 2010 the company has been dormant. During 2020 a provision has been made within the Society to dissolve this subsidiary. The loan that was owed to the Society has been written off and a provision to remove the £1,000 share investment made.

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

15. Fixed assets

Tangible Fixed Asset Group	Freehold land and buildings £000's	Equipment, fixtures and fittings £000's	Asset Under Construction £000's	Totals £000's
Cost				
At 1 January 2020	2,583	3,737	-	6,320
Additions	-	245	245	490
Disposals	-	(94)	-	(94)
At 31 December 2020	2,583	3,888	245	6,716
Accumulated depreciation				
At 1 January 2020	767	3,403	-	4,170
Charge for the year	38	156	-	194
Disposals	-	(94)	-	(94)
At 31 December 2020	805	3,465	-	4,270
Net book value				
At 31 December 2020	**1,778**	**423**	**245**	**2,446**

Tangible Fixed Asset 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 2020	2,583	3,737	-	6,320
Additions	-	245	245	490
Disposals	-	(94)	-	(94)
At 31 December 2020	2,583	3,888	245	6,716
Accumulated depreciation				
At 1 January 2020	767	3,403	-	4,170
Charge for the year	38	156	-	194
Disposals	-	(94)	-	(94)
At 31 December 2020	805	3,465	-	4,270
Net book value				
At 31 December 2020	**1,778**	**423**	**245**	**2,446**

Tangible assets under construction represent the Society's investment in building its new digital savings platform.

15. Fixed assets (continued)

Tangible Fixed Asset Group	Freehold land and buildings £000's	Equipment, fixtures and fittings £000's	Totals £000's
Cost			
At 1 January 2019	2,583	3,709	6,292
Additions	-	173	173
Disposals	-	(145)	(145)
At 31 December 2019	2,583	3,737	6,320
Accumulated depreciation			
At 1 January 2019	729	3,403	4,132
Charge for the year	38	145	183
Disposals	-	(145)	(145)
At 31 December 2019	767	3,403	4,170
Net book value			
At 31 December 2019	**1,816**	**334**	**2,150**

Tangible Fixed Asset Society	Freehold land and buildings £000's	Equipment, fixtures and fittings £000's	Totals £000's
Cost			
At 1 January 2019	2,583	3,709	6,292
Additions	-	173	173
Disposals	-	(145)	(145)
At 31 December 2019	2,583	3,737	6,320
Accumulated depreciation			
At 1 January 2019	729	3,403	4,132
Charge for the year	38	145	183
Disposals	-	(145)	(145)
At 31 December 2019	767	3,403	4,170
Net book value			
At 31 December 2019	**1,816**	**334**	**2,150**

The net book value of land and buildings occupied by the Society for its own activities is £1,778k (2019: £1,816k). 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:

	2020 £000's	2019 £000's
Cost	1,470	1,470
Aggregate depreciation based on cost	(458)	(437)
	1,012	**1,033**

15. Fixed assets (continued)

Intangible Fixed Asset Group	Equipment, fixtures and fittings £000's	Asset Under Construction £000's	Totals £000's
Cost			
At 1 January 2020	1,424	-	1,424
Additions	-	746	746
Disposals	-	-	-
At 31 December 2020	1,424	746	2,170
Accumulated depreciation			
At 1 January 2020	1,366	-	1,366
Charge for the year	32	-	32
Disposals	-	-	-
At 31 December 2020	1,398	-	1,398
Net book value			
At 31 December 2020	**26**	**746**	**772**

Intangible Fixed Asset Society	Equipment, fixtures and fittings £000's	Asset Under Construction £000's	Totals £000's
Cost			
At 1 January 2020	1,424	-	1,424
Additions	-	746	746
Disposals	-	-	-
At 31 December 2020	1,424	746	2,170
Accumulated depreciation			
At 1 January 2020	1,366	-	1,366
Charge for the year	32	-	32
Disposals	-	-	-
At 31 December 2020	1,398	-	1,398
Net book value			
At 31 December 2020	**26**	**746**	**772**

Intangible assets under construction represent the Society's investment in building its new digital savings platform.

15. Fixed assets (continued)

Intangible Fixed Asset for the year ending 31 December 2019	Group Equipment, fixtures and fittings £000's	Society Equipment, fixtures and fittings £000's
Cost		
At 1 January 2019	1,381	1,381
Additions	43	43
Disposals	-	-
At 31 December 2019	1,424	1,424
Accumulated depreciation		
At 1 January 2019	1,308	1,308
Charge for the year	58	58
Disposals	-	-
At 31 December 2019	1,366	1,366
Net book value		
At 31 December 2019	**58**	**58**

16. Other assets

	Group 2020 £000's	Group 2019 £000's	Society 2020 £000's	Society 2019 £000's
Amounts due from subsidiary undertakings	-	-	2	75
Other	40	63	39	63
	40	63	41	138

Other assets - Deferred tax asset

The elements of deferred taxation are as follows:

	Group 2020 £000's	Group 2019 £000's	Society 2020 £000's	Society 2019 £000's
Difference between accumulated depreciation and capital allowances	(72)	(27)	(72)	(27)
Capital gains on revalued land and building	(101)	(93)	(101)	(93)
Other timing differences	259	255	259	255
	86	135	86	135
Deferred taxation at 1 January	135	268	135	268
Deferred tax charge/(credit)	34	(378)	34	(378)
Items in relation to the Statement of Comprehensive Income:				
Movements in relation to pension scheme	(78)	239	(78)	239
Movements in relation to debt securities	3	3	3	3
Movements in relation to revalued land and buildings	(8)	3	(8)	3
At 31 December	**86**	**135**	**86**	**135**

17. Prepayments and accrued income

	Group 2020 £000's	Group 2019 £000's	Society 2020 £000's	Society 2019 £000's
Prepayments	452	394	452	394
Accrued income	36	64	36	64
	488	**458**	**488**	**458**

18. Shares

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

	Group 2020 £000's	Group 2019 £000's	Society 2020 £000's	Society 2019 £000's
Repayable on demand	751,553	720,018	751,553	720,018
In not more than three months	21,111	22,681	21,111	22,681
In more than three months but not more than one year	80,699	47,992	80,699	47,992
In more than one year but no more than five years	71,881	82,503	71,881	82,503
Fair Value Adjustment for Hedged Risks	4	-	4	-
	925,248	**873,194**	**925,248**	**873,194**

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 2020 £000's	Group 2019 £000's	Society 2020 £000's	Society 2019 £000's
Repayable in less than one year	105,033	-	105,033	-
Repayable in more than one year but no more than five years	27,000	132,250	27,000	132,250
	132,033	**132,250**	**132,033**	**132,250**

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 2020 £000's	Group 2019 £000's	Society 2020 £000's	Society 2019 £000's
Repayable on demand	16,859	16,153	16,859	16,153

21. Other liabilities

	Group 2020 £000's	Group 2019 £000's	Society 2020 £000's	Society 2019 £000's
Amounts falling due within one year:				
Corporation tax	42	2	42	2
Other taxation and social security costs	184	149	184	149
Amounts due to Subsidiary undertakings	-	-	5	-
Other creditors	356	274	355	275
	582	**425**	**586**	**426**

22. Accruals and deferred income

	Group 2020 £000's	Group 2019 £000's	Society 2020 £000's	Society 2019 £000's
Accrued interest on derivatives	278	64	278	64
Accruals	494	539	482	524
Deferred income	7	10	7	10
	779	**613**	**767**	**598**

23. Provisions for liabilities

There are no unsettled regulated business claims requiring compensation at the end of the year 31 December 2020 so no provision is required. The movement in the FSCS Levy is discussed in note 24.

24. Financial Services Compensation Scheme levy

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

Following the final settlement of this scheme, in 2020 the Society received a refund of £21k, which resulted in a net £2k charge to the income statement during the year (2019: £20k income).

25. Financial instruments

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

The Group has a formal structure for managing risk, including established risk limits, reporting lines, mandates and other control procedures. This structure is reviewed regularly by the Board, which is charged with the responsibility for managing and controlling the balance sheet exposures and the use of financial instruments for risk management purposes. The Board Risk Committee (BRC) is supported by the 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 Credit Risk Appetite Framework is being adhered to and the level of risk within the portfolio is within the agreed risk appetite measures.

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

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

Type of derivatives

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

The following table describes the significant activities undertaken by the Group, the related risks associated with such activities and the types of derivatives which are typically used in managing such risks. The Group applies fair value hedging techniques to these. The fair value of these hedges as at 31 December 2020 is shown in note 12.

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

The following table sets out a summary 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

25. Financial instruments (continued)

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

Carrying values as at 31 December 2020	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	-	156,845	-	-	-	156,845
Loans and advances to credit institutions	13,717	-	-	-	-	13,717
Debt securities	-	-	109,271	-	-	109,271
Derivative financial instruments	-	-	-	25	-	25
Loans and advances to customers	860,656	3,543	-	-	-	864,199
Total financial assets	**874,373**	**160,388**	**109,271**	**25**	**-**	**1,144,057**
Total non-financial assets						3,832
Total Group assets						**1,147,889**
Financial liabilities						
Shares	-	925,248	-	-	-	925,248
Amounts owed to credit institutions	-	132,033	-	-	-	132,033
Amounts owed to other customers	-	16,859	-	-	-	16,859
Derivative financial instruments	-	-	-	3,749	268	4,017
Total financial liabilities	**-**	**1,074,140**	**-**	**3,749**	**268**	**1,078,157**
Total non-financial liabilities						2,235
General and other reserves						67,497
Total Group reserves and liabilities						**1,147,889**

25. Financial instruments (continued)

Carrying values as at 31 December 2019	Loans and receivables £000's	Financial assets and liabilities at amortised cost £000's	Available for sale £000's	Derivatives designated as fair value hedges £000's	Unmatched derivatives at fair value £000's	Total £000's
Financial assets						
Cash in hand and balances with the Bank of England	-	102,588	-	-	-	102,588
Loans and advances to credit institutions	11,311	-	-	-	-	11,311
Debt securities	-	-	125,664	-	-	125,664
Derivative financial instruments	-	-	-	268	8	276
Loans and advances to customers	847,841	888	-	-	-	848,729
Total financial assets	**859,152**	**103,476**	**125,664**	**268**	**8**	**1,088,568**
Total non-financial assets						2,864
Total Group assets						**1,091,432**
Financial liabilities						
Shares	-	873,194	-	-	-	873,194
Amounts owed to credit institutions	-	132,250	-	-	-	132,250
Amounts owed to other customers	-	16,153	-	-	-	16,153
Derivative financial instruments	-	-	-	1,247	79	1,326
Total financial liabilities	**-**	**1,021,597**	**-**	**1,247**	**79**	**1,022,923**
Total non-financial liabilities						1,949
General and other reserves						66,560
Total Group reserves and liabilities						**1,091,432**

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 2020					
Financial assets					
Available for sale:					
Debt securities	11	41,033	68,238	-	**109,271**
Derivative financial instruments:					
Interest rate swaps	12	-	25	-	**25**
		41,033	**68,263**	**-**	**109,296**
Financial liabilities					
Derivative financial instruments:					
Interest rate swaps	12	**-**	**4,017**	**-**	**4,017**

	Notes	Level 1 £000's	Level 2 £000's	Level 3 £000's	Total £000's
As at 31 December 2019					
Financial assets					
Available for sale:					
Debt securities	11	32,156	93,508	-	**125,664**
Derivative financial instruments:					
Interest rate swaps	12	-	276	-	**276**
		32,156	**93,784**	**-**	**125,940**
Financial liabilities					
Derivative financial instruments:					
Interest rate swaps	12	**-**	**1,326**	**-**	**1,326**

25. Financial instruments (continued)

Valuation techniques

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

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

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

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

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

Debt securities

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

Level 2 - Interest rate swaps – the valuation of interest rate swaps is based on the net present value method. The expected interest cash flows are discounted using the three month forecast LIBOR curve or SONIA curve, depending on the variable rate embedded within the swap. The LIBOR and 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.

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

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

	Group 2020 £000's	Group 2019 £000's	Society 2020 £000's	Society 2019 £000's
Cash in hand and balances with the Bank of England	156,845	102,588	156,845	102,588
Loans and advances to credit institutions	13,717	11,311	13,661	11,170
Debt securities	109,271	125,664	109,271	125,664
Derivative financial instruments	25	276	25	276
Loans and advances to customers	864,199	848,729	864,163	848,687
Total statement of financial exposure (1)	**1,144,057**	**1,088,568**	**1,143,965**	**1,088,385**
Off balance sheet exposure - mortgage commitments (2)	45,352	35,528	45,352	35,528
Total	**1,189,409**	**1,124,096**	**1,189,317**	**1,123,913**

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

a) Loans and advances to credit institutions, debt securities and derivative financial instruments
The ALCO is responsible for approving treasury counterparties for both derivatives and investment purposes. Limits are placed on the amount of risk accepted in relation to one counterparty, or group of counterparties, and to industry sectors. This is monitored daily and reviewed monthly by the ALCO.

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

25. Financial instruments (continued)

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

Industry sector	2020 £000's	2020 %	2019 £000's	2019 %
Banks	68,238	63%	87,496	70%
Building societies	-	-	6,012	5%
Central Government	500	0%	14,955	12%
Supranationals	40,533	37%	17,201	13%
Total	**109,271**	**100%**	**125,664**	**100%**

Geographic region	2020 £000's	AAA %	AA %	A %
United Kingdom	68,738	-	1%	99%
Supranationals	40,533	100%	-	-
Total	**109,271**			

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

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

Geographic region	2020 £000's	AA %	A %	2019 £000's	AA %	A %
United Kingdom	16	-	63%	226	-	82%
Europe	9	-	37%	50	-	18%
Total	**25**			**276**		

There are no impairment charges against any of the Group's treasury assets at 31 December 2020 or 31 December 2019.

b) Loans and advances to customers

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

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 78. Loans and advances to customers are predominantly made up of retail loans fully secured against UK property of £861m (2019: £847m) split between residential and buy to let loans. The Group operates through England and Wales with the portfolio well spread throughout the geographic regions. An analysis of the Group's geographical concentration, gross of provisions, is shown in the table below.

		Group			
Geographic region	**Note**	**2020 £000's**	**2020 %**	**2019 £000's**	**2019 %**
West Midlands		185,285	21%	192,935	22%
North		139,658	16%	140,529	17%
London		142,273	17%	134,172	16%
East Midlands		92,802	11%	90,700	11%
South West		86,918	10%	82,847	10%
Outer South East		84,611	10%	81,907	10%
Yorkshire & Humberside		57,726	7%	54,728	6%
Wales and Northern Ireland		37,054	4%	36,737	4%
East Anglia		34,148	4%	32,698	4%
Total		**860,475**	**100%**	**847,253**	**100%**
Other loans (see below)		163		166	
	13	**860,638**		**847,419**	

Other loans represent commercial loans secured on land.

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:

	2020	2019
Repayment – Residential mortgage	60%	59%
Interest Only – Residential mortgage	11%	11%
Repayment – Buy to Let	4%	4%
Interest Only – Buy to Let	25%	26%

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

The average LTV of residential mortgages is 40% (2019: 42%). All residential loans above 80% (2019: 80%) LTV are insured.

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

25. Financial instruments (continued)

	Group	
LTV analysis	**2020 %**	**2019 %**
Residential		
0% - 30%	15%	14%
30% - 60%	39%	35%
60% - 80%	33%	31%
80% - 90%	13%	13%
90%-100%	0%	7%
>100%	-	-
Average loan to value of residential mortgage loans	**40%**	**42%**

	Group	
LTV analysis	**2020 %**	**2019 %**
Buy to Let		
0% - 30%	6%	5%
30% - 60%	68%	52%
60% - 80%	26%	43%
80% - 90%	-	-
90%-100%	-	-
>100%	-	-
Average loan to value of buy to let mortgage loans	**47%**	**51%**

The quality of the Group's retail mortgage book is reflected in the number and value of accounts in arrears, by value this is 0.4% (2019: 0.7%), of which only 0.2% (2019: 0.2%) 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.

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

Arrears analysis	**2020 £000's**	**2020 %**	**2019 £000's**	**2019 %**
Not impaired				
Neither past due or impaired	857,101	100%	841,208	99%
Past due up to three months but not impaired	1,773	<=0.1%	4,427	1%
Impaired				
Past due three to six months	1,273	<=0.1%	1,573	<=0.1%
Past due six to 12 months	491	<=0.1%	211	<=0.1%
Past due over 12 months	-	-	-	-
Total	**860,638**	**100%**	**847,419**	**100%**

Value of collateral held	**2020 Indexed £000's**	**2020 Unindexed £000's**	**2019 Indexed £000's**	**2019 Unindexed £000's**
Neither past due or impaired	2,034,853	1,722,929	1,889,532	1,672,467
Past due up to three months but not impaired	5,596	3,967	9,838	8,251
Past due over three months and impaired	3,622	2,983	5,127	4,306

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

Mortgage indemnity guarantee insurance acts as additional security. For mortgage applications from 1 December 2017, it has been taken out for all residential loans where the borrowing exceeded 80% of the value of the property at the point of application. During 2018 the length of time for the Mortgage Indemnity Guarantee period was reduced from 10 years to 7 years, with the option to purchase a further 3 years, if required. The status 'past due up to three months but not impaired' includes any asset where a payment due is received late or missed but no individual provision has been allocated.

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

At 31 December 2020, the Group and Society had no (2019: no) properties in possession with an outstanding balance of £nil (2019: £nil) and related collateral of £nil (2019: £nil).

Forbearance

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

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

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

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

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

Type of forbearance	**31 December 2020 Number**	**31 December 2019 Number**
Reduced payment including interest only concessions	4	4
Arrangements	5	11
Payment holidays	8	3
Total	**17**	**18**

In total £2.0m (2019: £1.3m) of loans are subject to forbearance. There is a requirement for a collective impairment allowance in 2020 of less than £0.5k (2019: £5k) in relation to forbearance accounts.

The Society has also put in place a series of forbearance measures to support any of its borrowing members impacted by Covid-19. During the financial year ended 31 December 2020 the Society had applied forbearance measures to over 800 cases with mortgage balances totalling £117m with almost all of these arranged in the period March to June 2020 and related to the Covid-19 situation. At the end of the initial arrangement only 2% of these of borrowers continue to require support.

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 £155.4m at 31 December 2020 (2019: £101.4m) on deposit with the Bank of England to ensure ready access to liquid funds should the need arise.

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

25. Financial instruments (continued)

31 December 2020	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	751,469	21,291	30,104	51,245	74,378	-	928,487
Amounts owed to credit institutions	-	33	30,038	75,052	27,011	-	132,134
Amounts owed to other customers	16,859	-	-	-	-	-	16,859
Derivative financial instruments	-	580	576	1,153	1,990	-	4,299
Total liabilities	**768,328**	**21,904**	**60,718**	**127,450**	**103,379**	**-**	**1,081,779**

31 December 2019	Repayable on demand £000's	Not more than three months £000's	More than three months but not more than six months £000's	More than six months but less than one year £000's	More than one year but not more than five years £000's	More than five years £000's	Total £000's
Shares	720,018	22,762	21,507	26,943	85,485	-	876,715
Amounts owed to credit institutions	-	250	247	499	133,003	-	133,999
Amounts owed to other customers	16,153	-	-	-	-	-	16,153
Derivative financial instruments	-	189	177	354	706	-	1,426
Total liabilities	**736,171**	**23,201**	**21,931**	**27,796**	**219,194**	**-**	**1,028,293**

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 2.0% of capital (£1.4m) on a net present value basis and £0.1m on profit at 31 December 2020 (2019: 3.0%, £2.0m, £0.2m). In addition, interest rate basis risk is controlled by a Board approved risk appetite. Both are reported to the monthly ALCO meeting and to the Board.

Derivative financial instruments

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

	2020 Assets £000's	2020 Liabilities £000's	2019 Assets £000's	2019 Liabilities £000's
Instrument type:				
Interest rate swaps	25	4,017	276	1,326
Total	**25**	**4,017**	**276**	**1,326**

In September 2019, the IASB issued amendments to IAS 39, IFRS 9 and IFRS 7 Financial Instruments: Disclosures to address uncertainties related to the market wide reform of interbank offered rates (LIBOR reform). The amendments provide targeted relief for financial instruments qualifying for hedge accounting under IAS 39 or IFRS 9. They are effective for periods beginning on or after 1 January 2020.

In August 2020, the IASB issued Interest Rate Benchmark Reform - Phase 2, with amendments that address issues that might affect financial reporting after the reform of an interest rate benchmark, including its replacement with alternative benchmark rates. The amendments are effective for annual periods beginning on or after 1 January 2021, with earlier application permitted.

Under the reforms, LIBOR will not be sustained after the end of 2021. Historically, the variable rate paid or received on interest rate swap contracts used by the Group has been 3 month LIBOR. The Society has therefore switched to the use of Sterling Overnight Index Average ("SONIA") as the reference rate for the variable leg of all new swaps hedging mortgage products offered for sale from September 2021. The transition of the remaining LIBOR swaps will be achieved through the attrition of existing LIBOR swaps that mature before the end of 2021 and either the replacement of existing LIBOR swaps that extend beyond 2021 or the application of the ISDA Fall Back Protocol to these swaps.

The following table sets out the Society's exposure to LIBOR interest rate swaps at 31 December 2020:

	2020 £000's	2019 £000's
Notional value of LIBOR swaps	323,740	394,182
Notional value of SONIA swaps	121,965	-
	445,705	**394,182**
Notional value of LIBOR swaps which mature before the end of 2021	102,171	198,993
Notional value of LIBOR swaps which mature after 2021	221,569	195,189
	323,740	**394,182**

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 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 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.

	2020 £000's	2019 £000's
Common Equity Tier 1 (CET1)		
General and other capital reserves	67,497	66,560
Prudent valuation adjustment (unaudited)	(110)	(126)
Intangible assets	(766)	(58)
	66,621	**66,376**
Tier 2 capital		
Collective provision	659	393
Total regulatory capital	**67,280**	**66,769**
Risk Weighted Assets (unaudited)	373,223	380,688
Capital ratios (unaudited)		
CET1 ratio	17.9%	17.4%
Total capital ratio	18.0%	17.5%
Leverage ratio	5.7%	6.0%

26. Retirement benefit obligations

The Society operates a defined benefit pension scheme in the UK. This is a separate trustee administered fund holding the pension scheme assets to meet long term pension liabilities. A full actuarial valuation was carried out at 24 April 2018 and this has been updated to 31 December 2020 by a qualified actuary, independent of the scheme's sponsoring employer. The major assumptions used by the actuary are shown below.

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

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

	2020 £000's	2019 £000's	2018 £000's
Fair value of scheme assets	44,002	39,308	38,408
Present value of scheme liabilities	(44,876)	(40,219)	(39,735)
Deficit in scheme	**(874)**	**(911)**	**(1,327)**

Reconciliation of opening and closing balances of the defined benefit obligation

	2020 £000's	2019 £000's
Defined benefit obligation at start of year	40,219	39,735
Current service cost	37	44
Interest expense	827	1,006
Actuarial losses	5,477	7,144
Benefits paid and expenses	(1,691)	(7,710)
Losses due to benefit changes	7	-
Defined benefit obligation at end of year	**44,876**	**40,219**

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

	2020 £000's	2019 £000's
Fair value of scheme assets at start of year	39,308	38,408
Interest income	808	994
Actuarial gains	5,540	5,739
Contributions by Society	37	1,877
Benefits paid	(1,691)	(7,710)
Scheme assets at end of year	**44,002**	**39,308**

The actual return on the plan assets over the year ended 31 December 2020 was £6,185k (2019: £6,733k).

Total defined benefit costs recognised in the Income Statement

	2020 £000's	2019 £000's
Current service cost	37	44
Net interest cost	19	12
Losses due to benefit changes	7	-
Defined benefit cost recognised in profit and loss account	**63**	**56**

Defined benefit costs recognised in Other Comprehensive Income

	2020 £000's	2019 £000's
Return on plan assets (excluding amounts included in net interest cost) – gain	5,540	5,739
Experience gains/(loss) arising on the plan liabilities	141	(1,491)
Effects of changes in the demographic and financial assumptions underlying the present value of the plan liabilities: (loss)	(5,618)	(5,653)
Total amount recognised in Other Comprehensive Income – gain/(loss)	**63**	**(1,405)**

Assets	2020 £000's	2019 £000's	2018 £000's
Multi asset credit funds	1,863	1,635	2,001
Corporate bonds	2,541	2,468	2,340
Diversified growth funds	9,168	8,291	9,457
Liability driven investment funds	11,377	9,253	8,685
Insured pensioners	19,031	17,510	15,762
Other	22	151	163
Total	**44,002**	**39,308**	**38,408**

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.

Assumptions	2020 % per annum	2019 % per annum	2018 % per annum
Rate of discount	1.40	2.10	2.80
Retail Price Index inflation	3.00	3.00	3.45
Consumer Price Index inflation	2.50	2.20	2.45
Salary growth	4.00	4.00	4.45
Allowance for revaluation of deferred pensions of CPI or 5% p.a. if less	2.50	2.20	2.45
Allowance for pension payment increases of RPI or 5% p.a. if less	2.90	3.00	3.45
Allowance for pension in payment increases of RPI or 2.5% p.a. if less	2.05	2.20	2.20
Allowance for commutation of pension for cash at retirement	80% of Post A Day on current factors	80% of Post A Day on current factors	80% of Post A Day on current factors

The UK Government and the UK Statistics Authority (UKSA) ran a joint consultation during 2020 on the proposal to amend the flawed RPI index by aligning it with CPIH at a future date between 2025 and 2030. The government and the UKSA published their consultation response on 25 November 2020, confirming the UKSA's intention to effect the proposed change from February 2030. The Society has proposed that RPI inflation continues to be set in line with market break even expectations less an inflation risk premium. The inflation risk premium has been set at 0.2% which is in line with the prior year. For CPI, the Society has proposed reducing the long term gap between RPI and CPI by 30 basis points (from 0.8% to 0.5%) compared with the prior year methodology to reflect increased clarity on the future of the RPI index. This reflects an RPI-CPI wedge of 100bps pre-2030 and zero post-2030. The impact of the change in the best estimate RPI-CPI wedge applied when setting the CPI assumption is expected to be a c. £231k increase in the Defined Benefit Obligation.

The mortality assumptions adopted at 31 December 2020 imply the following life expectancies:

Male retiring at age 60 in 2020	26.5 years (2019: 26.2 years)
Female retiring at age 60 in 2020	28.4 years (2019: 28.2 years)
Male at age 60 in 2040	27.7 years (2019: 27.3 years)
Female retiring at age 60 in 2040	29.6 years (2019: 29.5 years)

The best estimate of deficit contributions to be paid by the Society to the scheme for the period commencing 1 January 2021 is £nil. The Society will however pay the insurance premium for death in service benefits.

27. Cash and cash equivalents

	Group 2020 £000's	Group 2019 £000's	Society 2020 £000's	Society 2019 £000's
Cash in hand and balances at Bank of England	156,845	102,588	156,845	102,588
Loans and advances to credit institutions	9,292	9,915	9,236	9,774
At 31 December	**166,137**	**112,503**	**166,081**	**112,362**

28. General reserve

	Group 2020 £000's	Group 2019 £000's	Society 2020 £000's	Society 2019 £000's
At 1 January	**65,508**	**64,725**	**65,438**	**64,638**
Profit for the financial year	891	1,949	879	1,966
Net (loss) recognised directly in Other Comprehensive Income	(15)	(1,166)	(15)	(1,166)
At 31 December	**66,384**	**65,508**	**66,302**	**65,438**

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

29. Revaluation reserve

	Group 2020 £000's	Group 2019 £000's	Society 2020 £000's	Society 2019 £000's
At 1 January	1,020	1,017	1,020	1,017
Tax on revaluation reserve from changes in land and buildings	(8)	3	(8)	3
At 31 December	1,012	1,020	1,012	1,020

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

30. Available for Sale reserve

	Group 2020 £000's	Group 2019 £000's	Society 2020 £000's	Society 2019 £000's
At 1 January	**32**	**(78)**	**32**	**(78)**
Net gains from changes in fair value	66	107	66	107
Deferred tax on available for sale reserve	3	3	3	3
At 31 December	**101**	**32**	**101**	**32**

31. Country by Country Reporting

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

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

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

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

31. Country by Country Reporting (continued)

Total turnover, profit before tax and average number of employees
Total turnover for the year ended 31 December 2020 was £11,862k (2019: £13,112k). 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 2020 was £925k (2019: £2,374k). Corporation tax paid during the year ended 31 December 2020 was £28k (2019: £121k).

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 2020 was 172 (2019: 172).

Public subsidies received
The Society received no public subsidies in the year ended 31 December 2020 (2019: nil).

Annual Business Statement

Annual Business Statement for the year ended 31 December 2020

	2020 %	2019 %	Statutory limit %
Statutory percentages			
Lending limit	0.50	0.23	25.0
Funding limit	13.9	14.5	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.

	2020 %	2019 %
Other percentages		
Gross capital as a percentage of shares and borrowings	6.28	6.52
Free capital as a percentage of shares and borrowings	6.05	6.34
Liquid assets as a percentage of shares and borrowings	26.05	23.45
Profit on ordinary activities after taxation as a percentage of year end total assets	0.08	0.18
Management expenses as a percentage of mean total assets	0.92	0.97

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

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

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

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

Mean total assets is the average of the 2019 and 2020 total assets. Management expenses represent the aggregate of administrative expenses and depreciation.

Information relating to directors as at 31 December 2020

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

* Colin Kersley left the Society with effect from 31/03/2020.

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