ANNUAL REPORT & ACCOUNTS 2021

Leek United
BUILDING SOCIETY

IN THIS REPORT

Authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and Prudential Regulation Authority. Registered No: 100014

Established 1863

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OUR PERFORMANCE HIGHLIGHTS

Total Assets
£1.18 billion

Regulatory Capital
£70.2 million

95%
Customer Satisfaction

Total Capital Ratio
18.1%

Over £60k
donated to Charities & Community causes

Profit before Tax
£3.6 million

Balance sheet	2021	2020
Total Assets	£1.18bn	£1.15bn
Mortgage Balances	£869m	£864m
Shares and Deposits	£990m	£942m
Operating performance		
Profit Before Tax	£3.6m	£0.9m
Underlying Profit before Tax	£2.5m	£1.2m
Net Interest Margin	1.12%	1.03%
Management Expenses Ratio	0.94%	0.92%
Mortgage Arrears	0.21%	0.20%
Financial strength		
Regulatory Capital	£70.2m	£67.3m
Total Capital Ratio	18.1%	18.0%
Liquid Assets	£298m	£280m

Explanations for the above terms can be found in the Strategic Report on page 14.

RACHEL COURT

CHAIR

CHAIR'S STATEMENT

I am pleased to introduce the Society's Annual Report and Accounts for 2021, a year of which I'm immensely proud. Not only did we continue to look after our colleagues and members in exceptionally challenging conditions; but we simultaneously delivered a positive financial performance and progressed our ambitious strategic investment programme which will underpin our success and sustainability for many years to come. This was a year when our positive culture and values came to the fore when they were needed most.

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.

Economic and Market Conditions

The UK economy performed significantly better than anticipated during the year, with the housing market remaining strong and unemployment lower than had been feared. The success of the Covid-19 vaccination programme supported a sharp recovery in GDP and helped position the Bank of England to begin to cautiously raise interest rates from their historic low.

It is particularly encouraging to report that following the withdrawal of mortgage payment holidays during the second half of the year, those borrowers on our books who needed this support have almost all returned to making their standard mortgage repayments.

The housing market was underpinned during the year by support from the government in the form of the temporary

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reduction in stamp duty for certain property purchases. Demand for properties continued to exceed supply, particularly in suburban and rural areas as purchasers placed greater value on outdoor space and properties that better supported working remotely. It is good to report that both our gross and net mortgage lending showed an improvement from the levels achieved in the prior year.

The savings market was also stronger than anticipated, helping us to achieve healthy inflows of deposits throughout the year. This, together with the Bank of England's Term Funding Scheme (TFSME) which provides access to low cost funding, resulted in our year end liquidity position being higher than planned. This surplus liquidity position is expected to reduce over the coming years as we use it to fund our planned mortgage book growth.

The economic prospects for the year ahead remain difficult to predict. It is unclear how long inflation will remain at its current high levels; but there is expected to be considerable pressure on living costs, and there remains the risk that this, combined with any increase in unemployment, could lead to mortgage repayment difficulties as well as to lower housing market activity and prices. All of that said, I am more confident than ever that your Society remains robustly positioned to deal with any headwinds we may face.

Our Board

A number of changes to our Board have taken place during the year or are planned for early in 2022.

Richard Goddard, Non-Executive Director and Chair of the Society's Board Risk Committee, will step down from the Board in March 2022 having served our members for ten years. Richard has played an important part in the embedding of the Society's strong Risk Management culture, and in recent times has served as Senior Independent Director. He will be very greatly missed and we wish him all the very best for the future.

As part of our succession planning in anticipation of Richard's intended retirement, the Board initiated a rigorous recruitment

process in early 2021 to identify a new Non-Executive Director to step into Richard's role. Dave Cheeseman was selected and subsequently co-opted to the Board in April. He brings extensive relevant financial services experience and has served as a member of both the Board Risk Committee and Board Audit Committee since joining the Society. He will take over as Chair of the Risk Committee from April 2022 onwards. The role of Senior Independent Director, meanwhile, has been given to Jane Kimberlin, who has been a Non-Executive Director with the Society for over five years and serves on the Risk, Remuneration and Nominations Committees.

To further bolster the risk management capabilities of the Board, Chief Risk Officer, Andrew Davies, was co-opted onto the Board as an Executive Director in September, increasing the number of Executive Directors on the Board to four.

To provide additional Executive support, the Society is currently in the process of appointing a new role of Deputy Chief Executive, and it is anticipated that the successful candidate will join the Society during the first quarter of 2022 and will be co-opted to the Board thereafter.

Finally, in February 2022, our Operations Director, John Kelly, will step down from the Board to pursue other interests, having largely concluded the successful change management and digital program initiatives in which the Society has invested over the last few years. John has been a keen supporter of mutuality and has championed our Members' interests at every opportunity throughout his five years with the Society, and we wish him every success with his future endeavours.

Thank You

In conclusion, I'd like to record my thanks to my fellow Board members, the broader management team and to all colleagues across the Society for their continued dedication, enthusiasm and commitment in ensuring Leek United Building Society remains strong and successful. In challenging times, they have once again risen to that challenge impeccably.

Most of all, I would like to say thank you to you, our members, for your support and loyalty. I firmly believe that together we can look to the future with renewed optimism. Meanwhile, I hope you will remain safe and healthy throughout the year ahead.

Rachel Court
Chair
25 February 2022

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ANDREW HEALY

CHIEF EXECUTIVE

CHIEF EXECUTIVE'S REVIEW

Reflecting on 2021, I am extremely proud that the Society not only found a safe path through another incredibly challenging year but that we continued to strengthen our financial and operational platform for the future.

Given the prevailing Covid-19 backdrop, the progress made is extremely satisfying and reflects extraordinarily well on our entire team of staff who have had to dig deep to provide members with our usual high standard of service. I simply cannot praise their efforts enough. We have together finished 2021 with improved financial results and a stronger capital base while at the same time we have significantly advanced our investment in technology, capability and infrastructure which, as our Chair has said, will support our sustainability over the generations to come.

Resilient financial performance

The Society recorded a pre-tax profit of £3.6m, a significant increase from £0.9m last year and higher than we had projected. As a mutual organisation, 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 improvement in performance was due to a number of factors including lower provision for credit losses in our mortgage portfolio, better net interest margin from new mortgage business and the careful management of our pricing more broadly while ensuring we offered competitive, value for money products at all times. In addition to these factors, a gain of £1.1m was reported from derivatives that are designed to hedge the financial risk associated with fixed rate mortgage lending. When measured on an underlying basis, which excludes gains and losses from such derivatives, the pre-tax profit was £2.5m, an increase from £1.2m in 2020. Whilst our cost base increased against the prior year, this reflects the aforementioned continued investment in our business to improve our sustainability and efficiency for the future.

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

Mortgages

Despite the impact of Covid-19 on the wider economy, the housing market remained remarkably resilient during the year. The stamp duty holiday for property purchases up to £500k clearly helped, as did the continued low interest rate environment. Furthermore, the pandemic has in some respects led people to reassess their lives and how and where they wish to live. The opportunity for increased home working has clearly also been a factor.

The Society's gross mortgage lending increased to £174m (2020 £161m) which contributed to our total mortgage book of £869m (2020 £864m). Our lending proposition 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. We also extensively supported First Time Buyers to take their first step on the housing ladder. I am pleased to report that our mortgage book continues to be of high quality with below industry average arrears levels. As I reported last year, just over 800 of our borrowers availed of payment deferrals as a result of the impact of Covid-19 on their finances, but it is really encouraging to advise that almost all of these have been able to resume normal payments following their deferral period.

A key component of our lending strategy is that we do not

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"Our investment programme continued to gather pace with significant progress made on delivering our digital ambitions which involve providing secure, member-centric online savings and mortgage solutions for our customers and intermediary partners."

use automatic credit scoring to make our mortgage decisions. In line with our commitment to personal, flexible service that meets the needs of members, all 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 contributes to our high customer satisfaction ratings. 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.

Our commitment, competitiveness and high standards were recognised again during 2021. For the fourth consecutive year, the Society was awarded Best Variable Rate Mortgage Lender at the national Personal Finance Awards.

Savings

The savings market also remained strong during the year, with many savers choosing to increase their reserves and to reduce spending given the uncertainty created by the pandemic. The low interest rate environment possibly also led to less movement between savings providers. The easing of Covid-19 restrictions saw people saving less in the second half of the year and returning to spending on services such as restaurants, hotels and travel. The national savings ratio fell to 8.6% in Q3 2021, the lowest since the pandemic began, and down from a peak of 23.7% at the height of the pandemic in Q2 2020.

The Society continues to be very strongly funded by our members through a broad range of savings products, with member balances growing by £48m during the year. As a regional building society, we are unable to shape market rates but we at all times seek to provide fair and sustainable rates to our loyal customer base and we continue to offer preferential loyalty products for existing members. With the Bank of England beginning to cautiously raise interest rates from their historic low, we are committed to ensuring we consistently provide fairly-priced products to our members.

Leek Town Mayor, Lyn Swindlehurst and Town Crier, Bill Lomas with our CEO, Andrew Healy at the official opening of our refurbished Leek Derby Street Branch.

Investment Programme – investing in the Society's future

In 2021, our investment programme continued to gather pace with significant progress made on delivering our digital ambitions which involve providing secure, member-centric online savings and mortgage solutions for our customers and intermediary partners.

We anticipate launching our online savings proposition in the first half of 2022, providing members with the ability to manage their savings account through their channel of choice. We are also working towards positioning our mortgage customers to manage their accounts digitally, including making their product choices online when their current product expires. We will furthermore use system integration and automation within the mortgage application process to provide a digital interface to the systems that brokers use to select and apply for our mortgages. In addition, we plan to provide the digital links to our general insurance and financial advice partners from our website to their customer-facing systems which will help members to obtain holistic financial advice online should they wish to.

During the year, we invested in a full refurbishment of our flagship branch on Leek Derby Street where we are currently piloting a new branch operating model. This involves a move away from focusing primarily on transaction processing to more directly meeting the financial needs of members through improved guidance and support. We will extend this model to other branches on a phased and prioritised basis moving forward. The Board has approved further investment in our branch network in 2022, beginning with the refurbishment of our branches in Uttoxeter and Cheadle.

Our Service

We take great pride in the Society in our unflinching focus on our members. The pandemic has made it particularly challenging to deliver our normal high level of service, not least as we have had to reduce opening hours in our branches in order to protect our staff. However, we have adapted our procedures and processes and our branch and central teams have worked tirelessly to support our members.

We continued to dedicate the first hour of each day in our branches to supporting elderly and vulnerable customers to conduct their business safely. We also provided enhanced 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 with members during 2021 because of the pandemic, we continued to obtain extremely valuable feedback through customer surveys and online member engagement events. We are extremely proud that 95% of members stated they were satisfied with their overall experience of the Society.

"I am delighted to be able to confirm that we have recently received approval from the Charity Commission to establish a Charitable Foundation which will be formally launched during the first half of 2022. We will use this to provide a focus for our charitable and community activities within our heartland counties, helping to fulfil our social purpose."

Our People & Culture

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

A real strength of our Society is the extent to which business decisions are examined not only through the lens of our members but also from the perspective of our people and our values. This has helped to engender strong, well-evidenced progress in the culture of the Society and the morale of our staff.

Following on from the national Chartered Institute of Personnel and Development (CIPD) award won by the Society in 2020 which recognised the strong culture and unflinching commitment to our people agenda, we were honoured to be a double finalist in the 2021 CIPD awards. The Society's culture was also independently audited during 2021 and we were delighted to receive the highest possible grading which noted our immense focus on the health and wellbeing of our employees. Furthermore, despite the extraordinary conditions within the employment market, our impressive culture has supported an enviable level of staff retention and has also helped the recruitment of a number of new, high calibre people. It is a source of great pride that 9 out of 10 colleagues see the Society as a great place to work and would recommend us to others.

In addition to the development of our culture, great advances were also made with our employee proposition during the year, evidencing our ongoing commitment to staff welfare and the deep support of our people. Alongside enhancing employer pension contributions to encourage more staff to save for their retirement, all staff are now able to avail of comprehensive Bupa health screenings which are funded by the Society, helping them to prioritise their physical and mental wellbeing. We also introduced improved salary, maternity and paternity pay entitlements, further enhancing our overall employee proposition and making us, we believe, one of the most attractive organisations to work for in our sector.

Diversity and inclusion has continued to be an important area of focus. The Society is a signatory to HM Treasury's Women in Finance Charter and during 2021, we took a number of steps to advance our organisation to better reflect the communities that we serve. As reported in the Board Nominations Committee Report, we are determined to develop an appropriately diverse and inclusive workforce and a number of stretching objectives for 2022 have been set in this regard.

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

Community

A key component of the Society's purpose is to be socially responsible and to make a positive difference to the local community. Despite the challenges of an unprecedented year, we continued to wonderfully support local community groups and charities and in total, more than £60,000 was raised for such causes.

Highlights for the year included a sponsored walk taking in the four heartland counties in which the Society's headquarters and our 12 branches are based. The 50 mile route saw colleagues together with their families and friends come together to raise significant funds for the University Hospitals of North Midlands Charity. We also partnered with AEDdonate to install multiple Automated External Defibrillators in local communities across our heartlands to offer potentially life-saving support to people who may suffer a cardiac arrest.

95% of members stated they were satisfied with their overall experience of the Society.

The Society's members continued to play a big part in our charitable activities. 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. Such accounts enabled us to donate £42,000 during the year to a range of worthy causes.

I am delighted to be able to confirm that we have recently received approval from the Charity Commission to establish a Charitable Foundation which will be formally launched during

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the first half of 2022. We will use this to provide a focus for our charitable and community activities within our heartland counties, helping to fulfil our social purpose.

The Environment

A further key measure of the extent to which we are socially responsible is of course our commitment to the environment.

We wish to actively manage our carbon footprint and to ensure we deliver our strategic ambitions in a socially responsible manner. We have undertaken an environmental audit to identify areas where we can make positive change to the impact of our operations on the environment. We already undertake certain activities which support this ambition, for example we employ a specialist waste management company to ensure the highest possible proportion of our waste is recycled and a utilities company to maximise the amount of our energy that comes from renewable sources. In addition, we have deployed LED lighting in our branches and head office and we have installed new printers in our offices with the aim of improving efficiency and reducing the volume and type of printing activity undertaken.

The Society's Finance Director has established an environmental working group within the Society to enhance our environmental efforts. This group has commissioned a base line assessment of the Society's carbon footprint, the results of which are expected in the first quarter of 2022. This assessment will be used to develop a roadmap and appropriate timeframe for a carbon zero position to be achieved. Whilst carbon credits could be acquired to achieve this position, it is felt that a more responsible course of action would be for the Society to minimise the environmental impact of its activities first and then look to offset the residual position.

We are investing in the refurbishment of our Customer Service Centre in Leek, with the aim of modernising our working environment. In undertaking this investment, we will take the opportunity to implement a range of features including cycle racks and EV charging points in our car park with the aim of reducing the impact of colleagues commuting to work.

We also recognise the risks and challenges posed by climate change. A detailed update in this regard is included within our Strategic Report.

The Future

I have addressed above the very significant activities undertaken over the course of 2021 as our Society worked relentlessly to deliver our business ambitions and to make a positive difference to the lives of our members, colleagues and the local community. These exceptional efforts will undoubtedly support the Society's long-term sustainability following the pandemic.

I am particularly proud that the past year has underlined the strength of our team at all levels, a team who consistently lived our strong values and who delivered first class service to our members whilst maintaining the highest standards of corporate governance, compliance and risk management. My sincere thanks to all such colleagues for your commitment, resilience and fortitude in the most testing of times.

To our loyal members, please remember that this is your Society. No matter what the future may hold in store, we will continue to be here for you and we will constantly seek to anticipate and meet your needs. I dearly hope that the remainder of 2022 will be healthy and positive for you and your loved ones.

Whilst the economic and business outlook today is more positive than twelve months ago, there remain many challenges ahead. 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 159-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
25 February 2022

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OUR COMMUNITY SUPPORT

Former England cricket captain, Nasser Hussain and Bob Gregory, Treasurer, Ashcombe Park CC make a presentation of thanks to our CEO, Andrew Healy for the Society's support of the club.

We continued to proudly support Stoke City FC during 2021.

Inspired by footballer Christian Eriksen, we launched a programme to install life-saving defibrillators across the Midlands.

Our staff raised over £6,800 for the University Hospitals of North Midlands Charity.

We again sponsored the Ginger & Spice Festival in Market Drayton.

We were proud to raise more than £30,000 for the County Air Ambulance Trust.

Our funds helped to provide new facilities for school children in Cheadle.

Our staff took part in the Leek United Fun Run in Market Drayton.

We continued our partnership with Leek Town FC as they developed their super new 3G pitch.

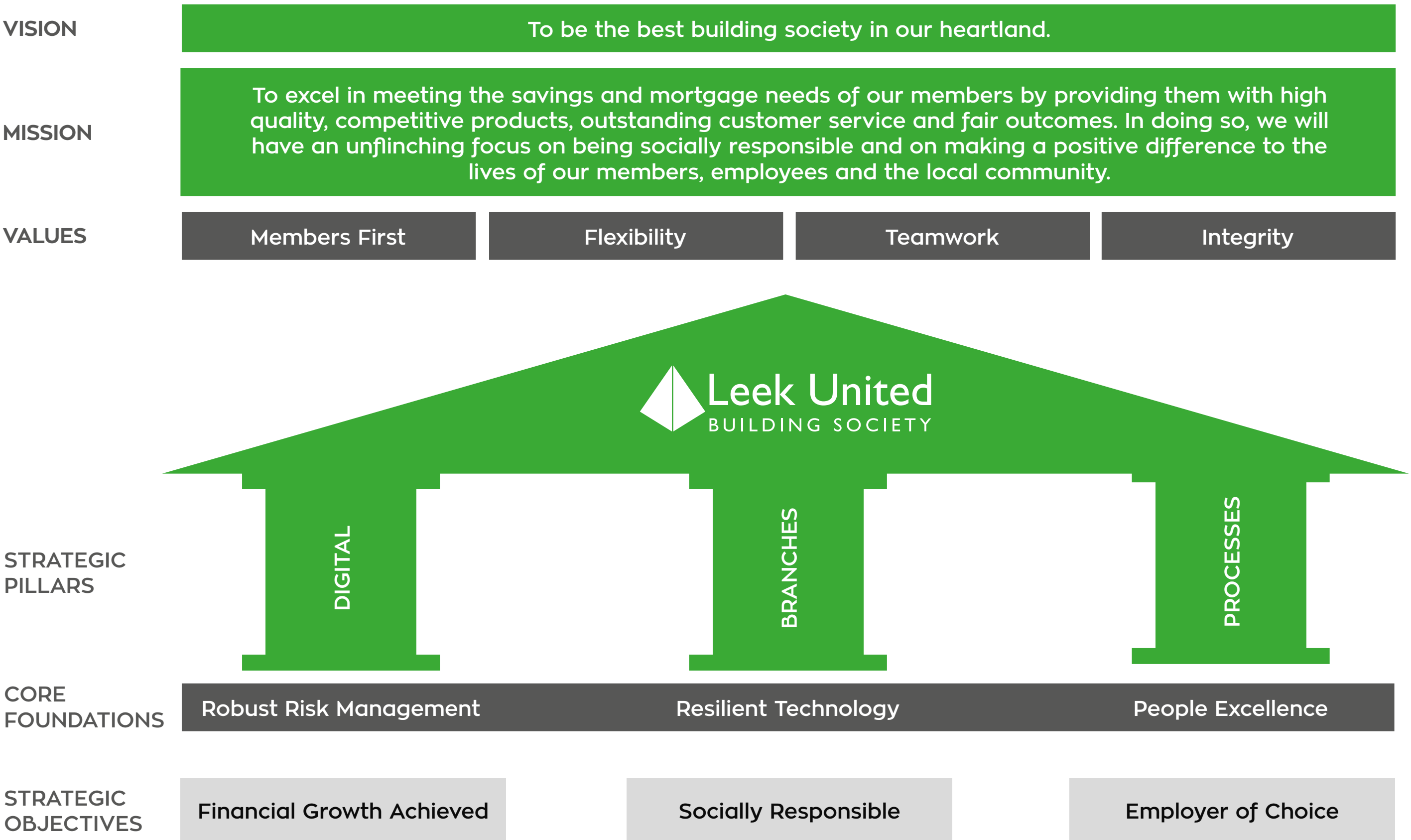
We supported our staff to volunteer for local causes.

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 its strong capital position and to continue to invest in its capability and infrastructure.

The Society's strategy is summarised pictorially below.



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.

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.

Integrity

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

Key Strategic Objectives

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

The Society has conducted extensive research into what current and potentially new customers want from their 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. To meet these expectations, the Society's ongoing investment programme will deliver step improvements in the organisation's systems, processes and branch network, including a significant digital agenda which involves providing online solutions for our members and intermediary partners. As addressed in the Chief Executive's report, we expect to introduce an online digital savings proposition for our savings customers during 2022. We will also continue to invest in refurbishing our branch network, improving the environment for members when they choose to visit.

Key Performance Indicators

The Society delivered a resilient financial performance in 2021 despite the continuation of challenging market conditions. The Board uses key performance indicators (KPIs) to monitor the development and performance of the Society and a number of these are included below together with explanatory comment in order to help provide a good understanding of the Society's performance and status.

		2021	2020
Balance sheet	Total Assets	£1.18bn	£1.15bn
	Mortgage Balances	£869m	£864m
	Shares and Deposits	£990m	£942m
Operating performance	Profit before Tax	£3.6m	£0.9m
	Underlying Profit before Tax	£2.5m	£1.2m
	Net Interest Margin	1.12%	1.03%
	Management Expenses Ratio	0.94%	0.92%
	Mortgage Arrears	0.21%	0.20%
Financial strength	Regulatory Capital	£70.2m	£67.3m
	Total Capital Ratio	18.1%	18.0%
	Liquid Assets	£298m	£280m

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.
Profit before Tax	The surplus before tax achieved from trading activity during the financial year.
Underlying Profit Before Tax	The surplus before tax achieved from trading activity during the financial year excluding fair value movements resulting from hedging activity. The Society uses derivative instruments which are held to maturity to hedge interest rate risk from fixed rate mortgages. Any gains or losses arising from fair value movements reflect timing differences which do not affect the underlying cash flows. As a result, they are excluded from the Society's underlying profit or loss.
Management Expenses Ratio	The aggregate of administrative expenses and depreciation as a percentage of the average total assets in the year.
Net Interest Margin	The net interest receivable by the Society as a percentage of the average total assets in the year.
Mortgage Arrears	The number of mortgage accounts which are in arrears by the equivalent of three or more monthly repayments.
Regulatory Capital	The Society's reserves and collective provisions net of any required deductions for regulatory purposes e.g. intangible assets. Retained profits are the highest quality of capital.
Total Capital Ratio	Regulatory capital expressed as a percentage of the Society's risk weighted assets (RWAs).
Liquid Assets	The total cash in hand, loans and advances to credit institutions and debt securities.

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

Business Review

Total assets

The Society's assets continued to grow during 2021, reflecting our strategic objective of achieving sustained growth to protect against rising costs, margin compression and an expected rise in long term funding costs. Total assets grew by 3%, from £1,148m at the end of 2020 to £1,179m at the end of 2021. Mortgage book growth was funded by increased levels of customer deposits.

Mortgage balances

Total mortgage balances at end 2021 stood at £869m (2020: £864m) net of provisions, interest rate and fair value adjustments. Net lending of £14m was achieved, representing an increase on the prior year.

New lending amounted to £174m in 2021 (2020: £161m) reflecting a good performance that was supported by the temporary stamp duty concessionary period which underpinned the UK housing market during much of the year. Mortgage redemptions were £121m (2020: £111m) with the increase significantly influenced by customers with legacy fixed rate mortgage deals taking the opportunity to re-mortgage to lower rates.

"Total assets grew by 3%, from £1,148m at the end of 2020 to £1,179m at the end of 2021. Mortgage book growth was funded by increased levels of customer deposits."

Shares and deposits

Savings balance growth of £48m was achieved during the year, with total balances at the end of 2021 of £990m (2020: £942m).

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 and we always seek to ensure that our savings products provide consistent, fair returns to members.

On 11 March 2020, the Bank of England launched the Term Funding Scheme Small and Medium-sized Enterprises (TFSME) which provided four-year funding at interest rates at, or very close to, Bank base rate. The TFSME replaced the previous Term Funding Scheme (TFS) under which the Society had £132m of funding outstanding at 31 December 2020. We successfully applied to join the TFSME and in doing so drew down on new funding totalling £109m whilst repaying the remaining £132m from the TFS scheme. This funding enables us to offer more competitively priced mortgages. We have a robust funding plan in place to ensure the full repayment of TFSME borrowings in 2025 which will be achieved primarily through increases in member savings balances.

Net interest margin

The Society's net interest margin increased during the year to 1.12% (2020: 1.03%) reflecting the careful management of pricing across our product range and the repayment of £33m of funding under the TFS scheme.

The Bank of England has begun to cautiously raise interest rates from their historic low which will improve the yield generated on our liquidity portfolio with a consequential benefit to net interest margin. As changes in base rate arise, we will at all times take a balanced view of the needs of borrowing and saving members so that we can continue to offer competitively priced products at all times.

Management expenses ratio (%)

The management expense ratio is a very simple measure of efficiency. It increased slightly in 2021 to 0.94% (2020: 0.92%), with total costs increasing by £0.5m (5%) primarily reflecting our investment programme's expenditure on technology and branch infrastructure. The Society is committed to achieving cost efficiency 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 interest of our members.

Mortgage arrears

The Society is committed to responsible lending. Our mortgage book remains of high quality, as evidenced by the low level of arrears. The number of mortgages that are in arrears by the equivalent of three or more monthly repayments totalled 15 accounts at 31 December 2021, representing just 0.21% of mortgage accounts (2020: 16 accounts, 0.20%). There were 3 cases in arrears of 12 months or more at 31 December 2021 (2020: no cases). In certain circumstances, we may offer forbearance measures to support customers who are experiencing financial difficulty to help them to 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. As in 2020, just one property was taken into possession during the year.

The Society has assisted and supported its members who have been financially impacted by the Covid-19 pandemic. This support included offering payment deferrals to borrowers experiencing or reasonably expected to experience payment difficulties, unless it was considered by the Society that another option was in the borrower's best interest. It is pleasing that despite more than 800 borrowing members requesting such a payment deferral, all but a handful have successfully returned to making their normal mortgage repayments.

> **Savings balance growth of £48m was achieved during the year, with total balances at the end of 2021 of £990m (2020: £942m). 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 and we always seek to ensure that our savings products provide consistent, fair returns to members."**

In 2020, a post model adjustment of £0.4m was added to the Society's impairment allowance to reflect the risk of potential losses within our mortgage portfolio. Specific consideration has been given to the continuation of this overlay as we have not experienced any defaults from those customers who received support from Covid-19 related payment holidays or as a direct result of the removal of government Covid-19 support measures. Although the £0.4m overlay was not retained, a £0.2m provision against losses which the Society believes have been incurred but not yet reported has been made due to the wider macro-economic impact of the Covid-19 pandemic remaining highly uncertain, particularly given the potential for new variants of the virus to emerge and the fact that household finances are being stretched by increases in inflation and energy prices.

During 2021, consideration was also given to the Society's exposure to security taken with potentially dangerous cladding to identify the relatively small cohort of impacted properties within our portfolio and to assess the potential risk. We have estimated the degree to which the value of such properties has been negatively impacted and the extent to which the negative impact on their valuation will result in a higher propensity for customers to default.

Profit before tax (£m)

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 2021, maintaining strong service levels and progressing our investment programme whilst continuing to grow both our mortgage and savings books. The full year pre-tax profit in 2021 was £3.6m (2020: £0.9m). When measured on an underlying pre-tax basis, which excludes the volatility from hedging fair value movements, profit was £2.5m (2020: £1.2m). The improvement in performance compared to the prior year has arisen due to a number of factors including the aforementioned lower provision for credit losses in our mortgage portfolio and improved net interest margin.

Capital Strength

The level of profit generated in 2021 has ensured that the Society's capital position remains robust, with reserves at 31 December 2021 of £71.9m (2020: £67.5m). This outturn predominantly reflects the impact of our profit for the year.

The ratio of gross capital as a percentage of total shares and borrowings was 6.5% at 31 December 2021 (2020: 6.3%) and the ratio of free capital as a percentage of total shares and borrowings was 6.2% (2020: 6.0%). 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% (2020: 17.9%) and the leverage ratio stood at 5.6% (2020: 5.7%). Our strong capital position provides confidence that the Society can continue to grow and invest in the manner projected within our strategic plan.

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

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

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

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

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

Capital disclosures	2021	2020
Total Reserves	£71.9m	£67.5m
Prudent Valuation adjustment	(£0.1m)	(£0.1m)
Intangible Assets	(£1.3m)	(£0.8m)
Pension asset	(£0.9m)	-
Tier 1 Capital	£69.6m	£66.6m
Tier 2 Capital – collective impairment allowance	£0.6m	£0.7m
Capital Resources	£70.2m	£67.3m
Risk Weighted Assets	£388.2m	£373.2m
Pillar 1 and 2A requirement	£37.5m	£36.3m
Core Tier 1 Ratio	17.9%	17.9%
Assets for leverage purposes	£1,192.9m	£1,158.8m
Leverage Ratio	5.6%	5.7%

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

Liquid assets

The Society continues to maintain strong and readily available levels of liquidity. Throughout the year, such levels were well in excess of regulatory requirements. As at the year end, total liquid assets stood at £298m (2020: £280m). The amount of liquidity repayable on demand is £174m (2020: £166m).

A key measure of liquidity introduced under the Capital Requirements Directive is the Liquidity Coverage Ratio (LCR). At 31 December 2021, the Society reported an LCR of 285% (2020: 454%), significantly in excess of minimum regulatory requirements.

"The level of profit generated in 2021 has ensured that the Society's capital position remains robust, with reserves at 31 December 2021 of £71.9m (2020: £67.5m)."

Climate Change

In 2019, the Prudential Regulation Authority published Supervisory Statement 3/19, "Enhancing banks' and insurers' approaches to managing the financial risks from climate change". Since then, the Society has undertaken significant work to better understand the risks posed by climate change.

Below is a summary of progress to date as well as our future plans.

Governance

We have put the necessary governance in place to ensure there is appropriate oversight of the financial risks posed by climate change. Specifically, we have:

- Allocated responsibility to our Finance Director for assessing and reducing the environmental impact of the Society's activities and for implementing governance arrangements to ensure climate change is well managed by the business.
- Ensured that climate change risk is considered regularly by Executive Management, the Board Risk Committee and the Board.
- Updated the terms of reference for all relevant committees to ensure climate change is subject to proper oversight.
- Set a descriptive risk appetite for climate change risk. Further work will be undertaken in 2022 to add detailed risk appetite measures and to report actual risk against this appetite.

In addition to the above, we will, over the course of 2022:

- Further develop our climate change reporting to include the energy efficiency of the properties that comprise our mortgage portfolio as well as our own environmental impact as a responsible business.
- Continue to embed the effective management of climate change and our environmental impact at all levels across the Society's business.

Strategy

In 2021, the Society worked with an independent, expert third party to assess and model the physical and transitional risks associated with climate change on our mortgage assets. The results of this work demonstrated that even in a high emission scenario, the impact of climate change on the Society was not currently material. The report concluded that less than 2% of our mortgage assets were exposed to flood risk and the Board decided that no immediate changes to our lending activities were required.

We recognise the role the Society must play in supporting the achievement of the government's net zero emissions target by 2050. In 2022, we will develop the capability to report on the EPC ratings of our mortgage portfolio and we will consider using the outcome of this work to support and incentivise members to improve the energy efficiency of their homes. We also plan to introduce a range of green finance products, including the provision of further advances to customers who wish to improve the energy efficiency of their homes.

We are also working hard to further reduce the Society's own environmental impact and we have established an environmental working group to take this work forward. We recently commissioned a base line assessment of our carbon footprint, with the results of this expected in the first quarter of 2022. This assessment will be used to develop a roadmap and appropriate timeframe for a carbon zero position to be achieved.

> **In 2021, the Society worked with an independent, expert third party to assess and model the physical and transitional risks associated with climate change on our mortgage assets. The results of this work demonstrated that even in a high emission scenario, the impact of climate change on the Society was not currently material."**

Risk management

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

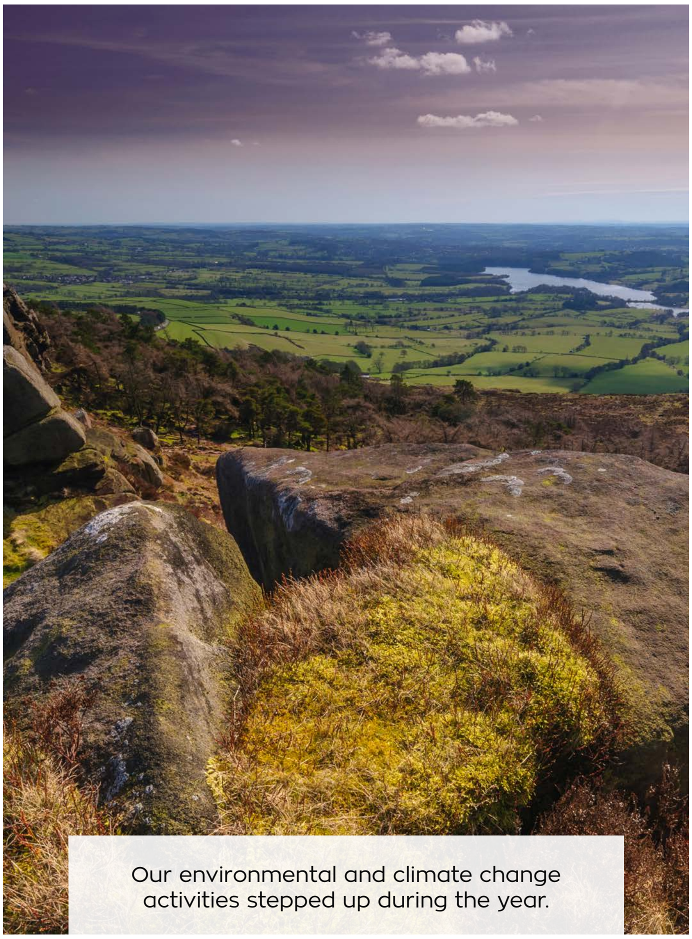
We will repeat this analysis over the coming years and use it to identify emerging trends and to ensure our business strategy remains aligned with the need to manage the financial risks arising from climate change.

Future outlook and uncertainties

The Society's Risk Management Report on pages 46 to 50 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 UK economy performed more strongly than expected in 2021, with unemployment lower than anticipated at the start of the Covid-19 pandemic, the housing market proving resilient and GDP recovering to pre-pandemic levels. However, the future economic outlook remains uncertain, with higher inflation and energy prices expected to squeeze household income in the near term.

The Coronavirus Job Retention Scheme and mortgage payment holiday initiatives that were implemented by the government have helped to support the economy. However, both schemes have only recently been withdrawn and the longer term implications may not yet be fully evident. The risk remains that higher unemployment levels could lead to some of our customers experiencing difficulty with the repayment



Our environmental and climate change activities stepped up during the year.

of their mortgages. At a macro level, downward pressure on house prices is also a possibility.

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

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

The Society has a proud history of resilience and prudent management in difficult market conditions and we do not intend to stray from our well-tested approach. As addressed under the Risk Management Report, all risks are monitored carefully through our Risk Management Framework. 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 29.

In summary, the Board considers that despite the challenging market conditions that are likely to prevail in 2022, the Society remains robustly positioned to navigate through the economic, competitive and other headwinds it may face.

Rachel Court
Chair
25 February 2022

> **"The Board considers that despite the challenging market conditions that are likely to prevail in 2022, the Society remains robustly positioned to navigate through the economic, competitive and other headwinds it may face."**

WHAT OUR MEMBERS SAY

"I couldn't have asked for any better service!"

"My parents held accounts with Leek United for many years and I have found your staff to be as considerate and efficient as they did."

"Leek United are on the top of my list should I ever need to borrow in the future."

"We received the best service ever, there are always real people to talk to."

"The service received has been excellent, very helpful and friendly."

"Thank you for taking the time to happily explain everything to me, I wish all institutions I have dealt with had someone like you."

DIRECTORS' PROFILES

NON-EXECUTIVE DIRECTORS

Rachel Court
JP, BA Oxon

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

Skills and Experience

Rachel has 23 years of experience working in the Building Society sector including 7 years at Executive level. This has been followed by 7 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

- 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.

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

- 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.

Dave Cheeseman
BSc, FIA

Independent Non-Executive Director since April 2021.

Skills and Experience

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

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

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

Current external positions

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

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

- Director of RCG Business Consultancy

Jane Kimberlin BA

Independent Non-Executive Director since November 2016.

Skills and Experience

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

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

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

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

Current external positions

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

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

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

DIRECTORS' PROFILES

EXECUTIVE DIRECTORS

Andrew Healy MoB, BSc, Chartered FCIPD

Chief Executive and Executive Director since December 2018.

Skills and Experience

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

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

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

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

Current external positions

- None

Robert Broadbent BSc, ACA

Finance Director and Executive Director since April 2019.

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.

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

Current external positions

- None

John Kelly CA, BA

Operations Director and Executive Director since February 2017.

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 five 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

Andrew Davies

Chief Risk Officer and Executive Director since September 2021.

Skills and Experience

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

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

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

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

Current external positions

- None

WHAT OUR STAFF SAY

"I feel really proud to be part of Leek United, a Society that puts their staff and members at the heart of everything that they do. It feels more like a family than a workplace."

"The Society has supported my development throughout my time here, offering me the opportunity to progress my career."

"Health Screening for all staff is brilliant – shows our management really care about our health & wellbeing."

"The culture we have as a business is exceptional."

"The support I receive is nothing short of amazing."

"Leek United really look after their staff. They make us feel valued, supported, and care about our wellbeing, all of which is reflected in the fantastic benefits we receive."

9 out of 10 colleagues say:

- I'm proud to work for Leek United.
- Leadership is strong with the right 'tone from the top'.
- Internal communication is excellent.
- The organisation is run on strong values & principles.
- There's brilliant teamwork.

ENGAGING WITH OUR STAFF


United Together

HYBRID WORKING CULTURE

Good morning,

United Together
At Leek United we are committed to having an inclusive, supportive and equitable culture … valuing diversity of people, thought and outlook, we can make better decisions … benefit of our members.

Whilst we are already a signatory of the Women in Fi… series of Board actions and have recently … always more that we can do.

Employee Wellness

togetherall

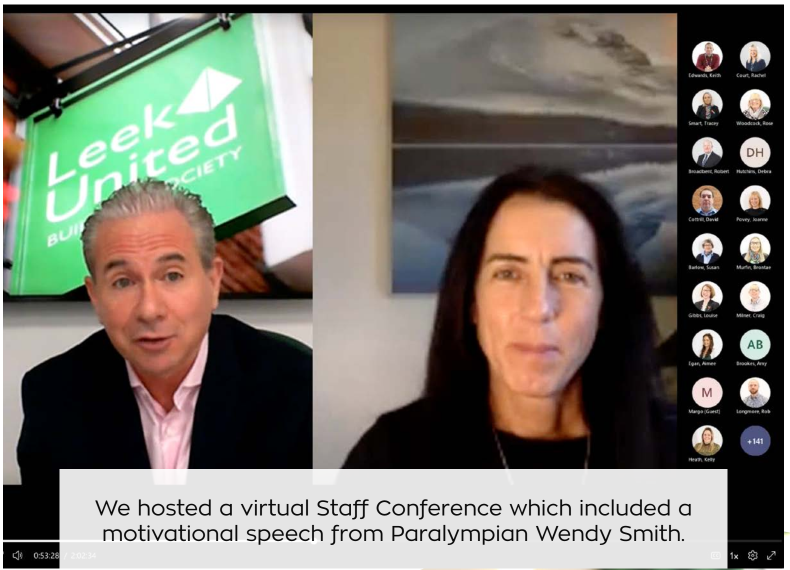
FREE support for mental health

Good Morning,

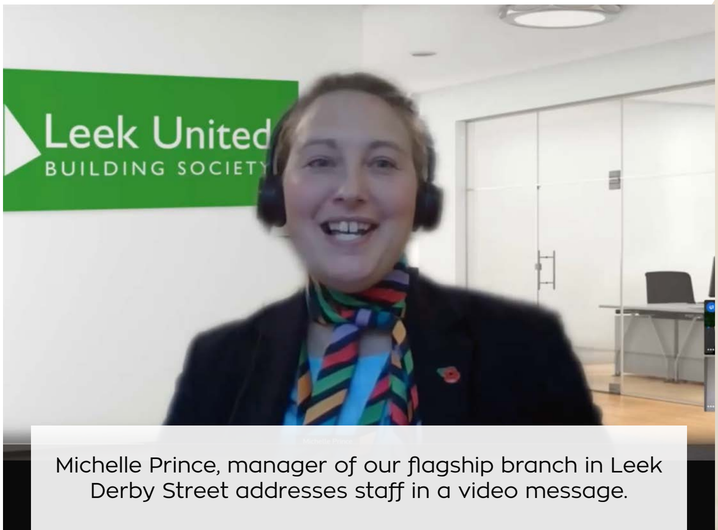
It's been more than 500 days since the beginning of the pandemic and lockdowns. There have been terrible tragedies and difficulties and although things are improving, it's still tough – perhaps most of all mentally. Are we as chirpy and upbeat as we once were or has our fuse shortened, with relatively small issues annoying us more than they should? Are we struggling with home working but at the same time, nervous about going back to the office? Are we a bit fed up that covid is still negatively impacting our lives and those of our children?

I consider myself remarkably fortunate to be surrounded by a loving wife and son who never seem to get flustered by anything and who always seem to be smiling. They keep me grounded and they keep me 'up' when silly stuff might be starting to get to me. But whether or not we have such support, we're … challenges and **it's more important now than ever to protect our … around us.**

Throughout 2021, employees were kept informed and motivated by regular communications from the CEO and senior management.



We hosted a virtual Staff Conference which included a motivational speech from Paralympian Wendy Smith.



Michelle Prince, manager of our flagship branch in Leek Derby Street addresses staff in a video message.

Good Business Charter Accredited

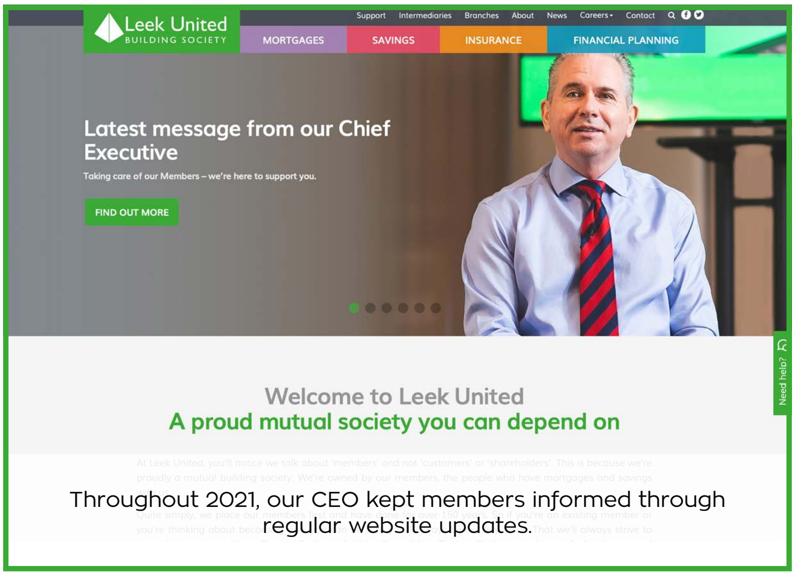
We are a Living Wage Employer

Women in Finance Charter

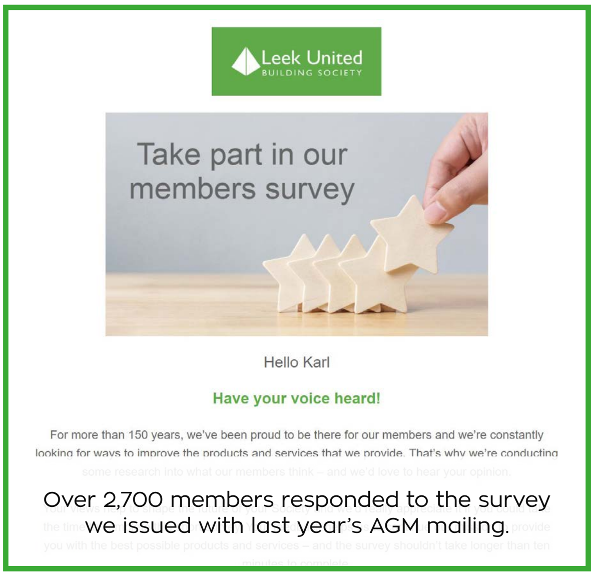
CIPD People Management Awards

WINNER 2020 & DOUBLE FINALIST 2021

ENGAGING WITH MEMBERS & ACTING ON YOUR FEEDBACK



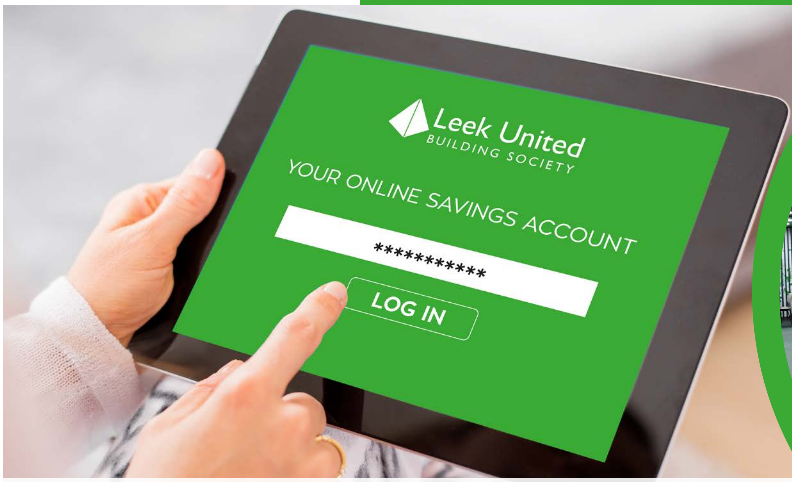
Throughout 2021, our CEO kept members informed through regular website updates.



Over 2,700 members responded to the survey we issued with last year's AGM mailing.

We hosted Members' Forums to gain useful feedback about the Society.

In 2021, 95% of members stated they were satisfied with their overall experience of the Society.



As part of our digital agenda, we expect to launch our online savings offering during the first half of 2022. But customers can still use our branches if they prefer.

More of our branches will see investment in 2022.

You Said...	We Did...
Last year's AGM feedback – more on environmental actions and support for the local community.	Following your feedback in last year's members' survey which accompanied the AGM papers, a number of actions have been taken. These have included providing more detail in our annual report and on our website regarding our environmental activities. We have also opened up some of our branch and head office space to local community groups. And our Charitable Foundation will soon – in March 2022 – start to support local charities and community organisations.
Climate Change/The Environment	We took a number of important environmental steps during 2021 and more are ongoing. We have committed to be carbon neutral by 2050 and during the year, we stepped up our recycling and energy efficiency efforts. We completed a study of the financial risks relating to climate change in our mortgage book and we plan to launch products which will incentivise members to be environmentally responsible. You will find more details in the CEO and Strategic Review reports in this document.
Support with legal fees for mortgage customers	In response to customers requesting support with their legal fees, we added 'cash back' to a wide range of our mortgage products.
Vulnerable Customers	Based on your positive feedback, we dedicated the first hour of each day in our branches to supporting elderly and vulnerable members. We also provided enhanced phone and video services to help you avoid the need to visit our branches.
Online Savings	Research conducted with members told us that while you want us to retain our branches, you would also like the option to be able to transact and open accounts online. We expect to launch our online savings proposition in the first half of 2022. We are also working on improving the effectiveness and efficiency of our mortgage technology and operations.
Investing in our branches	Many of you told us we needed to invest in improving our branch environment and during the year, we commenced a three-year branch investment programme which will touch all our branches.

DIRECTORS' REPORT

The Directors have pleasure in presenting the Annual Report together with the Annual Accounts and Business Statement of the Society for the year ended 31 December 2021.

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	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 30 to the Accounts

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

Keith Abercromby	Non-Executive Director	
Robert Broadbent	Finance Director	
Dave Cheeseman	Non-Executive Director	Appointed 29 April 2021
Rachel Court	Non-Executive Director	
Andrew Davies	Chief Risk Officer	Appointed 29 September 2021
Richard Goddard	Non-Executive Director	
Andrew Healy	Chief Executive	
John Kelly	Operations Director	Resigned 23 February 2022
Jane Kimberlin	Non-Executive Director	
John Leveson	Non-Executive Director	

Biographies of the Directors appear on pages 20 to 23 and their attendance at meetings of the Board and Board Committees is set out in the Corporate Governance Report on page 33.

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

1. John Kelly, who retired from the Board on 23 February 2022.
2. Richard Goddard, who will retire from the Board on 31 March 2022.
3. Dave Cheeseman and Andrew Davies who are standing for election, having both been appointed to the Board since the last Annual General Meeting.

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

Other Matters

Creditor Payment Policy

It is the Society's policy to pay suppliers within agreed terms providing the supplier performs according to the terms of the contract. The number of creditor days at 31 December 2021 was 17 (2020: 17).

Political Donations and Gifts

The Society has not made any political gifts or donations in the year to 31 December 2021 (2020: £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 Auditor

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 auditor 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 2022. A resolution for their appointment will be proposed at the forthcoming Annual General Meeting.

Pillar 3 disclosures

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

Going Concern

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

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

The Directors consider it appropriate to prepare the annual accounts on the going concern basis, as explained in the Basis of Preparation in note 1 to the accounts.

Rachel Court
Chair
25 February 2022

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.

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 thirteen meetings, the Board held a strategy day during 2021 to review the Society's overall strategic aims and long term objectives.

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

There have been two changes to the Board during 2021. Dave Cheeseman was co-opted to the Board on 29 April 2021 as a Non-Executive Director to replace Richard Goddard who will leave the Society on 31 March 2022. Andrew Davies, Chief Risk Officer, was co-opted to the Board as an Executive Director on 29 September 2021. At the end of 2021, the Board consisted of six Non-Executive Directors and four Executive Directors. The Non-Executive Directors meet regularly without the Executive Directors being present.

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

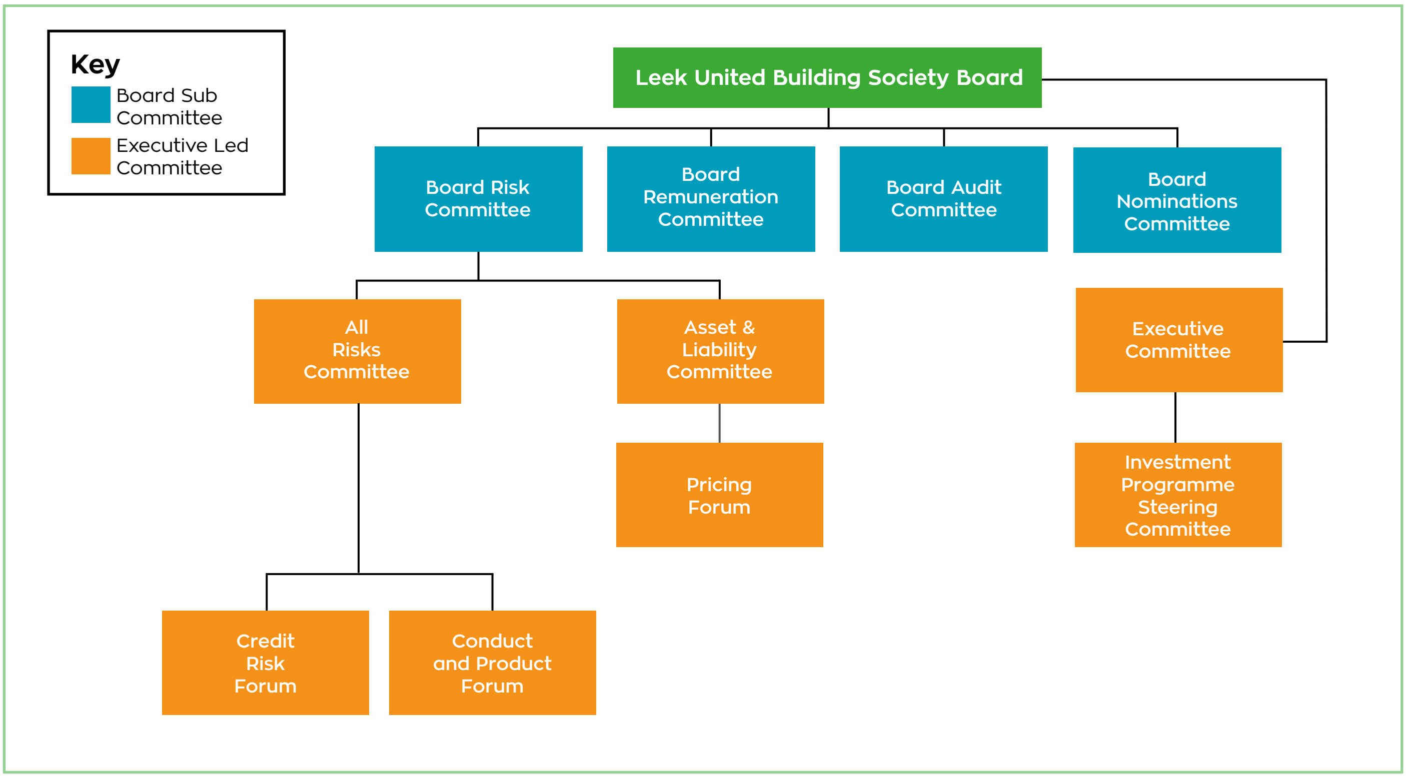
The Board ensures the effectiveness of systems, internal controls and risk management through a combination of processes, including:

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

The Board can confirm that during 2021, it carried out a review of the Society's risk management systems and internal control framework and it is satisfied that these are adequate, taking into account the Society's size, risk profile and strategy.

The Society's governance structure (right) includes both Non-Executive and Executive led committees. The Non-Executive led committees comprise the Board Risk Committee, Board Remuneration Committee, Board Audit Committee and Board Nominations Committee. The Non-Executive Directors who chair the aforementioned committees provide feedback to the main Board following each meeting. The Executive led committees comprise the Executive Committee, All Risks Committee, Credit Risk Forum, Asset & Liability Committee, Conduct and Product Forum, Pricing Forum 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 page 31 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 42.

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 36.

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 40.

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 38.

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 member engagement events and customer satisfaction surveys. During 2021, two member engagement events were held by video conference to obtain feedback from members. Customer surveys were completed on a monthly basis with members who joined and left the Society. 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. Throughout the Covid-19 pandemic, keeping members appraised of matters of importance has been a key focus and the Society's website has been updated on a continuous basis, including regular communications from the Chief Executive.

To protect members and colleagues from the ongoing Coronavirus outbreak, the 2021 Annual General Meeting (AGM) was held remotely by way of an online webinar, with the quorum of participants – including the Board of Directors and

CORPORATE GOVERNANCE REPORT
(CONTINUED)

independent scrutineer – in separate locations. Members were invited to attend the webinar as well as being 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 attendance at team meetings where a mechanism for two-way feedback is provided and through holding regular staff forums which focus on important areas such the organisation's culture. Staff feedback gained through these mechanisms is then shared with the wider Board and Executive team and considered when making decisions. 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. In support of their responsibilities as Whistleblowing Champions, a series of tests were undertaken during 2021 to ensure (which they did) that the corresponding processes to escalate a whistleblow worked effectively and that there were no detrimental impacts to the reporter.

DIVISION OF RESPONSIBILITIES

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

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

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

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

The Board is comprised of six Non-Executive Directors and four Executive Directors. All of the Non-Executive Directors are considered to be independent under the Code. 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 2021 is set out on the right. During 2021, the majority of Board and Board subcommittee meetings have been held virtually as a result of the ongoing Covid-19 pandemic. The figure in brackets is the number of meetings the Director was eligible to attend.

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 95.

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

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

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

In addition to attending Board meetings, it is a requirement for Board members to ensure their knowledge is updated appropriately in order to demonstrate their ongoing fitness and propriety – in line with the regulated Senior Managers and Certification Regime as well as the requirements of the UK Corporate Governance Code. During 2021, 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.

Attendance record of Board Directors at Board and Board subcommittee meetings

	Name	Board	Board Audit Committee	Board Risk Committee	Board Nominations Committee	Board Remuneration Committee
Non-Executive Directors	Keith Abercromby	13 (13)	5 (5)	6 (6)		
	Rachel Court	13 (13)			11 (11)	11 (11)
	Dave Cheeseman	10 (10) 'A' until 29/04/2021	4 (4) 'A' until 29/04/2021	5 (5) 'A' until 29/04/2021		
	Richard Goddard	13 (13)	5 (5)	6 (6)	11 (11)	
	Jane Kimberlin	13 (13)		6 (6)	11 (11)	11 (11)
	John Leveson	11 (13)	4 (5)			10 (11)
Executive Directors	Robert Broadbent	13 (13)	5 (5) 'A'	3 (3) 'A'		
	Andrew Davies	13 (13) 'A' until 29/09/2021	5 (5) 'A'	6 (6) 'A'		
	Andrew Healy	13 (13)	5 (5) 'A'	6 (6) 'A'	11 (11)	11 (11) 'A'
	John Kelly	13 (13)	1 (1) 'A'	1 (1) 'A'		

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

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 38 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 38 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 38 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 36 of the Board Audit Committee Report.

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

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

The Board and Board Audit Committee believe that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the necessary information to members to assess performance, strategy and the business model of the Society. The Statement of Directors' Responsibilities is on page 51 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 2021 Annual Report and Accounts meets this requirement and on 21 February 2022 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 46, to ensure appropriate responsibility is allocated for the management, reporting and escalation of risks.

CORPORATE GOVERNANCE REPORT
(CONTINUED)

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 40.

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 40.

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 40.

Rachel Court
Chair
25 February 2022

IN THE NEWS

Leek building society's virtual meeting proves a success

A Leek building society has held its first virtual members forum meeting.

Leek United Building Society has extended its heartfelt thanks to its members who were able to join them for their first virtual Member Forum with the key theme of meeting the needs of vulnerable customers.

The forum saw several society members attend the meeting via telephone and video chat to receive an update about the Society's strategy, along with a more in-depth discussion around vulnerable customers and ways in which the Society could do more for them.

The format of the meeting was informal and high-spirited, providing an opportunity to share an overview of the Society's strategy. The session also included an update on current projects such as the development of a charitable foundation and the launch of online savings.

Meeting host, Andy Armitage, customer services director at Leek United Building Society, said: "The meeting was the highlight of my week.

"It was great to connect directly with our members to really understand their thoughts about their society and what more we can do for them. We have exciting plans for the future, and it was really insightful to get direct feedback from those we serve.

"One member was kind enough to share her experience of being the partner of someone who might be categorised as vulnerable and it's this kind of insight that really helps us continue to develop the exceptional service our members have come to expect."

Any members of the Society who would like to be part of future sessions, please contact the Society via their website or by calling 0800 093 0004.

Leek United partner with AEDdonate to install defibrillators

A Leek based building society is to install multiple defibrillators in the community.

Leek United has unveiled plans to install multiple Automated External Defibrillators (AEDs) in local communities within their heartland across the next few weeks.

Working with AEDdonate, the new defibrillator programme is designed to offer potentially life-saving support to communities should the unthinkable happen.

Whether you watched on with feelings of shock and helplessness as Christian Eriksen collapsed on the pitch during the Euro 2020 semi-final Denmark versus Finland match or you're tuning into I'm A Celebrity and hearing David Ginola share his own personal experience, it feels like real-life examples of cardiac arrests are everywhere.

The reality is a sudden cardiac arrest can happen to anyone at any time. According to the British Heart Foundation, there are around 7.6 million people living in the UK today with heart and circulatory diseases, resulting in more than 160,000 deaths each year. To put that into perspective, that's equivalent to one death in the UK every three minutes.

When hearing those statistics, it's natural to wonder what would give you the best chance of survival if it ever happened to you. You may also question what you could do to help someone else if you ever witnessed them having a cardiac arrest.

Having a defibrillator close by can save lives. In fact, it's believed for every minute it takes for a defibrillator to reach someone, a person's chances of survival will reduce. Therefore, to help someone who is in cardiac arrest most effectively, a defibrillator needs to be found as quickly as possible.

An Automated External Defibrillator is a portable device that checks the heart's rhythm and delivers a high energy, electric shock through the chest wall to restore the heart's beat should it stop. Sticky pads with rhythm to find out whether an electric shock is needed. If needed, the electrodes deliver the shock. They are simple, easy and effective to use. What's more, anyone can use them without any training.

Andrew Healy, chief executive at

"Even if we give just one person a greater chance of survival following a cardiac arrest, the money will be

partnership with AEDdonate, we're doing just that.

"Even if we give just one person a greater chance of survival following a cardiac arrest, the money will be incredibly well spent."

Leek United Derby Street branch reopens after refurbishment

Leek United Building Society has reopened its flagship Derby Street branch following a six-week transformation.

The new look branch features several zones where customers can undertake traditional counter transactions, browse products and services, and enjoy relaxed and comfortable conversations in formal and informal meeting spaces. The modern surroundings incorporate an innovative community area for seminars and educational events as well as digital screens and video conferencing facilities.

Director of Customer Services, Andy Armitage said, 'The Society's refurbishment of our Derby Street Branch shows commitment to the local community and our branch network. Throughout the pandemic, our members have been clear that they really value the friendly face to face service that our branches offer, along with the financial guidance that our staff provide. We're passionate about providing new and existing members with memorable experiences and our transformed branch provides the perfect environment to make this happen.'

The refurbishment has been supported by Resolution Interiors who pride themselves on delivering spaces that connect brands with eople. They have worked closely with Leek United to understand e business needs, both now and into the future, and provided Jivery of works from concept to construction.

The branch has been designed to suit a wide range of customer needs, encouraging visitors to engage in a way that suits them with team members on hand to answer any questions. The Society continues to offer a wide range of savings products and mortgage advice, with the space lending itself to host events alongside Society partners that offer pension, long-term investment advice, life protection and home insurance.

With a dedicated community zone, the Society is looking forward to providing a platform for its charitable and affinity partners to get involved and help enhance their relationships with both members and the local community. This space has the flexibility to be used in a number of ways, whether it be coffee mornings, educational talks or community events.

The Leek Derby Street branch is open from 9:00am until 3:00pm, Monday to Friday and 9:15am to 12:00 noon on Saturdays.

Leek United Heritage Town Trail

The Leek United Heritage Town Trail (& competition) will take place from 10am until 4pm on Saturday 25 Sept at this year's Ginger and Spice Festival.

The event is free of charge for all festival goers to take part in, and is dedicated to exploring the town's rich culinary heritage and history.

Families are invited to meander through the streets of Market Drayton to enjoy a free of charge self-guided heritage trail & contest, featuring Humphrey the camel – the Leek United Building Society mascot.

The trail includes visiting buildings and places of historical significance (church, museum, etc) with a fun and educational heritage quiz for the little ones. At each participating premises, or trail stop, children must collect the names of Humphrey's gingerbread friends they meet along the way, and adults must answer a heritage question in order to qualify for the entering the free prize draw!

Also there is a contest in the town's shop windows where families pick the 'best dressed Gingerbread person', decorated by the local businesses and community to a theme set by the festival organisers!'

The family focused trail will take participants on a culinary journey of discovery around the town of Market Drayton, and will include interesting food and drink related facts as well as historical information about the food/drink heritage of the town. Under strict Covid regulations, there will also be opportunities for sampling and tasting in the local shops, cafes and pubs who are also taking part in the trail.

How to take part…
Go to The Leek United Building Society Stall on the High Street (outside their company premises) on Sat 25 September from 10am to pick up your trail leaflet!

With grateful thanks to the Leek United Building Society for their ongoing partnership and support with this event.

Leek United has been on Cheadle's High Street for the last 45 years and we're here to stay

Leek United is proud to confirm our long-term commitment to offering Cheadle residents a local branch to manage their accounts and an inviting and supportive place to discuss our full range of essential savings, mortgages, insurance and financial planning services with our friendly and helpful team.

There is no doubt that we live in a digital age. Whether it's buying groceries online, streaming the latest binge-worthy TV series or even answering your doorbell through your device, many people now choose technology to manage every aspect of their daily lives.

It's convenient, it's easy and it's undoubtedly progressive. However, we need to recognise that it isn't for everyone.

According to NHS Digital, 11.3m people in the UK today still lack the basic digital skills to use the internet effectively. To put that into perspective, that's equivalent to one in every five people!

In recent years, many businesses have taken the decision to withdraw from our high streets, citing a decline in footfall and an increase in customers' preference for alternative buying and service methods, including a number of banks and building societies. In fact, Which? recently reported that over 700 branches were closed in the UK in 2021 alone. The latest victim is sadly the Barclays branch in Cheadle, following the recent announcement they are set to close their doors on 2 March 2022.

Whilst the reasons to embrace alternative service methods are clear, there needs to be a fine balance between businesses offering intuitive online solutions for their more tech-savvy customers and still catering to the needs of customers who rely on a more traditional, personal touch service. In doing so, they can reduce the barriers to true digital inclusion.

This is where Leek United is proud to be different, as we fiercely wave the flag for customer choice.

Ian Blurton, Head of Branch Network at Leek United Building Society, said: "Continuing to provide Cheadle residents with a local branch where they can access our products and services is really important to us. In fact, we have just launched a programme to invest in our branches over the next two years to make them even better, with the refurbishment of the Cheadle branch due to take place in the next few months!"

If anyone is looking for a local building society that offers a personal touch, come visit us in our branch on the Cheadle High Street, where you will receive a very warm welcome.

BOARD AUDIT COMMITTEE REPORT

The main purpose of the Audit Committee is to review the Society's financial reporting arrangements and the effectiveness of its internal controls, risk management framework and 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 to satisfy itself on the integrity of the financial statements and other disclosures in the Annual Report and Accounts. The Committee reports to the Board on its activities and makes recommendations to the Board in relation to matters included in its terms of reference. The Committee met five times during the year. 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, Dave Cheeseman

Committee composition, skills and experience

The Committee acts independently of the executive to ensure that the interests of members are properly protected in relation to financial reporting and internal control. All of the current members of the Committee are independent Non-Executive Directors. The Chair of the Committee 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.

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 included 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

Determining the appropriateness of impairment losses involves judgement and requires management to make a number of assumptions regarding 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 Committee considered and challenged the provisioning methodology applied by management to determine the individual and collective mortgage impairment allowance, including the outputs from loan loss models, utilising historic and other data to support the impairment provisions.

Specific consideration has been given to the continuation of the overlay made to the collective mortgage impairment allowance reflecting the increased credit risk in the book due to Covid-19, where, in the prior year, the key judgment had been identifying the loans which were at increased risk as a result of default and estimating the probability of defaults associated with these loans. The Society has not experienced any defaults from those customers who received support from Covid-19 related payment holidays or as a direct result of the removal of government Covid-19 support measures. However, a provision has been retained against potential losses due to the wider macro-economic impact of the Covid-19 pandemic remaining highly uncertain, particularly given the potential for new variants of the virus to emerge and the fact that household finances are being further stretched by the recent increase in inflation and energy prices.

During 2021, consideration was also given to the Society's exposure to security taken with potentially dangerous cladding to identify the relatively small cohort of impacted properties within its portfolio and to assess the potential risk. Management have sought to estimate the degree to which the value of such properties has been negatively impacted and the extent to which the negative impact on their valuation will result in a higher propensity for customers to default.

Effective Interest Rate (EIR)

IAS 39 requires all cashflows attributable to mortgage products to be spread over the product's expected life under what is referred to as an effective interest rate basis. Such cashflows include upfront application fees, the cost of free valuations offered, any cash back provided, broker fees and the cost of any mortgage indemnity guarantee (MIG) insurance. The key judgements made in respect of EIR are the expected behavioural life of the loans, any expected early repayment charges and the likely reversion to Standard Variable Rate.

The Committee reviewed the key judgement made by management concerning the behavioural life estimates of current mortgage products and was satisfied that the estimates were reflective of the Society's historic mortgage book behaviour.

Intangible assets

Determining the appropriateness of capitalising costs in developing intangible assets and undertaking a review of whether such assets are impaired involves judgement and requires management to make a range of assumptions. These assumptions include determining whether it is appropriate for the cost to be capitalised and whether the original expected benefits of the asset that is being developed will be delivered in the future. The Committee reviewed the key judgements made by management concerning the capitalisation of costs and the associated impairment review and felt that these were dealt with appropriately.

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 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 the above 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 that they have been applied consistently. It also considered whether the 2021 Annual Report and Accounts, when considered as a whole, were fair, balanced and understandable. The Committee was satisfied that the 2021 Annual Report and Accounts met this requirement and on 21 February 2022 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 46 to 50. During the year, the Committee received formal reports from the Society's Risk & Compliance and Internal Audit functions on the Society's internal controls and following due consideration, was satisfied that the internal controls that underpin the year-end financial reporting process were appropriately designed and had operated effectively.

Internal audit

Internal Audit is outsourced to Deloitte LLP. During the year, the Committee monitored the effectiveness of Internal Audit and the Internal Audit programme, approved the audit plan and budget, and confirmed that appropriate resources were in place to execute the plan effectively. In the year to 31 December 2021, Internal Audit carried out a number of internal audits, with the findings from each report being presented to the Committee. The Committee also considered the adequacy of management responses to internal audit recommendations and, where appropriate, the implications of any significant findings on the effectiveness of the overall internal control system and the risk management framework.

Assessment of effectiveness

In December 2021, the Committee conducted an internal review of its own effectiveness. This involved collective consideration by Committee members of how effectively the Committee had discharged its responsibilities, including a self-assessment against an externally produced effectiveness framework. This review concluded that the Committee had continued to operate effectively during the year.

Keith Abercromby
Chair of Board Audit Committee
25 February 2022

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 eleven times during 2021.

Membership

Committee Chair: Rachel Court
Committee Members: Richard Goddard, Jane Kimberlin and Andrew Healy

Committee composition, skills and experience

The majority of the Committee are independent Non-Executive Directors. The Committee's Chair, Rachel Court, has extensive experience within the financial services sector and is well placed to lead the Committee. Other members of the Committee are independent Non-Executive Directors 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. There were no changes to the Committee's membership during 2021.

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.

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.

Consideration is given to the length of service of the Board as a whole and membership is refreshed as appropriate. During 2021, the Committee reviewed the Board skills matrix, taking into particular account Non-Executive Director Richard Goddard's scheduled departure in March 2022. Of particular focus was that Richard has been Chair of the Board Risk Committee and the Society's Senior Independent Director for a number of years. The Committee conducted a rigorous recruitment process, with external third party support, which led to Dave Cheeseman being selected and subsequently co-opted to the Board as an independent Non-Executive Director and member of both the Board Risk Committee and Board Audit Committee. In terms of the position of Senior Independent Director, the Committee again undertook a detailed process which led to the nomination of Jane Kimberlin who has been a Non-Executive Director with the Society for over five years. This nomination was subsequently approved by the Board.

To further bolster the risk management capabilities of the Board, Chief Risk Officer, Andrew Davies, was co-opted onto the Board as an Executive Director in September 2021, bringing the number of Executive Directors on the Board to four. This appointment will serve to strengthen the governance, skills and composition of the Board of Directors at a time when the Society's change agenda is evolving.

Under the Society's Rules, new Directors must stand for election at the Annual General Meeting no later than the financial year after which they were appointed and therefore Dave Cheeseman and Andrew Davies will stand for election at the 2022 Annual General Meeting. The Society has adopted the 'best practice' approach of putting all Non-Executive Directors forward for re-election by Members annually, and all existing Non-Executive Directors were duly re-elected in April 2021.

In terms of executive management, Helen Wainwright, Director of Lending, and Rob Longmore, HR Director were both promoted internally in 2021 following recruitment processes conducted by the Committee. In addition, in the second half of the year, the Committee led the process to identify a suitable candidate to become the Society's Deputy Chief Executive with responsibility for IT & Change, Customer Operations and the Branch Network. This role was identified by the Committee as being important in terms of strengthening executive succession management and the successful candidate is expected to take up duty in the first quarter of 2022. Subject to regulatory approval being received in due course for this appointment, the appointee will be co-opted onto the Society's Board and will stand for election at the 2023 Annual General Meeting. As mentioned in my Board Chair Statement, John Kelly, Operations Director, has decided to step down from his role as Operations Director and Executive Board Director and it is intended that the Deputy Chief Executive will replace John on the Board.

The Society may use independent search and selection agencies to support recruitment. In 2021, the process to identify a replacement for Richard Goddard, as referenced above, was concluded resulting in the appointment of Dave Cheeseman. To support this process, the Committee engaged the services of Nurole Limited. A further search and selection agency, Warren Partners, supported the recruitment of the Deputy Chief Executive. The Society's only connection with both Nurole Limited and Warren Partners is for recruitment and selection.

Diversity

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

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

Diversity and inclusion are themes which have rightly received a significant degree of input from the Financial Conduct Authority, Prudential Regulation Authority and the Bank of England during 2021, with a joint consultation paper published outlining a number of considerations. The Society actively engaged during the consultation period and will embrace any guidance that follows. However, ahead of any regulatory input, a number of strong and stretching objectives for 2022 have been set which reflect the Society's absolute commitment to the development of a diverse and inclusive workforce.

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 in 2020.

Assessment of Effectiveness

In December 2021, the Board Nominations Committee conducted an internal review of its own effectiveness. This involved collective consideration by Committee members of how effectively the Committee had discharged its responsibilities. This review concluded that the Committee continued to operate effectively during the year.

Rachel Court
Chair of Board Nominations Committee
25 February 2022

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 37 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 eleven times during 2021. There were no changes to the Committee's membership during 2021.

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 Committee reviewed the Remuneration Policy during the year and it was subsequently approved by the Board.

Remuneration

The Committee reviews the remuneration of both Executive Directors and Non-Executive Directors and approves any significant changes to the pay structure of the wider workforce. No Director is involved in reviews or decisions regarding his/her own remuneration. During 2021, the Board Remuneration Committee addressed the following key matters:

- Approved an uplift in minimum employer's pension contributions from 6% to 7.5%. The Committee also agreed that in line with the recommendation in the UK Corporate Governance Code, the employer's contribution to the pensions of all new Executive Directors, members of the wider executive team and staff will be aligned.
- Approved a Society wide salary increase following a detailed review process being undertaken. This involved a 4% increase for staff earning up to £20,000 and a 2% increase for those above £20,000. Of the Executive Directors, the Finance Director and Operations Director received the salary increase of 2%.
- The Chief Executive had voluntarily reduced his salary in 2020 in consideration of the impact of the Covid-19 pandemic. His salary was restored to its original level in 2021. The Board Remuneration Committee unanimously agreed that the Chief Executive's exceptionally strong leadership and performance during 2021, and indeed throughout the pandemic, merited an increase in remuneration to reflect market norms and the increases applied to other staff. The Chief Executive declined the Committee's offer to increase his remuneration at the current time and the Committee agreed to respect his decision.
- Approved an uplift in salary for the Chief Risk Officer based upon a recommendation from the Chair of the Board Risk Committee.
- Approved the remuneration package for the Deputy Chief Executive who will join the Society in 2022.
- Given a further year of extraordinary circumstances linked to the Covid-19 pandemic, the Society did not, as was the case in 2020, operate a bonus scheme for staff in 2021. However, taking into account the Society's financial performance and the prevailing economic conditions and outlook, the Committee approved a one-off payment to each member of staff in December of £750. The Executive team chose to waive their entitlement to this payment.
- Recommended to the Chair of the Board and Executive Directors a realignment of fees for Non-Executive Directors following a detailed benchmarking review of fees at other building societies of similar size and complexity to the Society. This was subsequently approved.
- Approved a realignment of the fees for the Chair of the Board of Directors following a detailed benchmarking review of fees at other building societies of similar size and complexity to the Society. The Board Chair did not participate in this process.
- The Non-Executive Director Expenses Policy was reviewed and updated. The updated policy was recommended to the Chair of the Board of Directors and Executive Directors and was subsequently approved.

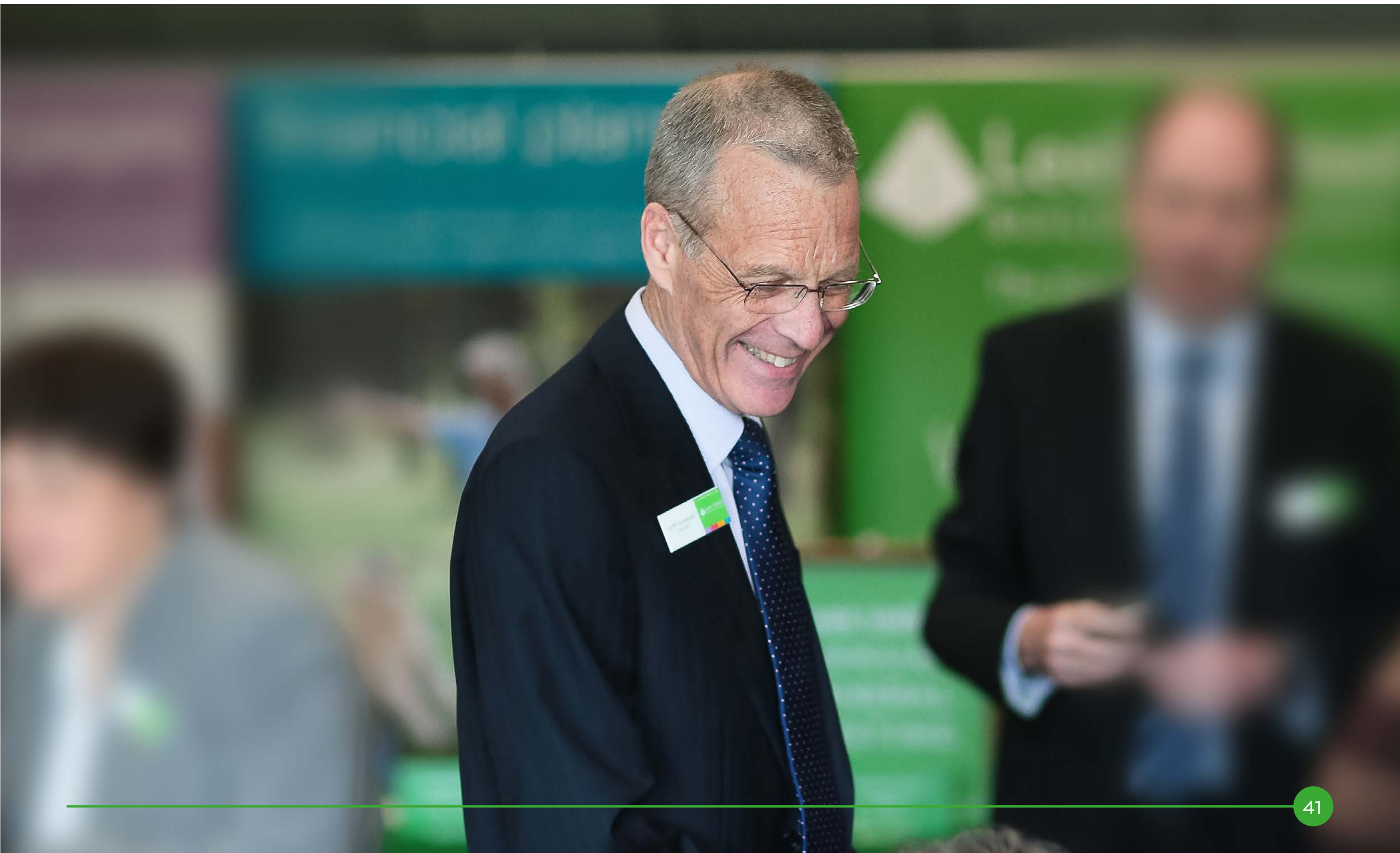
Remuneration Reporting

The table in the Directors' Remuneration Report on page 44 summarises Directors' pay and benefits for the year ended 31 December 2021. 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 2021, the Board Remuneration Committee conducted an internal review of its effectiveness for 2020. This involved consideration by Committee members of how effectively the Committee had discharged its responsibilities and it concluded that the Committee had continued to operate effectively. A review for 2021 will take place in April 2022.

John Leveson
Chair of Board Remuneration Committee
25 February 2022



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, a clearly defined risk culture, an effective control environment and that risk is being managed robustly. The Committee met six times during the 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, Dave Cheeseman

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. Richard is also the Society's Senior Independent Director. The Chair of the Society's Board 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 have assessed effectively the risks as well as the potential benefits associated with key strategic initiatives. • Monitor and challenge executive management on the adequacy of operational resilience and business continuity arrangements. • Assess the design, implementation and operation of risk management arrangements. • Ensure the internal control environment continues to operate effectively. • Assess the independence and effectiveness of the Risk function. • Ensure that the risk appetite framework is appropriately embedded within management decision-making processes.

Risk strategy & risk appetite

In the first quarter of 2021, the Committee reviewed the Society's risk management framework as part of the regular annual update and recommended a number of enhancements to ensure it continued to evolve in line with the Society's strategy. In particular, consideration was given to the Society's changing risk profile from the planned introduction of a digital savings proposition and increased use of cloud outsourcing.

The Committee also reviewed the Board risk appetites as part of the annual review to ensure their full alignment to the Society's strategic objectives. Due consideration was given to the macro-economic impacts of Covid-19, including the withdrawal of Covid-19 related government job support schemes, and the potential consequences for the Society's 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 remained sufficiently comprehensive. Enhancements in respect of credit risk and conduct risk were introduced as part of a programme of continuous improvement.

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

Risk management and internal control systems

Each meeting has reviewed and challenged the Society's top and emerging risks, ensuring that management have appropriate actions in place to mitigate these. Further details in respect of key and emerging risks are contained within the Risk Management Report on page 46.

The monitoring of the internal control environment has remained a primary objective of the Board Risk Committee. This has been achieved through the delivery of agreed Risk & Compliance thematic deep dives, quarterly Risk & Control Self-Assessments (RCSA), attestations by the Principal Risk Owners, ongoing key control testing and monitoring of material risk events. A key area of focus remains the risk to the control environment from the increased level of remote working which has continued throughout 2021. 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 Compliance & Conduct Risk Manager was recruited to further bolster the organisation's oversight and advisory capability in respect of conduct risk.

Assessment of effectiveness

In December 2021, 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 during the year.

Richard Goddard
Chair of Board Risk Committee
25 February 2022

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

	2021					2020				
	Salary/ Fees £000's	Benefits /Other (iii) (v) £000's	Sub Total £000's	Pensions £000's	Total £000's	Salary/ Fees £000's	Benefits /Other (iii) (v) £000's	Sub Total £000's	Pensions £000's	Total £000's
Non-Executive Directors (NEDs)										
Rachel Court	49	-	49	-	49	45	-	45	-	45
Richard Goddard	39	-	39	-	39	36	-	36	-	36
John Leveson	32	-	32	-	32	31	1	32	-	32
Keith Abercromby	34	-	34	-	34	31	2	33	-	33
Jane Kimberlin	27	-	27	-	27	26	-	26	-	26
Dave Cheeseman (from 29/04/21)	18	1	19	-	19	-	-	-	-	-
Colin Kersley (i)	-	-	-	-	-	6	-	6	-	6
Executive Directors										
Andrew Healy (ii) (iv) (v)	216	17	233	32	265	211	16	227	32	259
John Kelly (iv)	149	13	162	22	184	146	12	158	22	180
Robert Broadbent (iv)	131	13	144	19	163	128	12	140	19	159
Andrew Davies (from 29/09/21)	36	3	39	5	44	-	-	-	-	-
	731	**47**	**778**	**78**	**856**	**660**	**43**	**703**	**73**	**776**

(i) Colin Kersley left the Society on 31 March 2020.
(ii) Andrew Healy voluntarily reduced his salary in 2020 in consideration of the impact of the Covid-19 pandemic. His salary was restored to its original level in 2021. The Board Remuneration Committee unanimously agreed that Andrew's exceptionally strong leadership and performance during 2021, and indeed throughout the pandemic, merited an increase in remuneration to reflect market norms and the increases applied to other staff. Andrew declined the Committee's offer to increase his remuneration at the current time and the Committee agreed to respect his decision.
(iii) The Executive Directors, including the Chief Executive, waived their bonus/gratuity payment entitlement in both 2020 and 2021.
(iv) The Executive Directors, including the Chief Executive (see (ii) above), waived any increase in salary in 2020.
(v) Executive remuneration included in the benefits/other column above relates wholly to the provision of a car allowance and private medical insurance.

Loans to Directors

A register containing details of loans and transactions between the Society and its Directors, or persons connected with Directors, is available for inspection by members at the Society's principal office in the period of fifteen days prior to the Society's Annual General Meeting on 27 April 2022. The total loans outstanding at 31 December 2021, in respect of 2 (2020: 2) people amounted to £596k (2020: £655k).

Chair and Non-Executive Fees

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

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

Fees are reviewed annually and if any recommended increase is more than the annual percentage increase payable to all staff a clear rationale for the additional increase together with supporting market data must be provided. This review also takes into consideration the principles underpinning the annual Society staff salary review. In addition, every three years these fees are formally benchmarked against fees at other building societies of similar size and complexity. As reported under the Board Remuneration Committee Report, such a benchmarking exercise resulted in a realignment of fees in 2021 for the Society's Non-Executive Directors, including the Board Chair.

Executive Directors' Remuneration

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

As reported under the Board Remuneration Committee Report, the salaries of the Finance Director and Operations Director were increased in 2021 in line with increases applied to other staff within the Society. The Chief Executive had voluntarily reduced his salary in 2020 in consideration of the impact of the Covid-19 pandemic. His salary was restored to its original level in 2021. The Board Remuneration Committee unanimously agreed that the Chief Executive's exceptionally strong leadership and performance during 2021, and indeed throughout the pandemic, merited an increase in remuneration to reflect market norms and the increases applied to other staff. The Chief Executive declined the Committee's offer to increase his remuneration at the current time and the Committee agreed to respect his decision.

Given a further year of extraordinary circumstances linked to the Covid-19 pandemic, the Society did not, as was the case in 2020, operate a bonus scheme for staff in 2021. Therefore, no bonuses were paid to executives during the year. While, as reported under the Board Remuneration Committee report, a one-off payment was made to staff at the end of the year, the Executives waived their entitlement to this payment.

Of the Executive remuneration packages, only basic salary is pensionable. As at 31 December 2021, the Chief Executive, Finance Director and Chief Risk Officer are members of the Society's defined contribution pension scheme.

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

Reward and Incentives

The Society's remuneration schemes and policies enable the Board Remuneration Committee to override formulaic outcomes to any element of performance related pay. However, as was the case in 2020, no formulaic schemes were in place during 2021. The Board Remuneration Committee did not appoint any external consultants during 2021.

John Leveson
Chair of Remuneration Committee
25 February 2022

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

BUSINESS

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

SECOND/ OVERSIGHT LINE

RISK MANAGEMENT

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

THIRD/ ASSURANCE LINE

INTERNAL AUDIT

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

Risk Governance

Robust governance arrangements are fundamental to the effective management of risk. The Society's Board has ultimate responsibility for the effective management of risk and approves the RMF, risk appetites and governance arrangements. It is advised on risk related matters by the Board Risk Committee (BRC), a formal sub-committee of the Board. The BRC has explicit terms of reference and its membership is comprised solely of Non-Executive Directors, with meetings routinely attended by executive and senior management. The BRC's key responsibilities and activities are set out in the Board Risk Committee report on page 42.

Full details of the Society's governance arrangements are captured in the Corporate Governance Report on page 30.

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.	We 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.	We will adopt a prudent approach to lending to wholesale counterparties which will ensure that default rates are low and that there is no impact on earnings or capital.
Strategic and Capital	The risk that the strategic direction of the Society and decisions made result in financial loss and have a detrimental impact on capital resources.	The Society has an established corporate planning process, which is subject to rigorous challenge and sets the overall direction for the Society. This is supported by regular stress testing and by conducting an Internal Capital Adequacy Assessment Process (ICAAP) at least annually to assess the Society's current and projected capital requirements. This demonstrates to the Board and regulators that the Society has sufficient capital for its business plans and the level of risk being taken. The Non-Executive Directors provide a robust level of challenge over Executive proposals.	We will ensure the Society's strategic direction delivers a sufficient return that enables us to deliver capital which provides long term growth as well as financial stability for our members.
Market	The risk of losses arising from changes in market rates or prices. The main exposure for the Society is interest rate risk resulting from funding fixed rate mortgages with variable rate savings products. Additionally, the Society is exposed to basis risk whereby the interest rate on assets and liabilities with similar re-pricing periods move by varying degrees, e.g. assets linked to industry benchmarks funded by variable savings products.	The Society has limited appetite for market risk but acknowledges that, as a mortgage lender, it is not possible or practical to eliminate all risk. To restrict market risk as much as possible the Society has set clearly defined limits within which risk must be managed. These are closely monitored and reported to senior management and the Board on a monthly basis. Interest rate risk is managed by utilising natural hedging opportunities that occur within the balance sheet or entering hedging transactions with external counterparties.	We will manage our interest rate and basis risk positions to ensure that losses due to adverse movements in market rates do not impact significantly over and above our forecasted market expectations.
Liquidity and Funding	The risk that the Society is unable to meet its financial obligations as they become due and, as a consequence, is unable to support normal business activity and fails to meet regulatory liquidity requirements. There is potential risk to the level of liquidity from an extreme scenario of depositors withdrawing their funds.	The Society's Board has set strict limits in respect of liquidity, which exceed regulatory requirements. These, along with key early warning indicators, are monitored on a daily basis in order to highlight potential issues and allow timely management action. 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.	We will maintain sufficient liquid resources, over and above the financial minimum, to give our members confidence that we have the ability to meet our financial obligations as they fall due. We will maintain sufficient retail deposits to fully support and fund retail lending at all times. We will additionally utilise wholesale or central bank funding when appropriate to support Treasury or liquidity holdings but will ensure that wholesale funding is managed such that an appropriate balance of funding from retail and wholesale sources is maintained.

RISK MANAGEMENT REPORT

(CONTINUED)

	Principal Risk	Mitigants	Risk Appetite
Conduct	The risk 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 and 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 and customers fairly. The Board has set out a clear set of values which drive a culture and behaviours that put the customer first.	We will ensure that we put our customers at the heart of our business operations to deliver excellent customer outcomes.
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.	We will ensure that we can meet our contractual and regulatory requirements so that we can satisfy our existing and future liabilities.
Operational	This is the risk of a loss or reputational damage resulting from inadequate or failed internal processes, people and systems or from external events.	The Society manages these risks as an integral part of its operations, utilising controls, such as the Risk & Control Self-Assessment tool and Risk Registers. Given the broad nature of operational risk, consideration has been given to each aspect of the risk. Those identified as particularly applicable to the Society are documented in the table below.	We will maintain efficient operational processes and controls to ensure that we can optimise our resources and reduce the impact of operational risks on the Society's performance and reputation. We will be proactive in our ability to respond to and recover from operational disruption.

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

	Principal Risk	Mitigants	Risk Appetite
Financial Crime	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.	We have no appetite for financial crime risk and we are committed to taking timely, proper and reasonable actions in order to minimise, manage and control financial crime risk.
Model and EUC	The risk that models and spreadsheets used in decision-making are not fit for purpose. This could be due to flawed assumptions or calculations or a breach of model integrity.	The Society uses a range of models and complex spreadsheets to derive management information with appropriate access controls implemented and procedural documentation available for the most significant of these. Internal policy clearly articulates standards in respect of the development, implementation and regular validation of models. These standards align to the PRA's principles as set out in Supervisory Statement 3/18.	We have no appetite for any severe or high impact models or EUCs not meeting the validation standards set out in our internal policy. We also have no appetite for any models or EUCs with significant identified errors or deficiencies being used without the prior authorisation of the Board Risk Committee. We furthermore have no appetite for operating any severe or high impact models or EUCs where there is an identified single point of dependency.
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. The use of interpretation documents which clearly set out any assumptions or judgements used in the production of returns further supports the robustness of reporting. All returns are subject to approval by an independent reviewer prior to final submission to the regulator meaning that appropriate checks are performed to ensure accuracy.	We will operate robust systems and controls to ensure that financial reporting is timely and accurate.

	Principal Risk	Mitigants	Risk Appetite
Regulatory and Legal	The risk of fines, public censure, limitation on business, or restitution costs arising from failing to understand, interpret, implement and comply with 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.	We will maintain a robust process to ensure that regulatory and statutory requirements are met within agreed timeframes.
Product Governance	Failure of systems and controls relating to product design, management, distribution strategies, sales processes, quality and suitability of sales.	The Society has a Conduct & Product Forum which governs the development and launch of new/amended products. It also ensures that the delivery of products and services results in good customer outcomes.	We will design, approve and launch all products using appropriately robust governance arrangements.
Information Technology	The risk that the Society or its members suffer financial loss or detriment due to inadequate management or controls of information security, physical security of IT assets, IT maintenance or delivery of IT applications and services.	The Society has robust mechanisms to ensure that IT operates effectively to deliver business performance. IT controls are subject to a quarterly attestation process that is independently challenged by the second line of defence and from regular reviews by Internal Audit.	We will maintain robust processes and controls to ensure that Society systems continue to deliver critical business activities and that security measures are appropriate to safeguard assets.
Information Security & Data Governance	The risk that the Society does not meet both regulatory standards and its own requirements for ensuring the accuracy, integrity and security of confidential data relating to customers, staff, suppliers or the Society's business activities and performance.	The Society is committed to protecting its members' personal data. Comprehensive processes and procedures are in place that are fully aligned with General Data Protection Regulation (GDPR) and the Data Protection Act (DPA) 2018. This includes the requirement to provide all staff with comprehensive training on a regular basis and ensuring the rights and freedoms, in relation to data protection, of our members' remains at the fore.	We will maintain robust systems and controls to adhere to data protection legislation as it relates to UK financial services businesses and will thus prevent legal action regarding non-compliance. The Society will proactively manage and secure all information assets.
People	The risk that the Society does not select, engage, manage, reward and develop its people in such a way that delivers the organisation's core values, and supports the delivery of current and future business strategy.	The Society 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.	We will engage with and manage all members of staff in a way that will support the delivery of the objectives set out in the Society's Corporate Plan.
Third Party Supplier & Outsourcing Risk	The risk of financial loss, regulatory fines, reputational damage or adverse operational impact due to the failure of a critical supplier, including an outsourcing partner, to fulfil its contract.	The Society has a detailed policies in respect of Third Party Supplier Outsourcing risk which set out the way in which third parties are to be managed. Critical third parties are subject to due diligence on a quarterly basis.	We will manage our third party supplier and outsourcing relationships to comply with our policy and procurement procedures to ensure that they meet the Society's commercial needs and comply with the relevant regulatory requirements.
Change Management	Risk of ineffective and inefficient implementation of change within the Society which could lead to financial loss, failure to meet legal and regulatory requirements or customer service standards.	The Society's 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.	We will manage all change projects in a structured and consistent manner to ensure that the defined benefits are realised.
Business Continuity	The risk that the Society is unable to operate business critical processes and provide business critical services in the event of an unplanned disruption to business as usual operations.	The Society has a Business Continuity Plan that is reviewed and updated annually. Tests are performed to ensure that if the plan needed to be invoked the Society would be able to operate effectively and meet customer needs. The robustness of this plan has been evidenced by the Society's ability to operate through the Covid-19 pandemic.	We will operate systems and controls to ensure that business critical operations are supported in the event of unplanned disruption.

RISK MANAGEMENT REPORT

(CONTINUED)

Other Material Risks

In addition to the principal risks detailed 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 Since March 2020, the whole of the UK has been significantly impacted by the Covid-19 pandemic. This has had consequences for how organisations operate, resulting in increased remote working, as well as broader impacts for the UK and global economy. Government support measures combined with a successful vaccine programme appear to have reduced the risks from the pandemic. However, the outbreak of the new omicron variant has underlined that, while reduced, risks to health, businesses and the economy remain. In addition, the recent increase in inflation and energy prices will stretch household finances, creating further uncertainty.	• The Society successfully invoked its business continuity plan, with the vast majority of head office staff continuing to work effectively from home. With the exception of a small number of short-term closures, all branches have remained open throughout the pandemic, albeit with revised opening hours. • A key risk identified was a potential weakening of the control environment due to increased home working. This has been a constant area of focus for the Society's Board Risk Committee as well as the Risk and Internal Audit functions throughout the period. 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. • During the pandemic, the Society's Arrears & Collections function supported over 800 members who were in need of some form of short-term payment holiday or concession. Close monitoring remains in place along with the required resourcing to support members further, if required.
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, technology and consumer sentiment could give 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. • Full consideration has been given to the Society's own carbon footprint and a commitment to be carbon neutral by 2050 has been made.
Cladding During 2021, consideration has been given to the Society's exposure to security taken with potentially dangerous external cladding. While the government, the Royal Institution of Chartered Surveyors (RICS) and lenders continue to seek a solution to support impacted borrowers, there remains a risk that the value of exposed properties will be impacted.	• The Society has undertaken detailed analysis to identify the relatively small cohort of impacted properties within its portfolio and to assess the potential risk. • A proactive contact strategy has been adopted with affected members to clarify their current circumstances and to assess what support, if any, is required.

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
25 February 2022

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The following Statement, which should be read in conjunction with the Independent Auditor's Report on pages 52 to 58, 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
25 February 2022

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 2021 which comprise the Group and Society Income Statements, Statements of Comprehensive Income, Statement of Financial Positions, Statements of Changes in Members' Interest, 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 2021 and of the income and expenditure of the Group and of the Society for the year then ended;

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

— have been prepared in accordance with the requirements of the Building Societies Act 1986.

Basis for opinion

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

We were first appointed as auditor by the directors on 26 April 2017. The period of total uninterrupted engagement is for the five financial years ended 31 December 2021. 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	£360k (2020:£320k) 0.50% (2020: 0.47%) of Net Assets
Coverage	100% (2020:100%) of Group profit before tax

Key audit matters		**vs 2020**
Recurring risks	Impairment on loans and advances to customers	▼
	Valuation of defined benefit obligation	◀▶

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

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

Key audit matter	The risk	Our response
Impairment on loans and advances to customers (Group and Society impairment: £0.6 million; 2020: £0.7 million) *Refer to page 36 (Audit Committee Report), page 66 (accounting policy) and page 71 (financial disclosures)*	**Subjective estimate:** Impairment on loans and advances to customers cover loans individually identified as impaired and a collective impairment on 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 Group's limited loss experience, increased judgement is required in the estimate. The key areas where we identified greater levels of management judgement and therefore increased levels of audit focus in the Group's estimation of impairment on loans and advances to customers were the probability that a customer will default on its loan payments (probability of default) 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, for example, in respect of economic conditions. The effect of these matters is that, as part of our risk assessment, we determined that impairment on loans and advances to customers has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the annual accounts as a whole. The annual accounts (note 1) disclose the sensitivity estimated by the Group.	Our procedures included: — **Benchmarking assumptions:** We compared the key assumptions used in the impairment model of probability of default and forced sale discounts with externally available data. — **Sensitivity analysis:** We assessed the collective model and specific individual impairments for their sensitivities to changes in the key assumptions of probability of defaults and forced sale discounts by performing stress testing to help us assess the reasonableness of the assumptions and identify areas of potential additional focus. — **Historical comparison:** We challenged the key assumptions used in the collective and individual models, being probability of default and forced sale discounts, against the Group's historical experience. — **Tests of detail:** We identified a selection of loans based on risk characteristics of current or historical arrears, forbearance flagging and size to identify individual loans which may have unidentified impairments. We tested the impairment 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. — **Overlay**: We challenged the overlays by critically assessing the assumptions used in determining the value of the adjustment recognised and; — **Assessing transparency:** We assessed the adequacy of the Group's disclosures about the degree of estimation involved in arriving at the provision. **Our results** — We found the resulting estimate and disclosures of impairment on loans and advances to customers to be acceptable. (2020: acceptable)

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

<table>
<tr><th>Key audit matter</th><th>The risk</th><th>Our response</th></tr>
<tr><td>Valuation of defined benefit obligation

(Group and Society £40.9 million; 2020: £44.8 million)

Refer to page 36 (Audit Committee Report), page 66 (accounting policy) and page 90 (financial disclosures)</td><td>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 asset on the statement of financial position, which includes the defined benefit obligation.

Small changes in the assumptions and estimates used to value the Group's defined benefit obligation (before deducting scheme assets) would have a significant effect on the Group's defined benefit obligation.

The effect of these matters is that, as part of our risk assessment, we determined that valuation of defined benefit obligation has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the annual accounts as a whole.

The annual accounts (note 1) disclose the sensitivity estimated by the Group.</td><td>Our procedures included:

— Evaluation of actuary: We evaluated the competence, independence and objectivity of the Group's actuary in assessing management's reliance upon their expert valuation services.

— 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 obligation, being the discount rate, inflation rate and mortality/life expectancy against externally derived data;

— Assessing transparency: Considering the adequacy of the Group's disclosures in respect of the sensitivity of the defined benefit obligation to these assumptions.

Our results

— We found the resulting estimate and disclosures of valuation of defined benefit obligation to be acceptable. (2020: acceptable)</td></tr>
</table>

We continue to perform procedures over going concern. However, as a result of the more favourable COVID-19 macroeconomic environment as at 31 December 2021, 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 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 £360k (2020: £320k), determined with reference to a benchmark of Group net assets, of which it represents 0.50% (2020: 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.

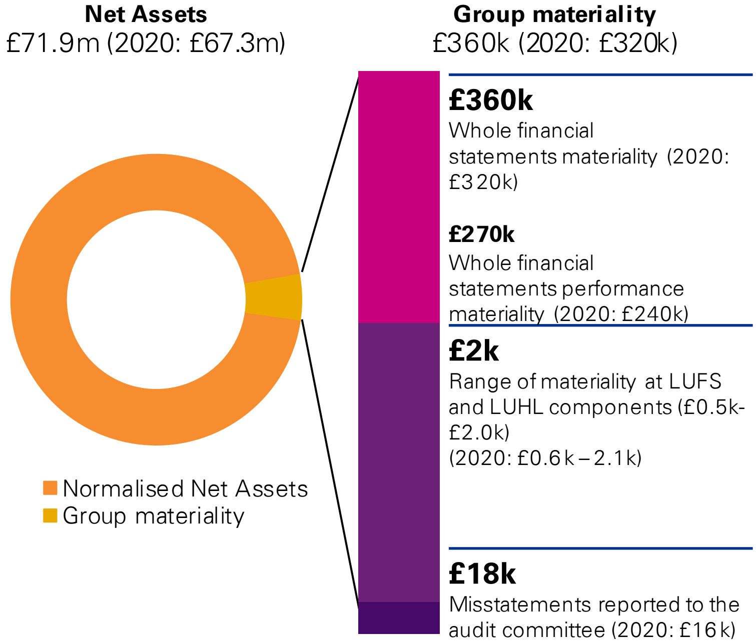
Performance materiality for the Group was set at 75% (2020: 75%) of materiality for the annual report and accounts as a whole, which equates to £270k (2020: £240k). We applied this percentage in our determination of performance materiality because we did not identify any factors indicating an elevated level of risk.

Materiality for the parent Society annual accounts as a whole was set at £359k (2020: £319k), determined with reference to a benchmark of Society net assets of which it represents 0.50% (2020: 0.49%).

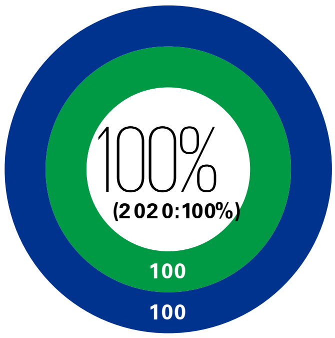
We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £18k (2020: £16k), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the Group's 3 (2020: 3) reporting components, we subjected 3 (2020: 3) to full scope audits for Group purposes.

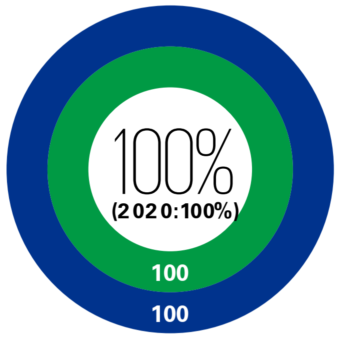
The components within the scope of our work accounted for the percentages illustrated opposite.



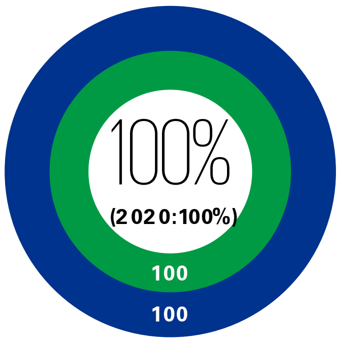
Group revenue



Group profit before tax



Group total assets



Full scope for group audit purposes 2021

Full scope for group audit purposes 2020

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 twelve months from the date of approval of the annual accounts ("the going concern period").

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

The risks that we considered most likely to adversely affect the Group's available financial resources over this period was an increase in the level of impairment on loans and advances to customers due to the current uncertainty in the economic environment. This could impact on the Group's available financial resources, leading to insufficient regulatory capital to meet minimum regulatory capital levels over the course of the next 12 months.

We also considered less predictable but realistic second order impacts, such as the availability of funding and liquidity in the event of a market wide stress scenario, which includes the impact of continuing unfolding of the global COVID-19 pandemic and the impact on regulatory capital requirements in the event of an economic slowdown or recession.

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

Our conclusions based on this work:

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

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

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

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the Group or the Society will continue in operation.

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

Identifying and responding to risks of material misstatement due to fraud

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

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

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

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

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

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

- Identifying journal entries based on risk criteria and comparing identified entries to supporting documentation. These included journals posted outside normal course of business and those posted to unusual accounts.
- Assessing significant accounting estimates for bias.

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

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

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, and through discussion with the directors and other management (as required by auditing standards), and from inspection of the Group's regulatory and legal correspondence and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations.

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

The potential effect of these laws and regulations on the financial statements varies considerably. Firstly, the Group is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including Building Societies legislation, and taxation legislation), and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Group is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the loss of Group's license to operate. We identified the following areas as those most likely to have such an effect: specific areas of regulatory capital and liquidity, conduct, money laundering and financial crime and certain aspects of Building Society legislation recognising the financial and regulated nature of the Group's activities and its legal form.

Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any.

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

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

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

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the annual accounts, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in annual accounts, the less likely the inherently limited procedures required by auditing standards would identify it.

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

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

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

Annual Business Statement and Directors' Report

In our opinion:

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

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

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

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

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

— adequate accounting records have not been kept by the Society; or

— the annual accounts are not in agreement with the accounting records; or

— we have not received all the information and explanations and access to documents we require for our audit.

We have nothing to report in these respects.

7. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 51, 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.

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

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

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

25 February 2022

Income Statements for the year ended 31 December 2021

	Notes	Group 2021 £000's	Group 2020 £000's	Society 2021 £000's	Society 2020 £000's
Interest receivable and similar income	**2**	17,533	18,019	17,530	18,016
Interest payable and similar charges	**3**	(4,507)	(6,433)	(4,507)	(6,433)
Net interest receivable		13,026	11,586	13,023	11,583
Fees and commissions receivable	**4**	621	565	623	566
Fees and commissions payable		(313)	(289)	(313)	(289)
Net gains/(losses) from derivative financial instruments	**5**	1,075	(291)	1,075	(291)
Total net income		14,409	11,571	14,408	11,569
Administrative expenses	**6**	(10,608)	(10,090)	(10,596)	(10,100)
Depreciation	**15**	(327)	(226)	(327)	(226)
Operating profit before impairment and other provisions		3,474	1,255	3,485	1,243
Net finance credit on pension scheme	**25**	(13)	(26)	(13)	(26)
Impairment credit/(charge) on loans and advances to customers	**7**	106	(302)	106	(302)
Provisions for liabilities – FSCS levy	**23**	-	(2)	-	(2)
Profit on ordinary activities before tax		3,567	925	3,578	913
Tax on profit on ordinary activities	**8**	(384)	(34)	(384)	(34)
Profit for the financial year	**27**	**3,183**	**891**	**3,194**	**879**

The notes on pages 64 to 94 form part of these accounts.

Statements of Comprehensive Income for the year ended 31 December 2021

	Notes	Group 2021 £000's	Group 2020 £000's	Society 2021 £000's	Society 2020 £000's
Profit for the financial year		3,183	891	3,194	879
Items that will not be reclassified to the Income Statement					
Actuarial gain recognised in pension scheme	**25**	2,006	63	2,006	63
Taxation on items that will not be reclassified to the Income Statement	**16, 21**	(703)	(78)	(703)	(78)
Items that may subsequently be reclassified to the Income Statement					
Available for sale reserve	**29**	(70)	66	(70)	66
Tax on items that may subsequently be reclassified to the Income Statement	**29**	-	3	-	3
Tax on revaluation reserve from changes in land and buildings	**28**	(28)	(8)	(28)	(8)
Other comprehensive income for the year net of income tax		1,205	46	1,205	46
Total comprehensive income for the financial year		**4,388**	**937**	**4,399**	**925**

The notes on pages 64 to 94 form part of these accounts.

Statements of Financial Position as at 31 December 2021

	Notes	Group 2021 £000's	Group 2020 £000's	Society 2021 £000's	Society 2020 £000's
ASSETS					
Liquid assets:					
Cash in hand and balances with the Bank of England	**9**	165,780	156,845	165,780	156,845
Loans and advances to credit institutions	**10**	8,167	13,717	8,111	13,661
Debt securities	**11**	123,778	109,271	123,778	109,271
		297,725	279,833	297,669	279,777
Derivative financial instruments	**12**	6,416	25	6,416	25
Loans and advances to customers	**13**	869,274	864,199	869,244	864,163
Investments in subsidiary undertakings	**14**	-	-	1	1
Tangible fixed assets	**15**	2,604	2,446	2,604	2,446
Intangible fixed assets	**15**	1,310	772	1,310	772
Other assets	**16**	127	40	134	41
Other assets - taxation	**16**	-	86	-	86
Prepayments and accrued income	**17**	579	488	579	488
Retirement benefit obligations	**25**	1,119	-	1,119	-
Total assets		**1,179,154**	**1,147,889**	**1,179,076**	**1,147,799**
LIABILITIES					
Shares	**18**	973,618	925,248	973,618	925,248
Amounts owed to credit institutions	**19**	115,088	132,033	115,088	132,033
Amounts owed to other customers	**20**	16,088	16,859	16,088	16,859
Derivative financial instruments	**12**	297	4,017	297	4,017
Other liabilities	**21**	583	582	588	586
Other liabilities – deferred taxation	**21**	660	-	660	-
Accruals and deferred income	**22**	936	779	924	767
Retirement benefit obligations	**25**	-	874	-	874
Total liabilities		**1,107,270**	**1,080,392**	**1,107,263**	**1,080,384**
RESERVES					
General reserve	**27**	70,869	66,384	70,798	66,302
Revaluation reserve	**28**	984	1,012	984	1,012
Available for sale reserve	**29**	31	101	31	101
Total reserves attributable to members of the Society		71,884	67,497	71,813	67,415
Total reserves and liabilities		**1,179,154**	**1,147,889**	**1,179,076**	**1,147,799**

The notes on pages 64 to 94 form part of these accounts.

These accounts were approved by the Board of Directors on 25 February 2022 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 2021

Group for year ending 31 December 2021	Notes	General reserve £000's	Revaluation reserve £000's	Available for sale reserve £000's	Total reserves attributable to members of the Society £000's
Balance as at 1 January 2021		**66,384**	**1,012**	**101**	**67,497**
Profit for the financial year		3,183	-	-	3,183
Other comprehensive income/(expense) for the year (net of tax)					
Re-measurement of defined benefit scheme obligations		1,302	-	-	1,302
Net loss from changes in financial assets		-	-	(70)	(70)
Net loss from changes in land and building		-	(28)	-	(28)
Total comprehensive income for the year		4,485	(28)	(70)	4,387
Balance as at 31 December 2021	**27,28,29**	**70,869**	**984**	**31**	**71,884**

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	**27,28,29**	**66,384**	**1,012**	**101**	**67,497**

Statements of Changes in Members' Interest as at 31 December 2021 (continued)

Society for year ending 31 December 2021	Notes	General reserve £000's	Revaluation reserve £000's	Available for sale reserve £000's	Total reserves attributable to members of the Society £000's
Balance as at 1 January 2021		**66,302**	**1,012**	**101**	**67,415**
Profit for the financial year		3,194	-	-	3,194
Other comprehensive income/(expense) for the year (net of tax)					
Re-measurement of defined benefit scheme obligations		1,302	-	-	1,302
Net loss from changes in financial assets		-	-	(70)	(70)
Net loss from changes in land and building		-	(28)	-	(28)
Total comprehensive income for the year		4,496	(28)	(70)	4,398
Balance as at 31 December 2021	**27,28,29**	**70,798**	**984**	**31**	**71,813**

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	**27,28,29**	**66,302**	**1,012**	**101**	**67,415**

Statements of Cash Flows for the year ended 31 December 2021

	Notes	Group 2021 £000's	Group 2020 £000's	Society 2021 £000's	Society 2020 £000's
Cash flows from operating activities					
Profit on ordinary activities before tax		3,567	925	3,577	913
Depreciation		327	226	327	226
(Increase)/Decrease in fair value of derivative financial instruments and hedged items		(1,037)	287	(1,037)	287
Decrease in effective interest rate adjustment		77	111	77	111
(Decrease)/Increase in impairment on loans and advances		(106)	302	(106)	302
Amounts recovered in respect of loans previously written off		2	2	2	2
(Profit) on sale of tangible fixed assets		(122)	-	(123)	-
Non-cash pension losses		13	26	13	26
Total cash flow from operating activities		**2,721**	**1,879**	**2,730**	**1,867**
Changes in operating assets and liabilities					
Increase in loans and advances to customers		(14,122)	(13,230)	(14,127)	(13,236)
Increase in accruals and deferred income		157	166	157	169
Increase in prepayments and accrued income		(154)	(797)	(153)	(798)
(Decrease)/Increase in amounts owed to credit institutions and other customers		(17,717)	489	(17,717)	489
Decrease/(Increase) in loans and advances to credit institutions		4,405	(3,029)	4,405	(3,029)
(Increase)/Decrease in other assets		(747)	23	(753)	120
Decrease in other liabilities		582	117	583	121
Increase in shares		48,371	52,054	48,371	52,054
Taxation paid		(290)	(28)	(290)	(28)
Net cash generated from operating activities		**23,206**	**37,644**	**23,206**	**37,729**
Cash flows from investing activities					
Proceeds from sale of fixed assets		170	-	170	-
Tangible fixed asset additions		(449)	(746)	(449)	(746)
Intangible fixed asset additions		(623)	(490)	(623)	(490)
Purchase of debt securities		(96,000)	(126,749)	(96,000)	(126,749)
Maturities and disposal of debt securities		81,486	143,975	81,486	143,975
Net cash used in investing activities		**(15,416)**	**15,990**	**(15,416)**	**15,990**
Net increase in cash and cash equivalents		**7,790**	**53,634**	**7,790**	**53,719**
Cash and cash equivalents at 1 January		166,137	112,503	166,081	112,362
Cash and cash equivalents at 31 December	**26**	173,927	166,137	173,871	166,081
Net cash generated from operating activities		**7,790**	**53,634**	**7,790**	**53,719**

Notes to the Accounts for the year ended 31 December 2021

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's has two none-trading subsidiaries that together with the Society comprise the Group. The Society conducts annual Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Adequacy Assessment Process (ILAAP) reviews to assess and stress test its capital and liquidity positions respectively, in line with 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 Group and 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 of the Group and the Society 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 IASB has issued temporary amendments to these standards to provide temporary reliefs for instruments and hedges directly impacted by IBOR reform.

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

Phase 2 reliefs

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

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

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

At 31 December 2021 the Society has no LIBOR-linked exposures.

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 44 for disclosure of the Directors' remuneration.

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 initially recorded at fair value and subsequently at amortised cost, including any effective interest rate adjustment, less any impairment losses other than where an adjustment is made as part of a fair value hedging arrangement.

b) Financial asset at fair value through profit and loss

The Group uses derivatives only for interest rate risk management purposes. It does not use derivatives for trading purposes. A fair value 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 24.

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 24 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.

1. Principal accounting policies (continued)

d) Offsetting

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

Impairment of loans and advances to customers

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

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

Forbearance strategy

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

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

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

Consideration of Covid-19 has been factored into the assessment of impairment as at 31 December 2021 and forms a key area of judgement for the year ended 31 December 2021. Further information on forbearance is contained within note 24.

Impairment losses on debt securities

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

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

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

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

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

Pension costs

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

On 24 April 2013, the Society closed its externally funded final salary (defined benefit) scheme to further accrual. Contributions payable to the scheme are determined by a qualified actuary on the basis of a triennial valuation using the projected unit method, and are charged to the income and expenditure account over the periods benefiting from the employees' services. 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 25.

The defined benefit scheme was in surplus at 31 December 2021 and this has been recognised as an asset in the Statement of Financial Position.

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

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

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

Cash and cash equivalents

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

Taxation

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

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

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

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

Tangible fixed assets and depreciation

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

Intangible fixed assets and amortisation

The costs of computer software acquired where the Group will derive future economic benefit are capitalised at the acquisition date. Amortisation is charged to the Income Statement on a straight line basis over the estimated useful life of the intangible asset. Current capitalised intangible assets are amortised over 4 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.

1. Principal accounting policies (continued)

Critical accounting judgements and estimates

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

a) Impairment losses on loans and advances

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

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

The principal estimates are the likelihood that a loan will become impaired/default, known as the probability of default (PD) and, on these cases, how much will be lost, known as loss given default (LGD). This is principally driven by house prices at the point of realisation of collateral. The impact of a 1% increase in PD would impact the collective provision in 2021 by £260k. The impact of a 5% increase in the forced sale discount affecting the LGD would impact the collective provision in 2021 by £176k.

As a result of Covid-19 the Directors have included overlays to reflect their best estimate of provisions held against loans in arrears or losses that may have been incurred but not identified. The total amount of overlays included within the impairment provision is £460k and the underlying reasons are explained below:

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 amongst its mortgage portfolio, as a result of the challenging current economic conditions, including a sharp increase in inflation and energy prices.

In addition, the Society has identified a limited portion of its mortgage portfolio where cladding risk is present and this risk may impact on both the probability of default and loss given default for these mortgages.

Finally, during the year the Society has amended its impairment methodology to make use of external benchmark data, which indicates that lower probability of defaults should be applied to accounts that are not in arrears than were adopted in prior years. Further work will be undertaken in 2022 to refine this analysis.

b) Employee benefits and recognition of pension surplus

The Group operates a defined benefit pension scheme and has an obligation to pay pension benefits to certain employees. Judgement is exercised in estimating the value of the assets and liabilities of the scheme, and hence its net surplus or deficit. The Group have estimated the assumptions, set out in note 25, after taking advice from qualified independent actuaries. Sensitivities relating to the key estimates are set out below:

Assumption	Sensitivity (increase)	Impact on liabilities
Discount rate	0.25%	c. £1.5m reduction
Inflation (RPI/CPI)[1]	0.25%	c. £0.4m increase
Mortality[2]	0.25%	c. £0.4m increase

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

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

IFRIC 14 is the interpretation that details when a sponsoring employer of a defined benefit pension scheme can recognise any surplus that exists. IFRIC 14 permits the recognition of an asset if a scheme is in surplus if economic benefits are available to the entity in the form of a refund or reduction in future contributions. Economic benefits arising from a refund are only available if the entity has unconditional right to a refund under specific circumstances.

The directors' view is that, under the scheme rules, the Society has an unconditional right to any surplus assuming the gradual settling of liabilities over time until all members have left the scheme. Furthermore, in the ordinary course of business the Trustee has no rights to unilaterally wind-up, or otherwise augment the benefits due to members of the scheme. Therefore, under IFRIC 14 the Society is neither required to reflect any additional liabilities in relation to deficit funding commitments, nor restrict any scheme surplus that arises. Whilst IFRIC 14 does not directly apply to the Society, FRS102 is understood to follow IFRIC 14 on these matters in the absence of any other specific guidance on it.

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. During 2021 £126k has been expensed through the profit and loss account and £862k has been capitalised as an Intangible Asset under Construction, on the balance sheet where it will remain unamortised until it is available for use. As this intangible asset is not yet available for use it has been subject to an impairment assessment which required the exercise of judgement with regards to the potential future economic benefits that will accrue to the Society. This review concluded that this intangible asset is not impaired.

2. Interest receivable and similar income

	Group 2021 £000's	Group 2020 £000's	Society 2021 £000's	Society 2020 £000's
On loans fully secured on residential property	19,010	18,630	19,007	18,627
On other loans	7	7	7	7
On debt securities – interest and other income	275	844	275	844
On other liquid assets – interest and other income	183	265	183	265
Net (expense) on derivative financial instruments	(1,942)	(1,727)	(1,942)	(1,727)
	17,533	**18,019**	**17,530**	**18,016**

3. Interest payable and similar charges

	Group 2021 £000's	Group 2020 £000's	Society 2021 £000's	Society 2020 £000's
On shares held by individuals	4,345	6,088	4,345	6,088
On deposits and other borrowings	159	344	159	344
Net expense on derivative financial instruments	3	1	3	1
	4,507	**6,433**	**4,507**	**6,433**

4. Fees and commissions receivable

	Group 2021 £000's	Group 2020 £000's	Society 2021 £000's	Society 2020 £000's
Insurance commission	493	439	493	439
Other fees	128	126	130	127
	621	**565**	**623**	**566**

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

	Group 2021 £000's	Group 2020 £000's	Society 2021 £000's	Society 2020 £000's
Gains/(Losses) on hedging instruments	9,687	(2,745)	9,687	(2,745)
(Losses)/Gains on hedged items attributable to the hedged risk	(9,037)	2,651	(9,037)	2,651
Net matched position	**650**	**(94)**	**650**	**(94)**
Gains/(Losses) on derivatives not in designated fair value relationships	425	(197)	425	(197)
Total net gain/(loss) on derivatives	**1,075**	**(291)**	**1,075**	**(291)**

The net fair value (FV) gain from matched derivative financial instruments of £650k (2020: loss of £94k) 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 gain of £425k (2020: FV loss of £197k) 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 2021 £000's	Group 2020 £000's	Society 2021 £000's	Society 2020 £000's
Staff costs (including Executive Directors):				
Wages and salaries	5,446	5,222	5,446	5,222
Social security costs	563	531	563	531
Other pension costs	392	386	392	386
	6,401	**6,139**	**6,401**	**6,139**
Other expenses:				
Remuneration of auditors (excluding VAT)				
Audit of Group and Society accounts	253	211	253	211
Audit of subsidiaries	10	10	-	-
Other services	19	16	19	16
Total auditor remuneration	**282**	**237**	**272**	**227**
Other administrative expenses	3,925	3,667	3,923	3,689
Total administrative expenses	**10,608**	**10,090**	**10,596**	**10,100**

In addition to the auditor remuneration as shown above, the Society also paid audit fees in relation to the defined benefit pension scheme of £13k (2020: £18k).

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

	Group 2021	Group 2020	Society 2021	Society 2020
(i) At principal office:				
Full-time staff	95	97	95	97
Part-time staff	36	31	36	31
(ii) At branch offices:				
Full-time staff	29	32	29	32
Part-time staff	31	32	31	32
Total staff	**191**	**192**	**191**	**192**
(iii) Total full-time equivalents	171	172	171	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 27 April 2022 and at the Annual General Meeting. The total loans outstanding at 31 December 2021, in respect of 2 (2020: 2) people amounted to £596k (2020: £655k). As at 31 December 2021 a total of £68,664 (2020:£19,892) was held in Society savings by the Directors.

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

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

Group and Society

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

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)	-	(13)
Charge in the year	41	266	307
At 31 December 2020	**50**	**659**	**709**

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

Group and Society	**2021 £000's**	**2020 £000's**
Change in loan impairment allowance	(105)	294
Amounts recovered in respect of loans previously written off	(1)	(2)
Amounts written off during the year	-	10
Income and expenditure account	**(106)**	**302**

The impairment allowance as at 31 December 2021 and 2020 has been deducted from loans fully secured on residential property in the Statement of Financial Position. No impairment allowance is held for loans fully secured on land.

The above table includes the impact of the mortgage impairment overlays of £460k for the year ended 31 December 2021 (2020: £369k). Further details are provided in note 1 to these accounts.

8. Tax on profit on ordinary activities

	Group 2021 £000's	Group 2020 £000's	Society 2021 £000's	Society 2020 £000's
(a) UK corporation tax at 19% (2020: 20%):				
Current tax	369	68	369	68
UK deferred tax at 19% (2020: 19%):				
Deferred tax – current year (see note 16)	15	(34)	15	(34)
Total	**384**	**34**	**384**	**34**

The tax assessed for the year is lower (2020: lower) than the standard rate of corporation tax in the UK of 19% (2020: 19%). The differences are explained below.

	Group 2021 £000's	Group 2020 £000's	Society 2021 £000's	Society 2020 £000's
(b) Factors affecting current tax charge in year:				
Profit on ordinary activities before tax	3,567	925	3,578	913
Tax on profit at UK standard rate of 19% (2020: 19%)	678	176	680	173
Expenses not deductible for tax purposes	16	36	16	41
Adjustment re: prior year	(100)	(85)	(100)	(85)
Group relief claimed	-	-	(7)	(5)
Impact of change in rate – deferred tax	(194)	(94)	(194)	(94)
Changes to treatment of debt securities	-	4	-	4
Fixed asset difference	(29)	-	(29)	-
Chargeable gains	18	-	18	-
Deferred tax not recognised	(5)	(3)	-	-
Total tax charge	**384**	**34**	**384**	**34**

Current tax has been provided at the rate of 19%. For the year ended 31 December 2021 deferred tax was provided at a rate of 25% being the rate substantively enacted at the balance sheet date.

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

	Note	Group 2021 £000's	Group 2020 £000's	Society 2021 £000's	Society 2020 £000's
Cash in hand		639	734	639	734
Balances at the Bank of England		165,141	156,111	165,141	156,111
Included in cash and cash equivalents	**26**	**165,780**	**156,845**	**165,780**	**156,845**

10. Loans and advances to credit institutions

	Group 2021 £000's	Group 2020 £000's	Society 2021 £000's	Society 2020 £000's
Maturity analysis:				
Repayable on demand	8,147	9,292	8,091	9,236
In more than one year but not more than five years	20	4,425	20	4,425
	8,167	**13,717**	**8,111**	**13,661**

Amounts outstanding in more than one year but not more than five years of £20k (2020: £4,425k) fully reflect amounts placed as collateral with counterparties in respect of derivative contracts.

11. Debt securities

	Group 2021 £000's	Group 2020 £000's	Society 2021 £000's	Society 2020 £000's
Available for sale securities:				
Issued by UK Government	500	500	500	500
Issued by other borrowers - listed	28,285	40,533	28,285	40,533
Issued by other borrowers - unlisted	94,993	68,238	94,993	68,238
	123,778	**109,271**	**123,778**	**109,271**
Available for sale securities:				
Maturity analysis:				
In not more than one year	95,493	68,738	95,493	68,738
In more than one year	28,285	40,533	28,285	40,533
	123,778	**109,271**	**123,778**	**109,271**

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	2021 £000's	2020 £000's
At 1 January	109,271	125,664
Additions	96,000	126,749
Maturities and disposals	(81,486)	(143,975)
Movement in premium and accrued interest	63	767
(Loss)/Gain in fair value recognised in Other Comprehensive Income	(70)	66
At 31 December	**123,778**	**109,271**

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 2021				
Unmatched derivatives – interest rate swaps	44,473	177	(20)	157
Derivatives designated as fair value hedges - interest rate swaps	425,412	6,239	(277)	5,963
Total recognised derivative assets/(liabilities)	**469,885**	**6,416**	**(297)**	**6,120**
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)**

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 2021 £000's	Group 2020 £000's	Society 2021 £000's	Society 2020 £000's
Loans and advances to customers comprise:				
Loans fully secured on residential property	874,644	860,493	874,614	860,457
Loans fully secured on land	161	163	161	163
Fair value adjustment for hedged risk	(5,531)	3,543	(5,531)	3,543
	869,274	**864,199**	**869,244**	**864,163**

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 £5,531k (2020: £3,543k) 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 2021 £000's	Group 2020 £000's	Society 2021 £000's	Society 2020 £000's
Repayable on demand	1,050	387	1,050	387
In not more than three months	7,529	7,116	7,529	7,115
In more than three months but not more than one year	23,819	22,877	23,818	22,876
In more than one year but not more than five years	152,848	145,226	152,819	145,193
In more than five years	689,513	685,032	689,513	685,031
	874,759	**860,638**	**874,729**	**860,602**
Loan impairment allowance	(604)	(709)	(604)	(709)
Fair value adjustment for hedged risk	(5,531)	3,543	(5,531)	3,543
Effective interest rate adjustment	650	727	650	727
	869,274	**864,199**	**869,244**	**864,163**

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 2021 £000's	Society 2020 £000's
Shares	1	1
Loans	-	-
	1	**1**

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

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

The Mortgage Outlet Limited 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 and from 1 January 2010 the company has been dormant. During 2020 a provision was made within the Society to dissolve this subsidiary. The loan that was owed to the Society was 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 2021	2,583	3,888	245	6,716
Additions	-	566	406	972
Disposals	(36)	(714)	(522)	(1,272)
At 31 December 2021	2,547	3,740	129	6,416
Accumulated depreciation				
At 1 January 2021	805	3,465	-	4,270
Charge for the year	39	210	-	249
Disposals	(16)	(691)	-	(707)
At 31 December 2021	828	2,984	-	3,812
Net book value				
At 31 December 2021	**1,719**	**756**	**129**	**2,604**

During the year the Society disposed of Norbury House a property forming part of its Customer Service Centre that was surplus to requirements. Cash proceeds of £170,000 were received on disposal with the book value of the assets being £20k at the date of disposal.

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 2021	2,583	3,888	245	6,716
Additions	-	566	406	972
Disposals	(36)	(714)	(522)	(1,272)
At 31 December 2021	2,547	3,740	129	6,416
Accumulated depreciation				
At 1 January 2021	805	3,465	-	4,270
Charge for the year	39	210	-	249
Disposals	(16)	(691)	-	(707)
At 31 December 2021	828	2,984	-	3,812
Net book value				
At 31 December 2021	**1,719**	**756**	**129**	**2,604**

15. Fixed assets (continued)

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.

The net book value of land and buildings occupied by the Society for its own activities is £1,719k (2020: £1,778k). 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:

	2021 £000's	2020 £000's
Cost	1,470	1,470
Aggregate depreciation based on cost	(480)	(458)
	990	**1,012**

15. Fixed assets (continued)

Intangible Fixed Asset Group	Computer Software £000's	Asset Under Construction £000's	Totals £000's
Cost			
At 1 January 2021	1,424	746	2,170
Additions	591	678	1,269
Disposals	(8)	(645)	(653)
At 31 December 2021	2,007	779	2,786
Accumulated depreciation			
At 1 January 2021	1,398	-	1,398
Charge for the year	78	-	78
Disposals	-	-	-
At 31 December 2021	1,476	-	1,476
Net book value			
At 31 December 2021	**531**	**779**	**1,310**

Intangible Fixed Asset Society	Computer Software £000's	Asset Under Construction £000's	Totals £000's
Cost			
At 1 January 2021	1,424	746	2,170
Additions	591	678	1,269
Disposals	(8)	(645)	(653)
At 31 December 2021	2,007	779	2,786
Accumulated depreciation			
At 1 January 2021	1,398	-	1,398
Charge for the year	78	-	78
Disposals	-	-	-
At 31 December 2021	1,476	-	1,476
Net book value			
At 31 December 2021	**531**	**779**	**1,310**

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

15. Fixed assets (continued)

Intangible Fixed Asset Group	Computer Software £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	Computer Software £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**

16. Other assets

	Group 2021 £000's	Group 2020 £000's	Society 2021 £000's	Society 2020 £000's
Amounts due from subsidiary undertakings	-	-	8	2
Other	127	40	126	39
	127	40	134	41

Other assets - Deferred tax asset

The elements of deferred taxation are as follows:	Group 2021 £000's	Group 2020 £000's	Society 2021 £000's	Society 2020 £000's
Difference between accumulated depreciation and capital allowances	-	(72)	-	(72)
Capital gains on revalued land and building	-	(101)	-	(101)
Other timing differences	-	259	-	259
	-	86	-	86
Deferred taxation at 1 January	-	135	-	135
Deferred tax charge	-	34	-	34
Items in relation to the Statement of Comprehensive Income:				
Movements in relation to pension scheme	-	(78)	-	(78)
Movements in relation to debt securities	-	3	-	3
Movements in relation to revalued land and buildings	-	(8)	-	(8)
At 31 December	**-**	**86**	**-**	**86**

17. Prepayments and accrued income

	Group 2021 £000's	Group 2020 £000's	Society 2021 £000's	Society 2020 £000's
Prepayments	550	452	550	452
Accrued income	29	36	29	36
	579	**488**	**579**	**488**

18. Shares

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

	Group 2021 £000's	Group 2020 £000's	Society 2021 £000's	Society 2020 £000's
Repayable on demand	798,613	751,553	798,613	751,553
In not more than three months	26,621	21,111	26,621	21,111
In more than three months but not more than one year	71,184	80,699	71,184	80,699
In more than one year but no more than five years	77,233	71,881	77,233	71,881
Fair Value Adjustment for Hedged Risks	(33)	4	(33)	4
	973,618	**925,248**	**973,618**	**925,248**

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 2021 £000's	Group 2020 £000's	Society 2021 £000's	Society 2020 £000's
Repayable in less than one year	6,088	105,033	6,088	105,033
Repayable in more than one year but no more than five years	109,000	27,000	109,000	27,000
	115,088	**132,033**	**115,088**	**132,033**

Amounts payable in less than one year amounting to £6,088k (2020: £nil) fully reflect amounts placed as collateral with counterparties in respect of derivative contracts.

20. Amounts owed to other customers

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

	Group 2021 £000's	Group 2020 £000's	Society 2021 £000's	Society 2020 £000's
Repayable on demand	16,088	16,859	16,088	16,859

21. Other liabilities

	Group 2021 £000's	Group 2020 £000's	Society 2021 £000's	Society 2020 £000's
Amounts falling due within one year:				
Corporation tax	121	42	121	42
Other taxation and social security costs	268	184	268	184
Amounts due to Subsidiary undertakings	-	-	6	5
Other creditors	194	356	193	355
	583	**582**	**588**	**586**

Other liabilities - Deferred tax

	Group 2021 £000's	Group 2020 £000's	Society 2021 £000's	Society 2020 £000's
The elements of deferred taxation are as follows:				
Difference between accumulated depreciation and capital allowances	343	-	343	-
Capital gains on revalued land and building	129	-	129	-
Other timing differences	188	-	188	-
	660	**-**	**660**	**-**
Deferred taxation asset at 1 January	(86)	-	(86)	-
Deferred tax charge	15	-	15	-
Items in relation to the Statement of Comprehensive Income:				
Movements in relation to pension scheme	703	-	703	-
Movements in relation to revalued land and buildings	28	-	28	-
At 31 December	**660**	**-**	**660**	**-**

All deferred tax balances have been recongised at 25% being the rate enacted at the balance sheet date.

22. Accruals and deferred income

	Group 2021 £000's	Group 2020 £000's	Society 2021 £000's	Society 2020 £000's
Accrued interest on derivatives	176	278	176	278
Accruals	754	494	742	482
Deferred income	6	7	6	7
	936	**779**	**924**	**767**

23. 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 scheme closed in 2020 and during 2021 the Society conducted no activity in relation to the scheme (2020: £2k charge).

24. 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 2021 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

24. 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 2021	**Loans and receivables £000's**	**Financial assets and liabilities at amortised cost £000's**	**Available for sale £000's**	**Derivatives designated as fair value hedges £000's**	**Unmatched derivatives at fair value £000's**	**Total £000's**
Financial assets						
Cash in hand and balances with the Bank of England	-	165,780	-	-	-	165,780
Loans and advances to credit institutions	8,167	-	-	-	-	8,167
Debt securities	-	-	123,778	-	-	123,778
Derivative financial instruments	-	-	-	6,239	177	6,416
Loans and advances to customers	874,805	(5,531)	-	-	-	869,274
Total financial assets	**882,972**	**160,249**	**123,778**	**6,239**	**177**	**1,173,415**
Total non-financial assets						5,739
Total Group assets						**1,179,154**
Financial liabilities						
Shares	-	973,618	-	-	-	973,618
Amounts owed to credit institutions	-	115,088	-	-	-	115,088
Amounts owed to other customers	-	16,088	-	-	-	16,088
Derivative financial instruments	-	-	-	277	20	297
Total financial liabilities	**-**	**1,104,794**	**-**	**277**	**20**	**1,105,091**
Total non-financial liabilities						2,179
General and other reserves						71,884
Total Group reserves and liabilities						**1,179,154**

24. Financial instruments (continued)

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**

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 2021					
Financial assets					
Available for sale:					
Debt securities	**11**	28,784	94,994	-	**123,778**
Derivative financial instruments:					
Interest rate swaps	**12**	-	6,416	-	**6,416**
		28,784	**101,410**	**-**	**130,194**
Financial liabilities					
Derivative financial instruments:					
Interest rate swaps	**12**	**-**	**297**	**-**	**297**

	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**

24. 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 2021 £000's	Group 2020 £000's	Society 2021 £000's	Society 2020 £000's
Cash in hand and balances with the Bank of England	165,780	156,845	165,780	156,845
Loans and advances to credit institutions	8,167	13,717	8,111	13,661
Debt securities	123,778	109,271	123,778	109,271
Derivative financial instruments	6,416	25	6,416	25
Loans and advances to customers	869,274	864,199	869,244	864,163
Total statement of financial exposure[1]	**1,173,415**	**1,144,057**	**1,173,329**	**1,143,965**
Off balance sheet exposure - mortgage commitments[2]	37,126	45,352	37,126	45,352
Total	**1,210,541**	**1,189,409**	**1,210,455**	**1,189,317**

[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.

24. Financial instruments (continued)

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

Industry sector	2021 £000's	2021 %	2020 £000's	2020 %
Banks	94,993	77%	68,238	63%
Building societies	-	-	-	-
Central Government	500	0%	500	0%
Supranationals	28,285	23%	40,533	37%
Total	**123,778**	**100%**	**109,271**	**100%**

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

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

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

Geographic region	2021 £000's	AA %	A %	2020 £000's	AA %	A %
United Kingdom	4,808	6%	94%	16	-	63%
Europe	1,608	-	100%	9	-	37%
Total	**6,416**			**25**		

There are no impairment charges against any of the Group's treasury assets at 31 December 2021 or 31 December 2020.

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.

24. Financial instruments (continued)

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 82. Loans and advances to customers are predominantly made up of retail loans fully secured against UK property of £875m (2020: £861m) 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**	**2021 £000's**	**2021 %**	**2020 £000's**	**2020 %**
West Midlands		169,780	19%	185,285	21%
North		150,528	17%	139,658	16%
London		154,798	18%	142,273	17%
East Midlands		94,734	11%	92,802	11%
South West		84,847	10%	86,918	10%
Outer South East		81,098	9%	84,611	10%
Yorkshire & Humberside		68,559	8%	57,726	7%
Wales and Northern Ireland		42,510	5%	37,054	4%
East Anglia		27,745	3%	34,148	4%
Total		**874,599**	**100%**	**860,475**	**100%**
Other loans (see below)		160		163	
	13	**874,759**		**860,638**	

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:

	2021	**2020**
Repayment – Residential mortgage	62%	60%
Interest Only – Residential mortgage	10%	11%
Repayment – Buy to Let	4%	4%
Interest Only – Buy to Let	24%	25%

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 39% (2020: 40%). All residential loans above 80% (2020: 80%) LTV are insured.

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

	Group	
LTV analysis	**2021 %**	**2020 %**
Residential		
0% - 30%	16%	15%
30% - 60%	41%	39%
60% - 80%	36%	33%
80% - 90%	6%	13%
90%-100%	1%	0%
>100%	-	-
Average loan to value of residential mortgage loans	**39%**	**40%**

24. Financial instruments (continued)

LTV analysis	Group 2021 %	Group 2020 %
Buy to Let		
0% - 30%	8%	6%
30% - 60%	79%	68%
60% - 80%	13%	26%
80% - 90%	-	-
90%-100%	-	-
>100%	-	-
Average loan to value of buy to let mortgage loans	**44%**	**47%**

The quality of the Group's retail mortgage book is reflected in the number and value of accounts in arrears, by value this is 0.5% (2020: 0.4%), of which only 0.2% (2020: 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	2021 £000's	2021 %	2020 £000's	2020 %
Not impaired				
Neither past due or impaired	870,138	100%	857,101	100%
Past due up to three months but not impaired	2,773	0.3%	1,773	<=0.1%
Impaired				
Past due three to six months	405	<=0.1%	1,273	<=0.1%
Past due six to 12 months	827	<=0.1%	491	<=0.1%
Past due over 12 months	616	<=0.1%	-	-
Total	**874,759**	**100%**	**860,638**	**100%**

Value of collateral held	2021 Indexed £000's	2021 Unindexed £000's	2020 Indexed £000's	2020 Unindexed £000's
Neither past due or impaired	2,168,841	1,727,895	2,034,853	1,722,929
Past due up to three months but not impaired	6,411	4,850	5,596	3,967
Past due over three months and impaired	4,034	2,985	3,622	2,983

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 2021, the Group and Society had 1 (2020: no) property in possession with an outstanding balance of £382k (2020: £nil) and related collateral of £425k (2020: £nil).

24. Financial instruments (continued)

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 2021 Number	31 December 2020 Number
Reduced payment including interest only concessions	3	4
Arrangements	8	5
Payment holidays	6	8
Total	**17**	**17**

In total £2.1m (2020: £2.0m) of loans are subject to forbearance. There is a requirement for a collective impairment allowance in 2021 of less than £0.5k (2020: less than £0.5k) in relation to forbearance accounts.

Liquidity risk

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

Stress tests are undertaken to measure the Society's ability to meet adverse cash flows on a regular basis. This activity is overseen by the ALCO. The Society also complies with the rules issued by the Prudential Regulation Authority concerning the quality of liquid assets held by banks and building societies. As a consequence, the Society held £164m at 31 December 2021 (2020: £155.4m) on deposit with the Bank of England to ensure ready access to liquid funds should the need arise.

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

31 December 2021	Repayable on demand £000's	Not more than three months £000's	More than three months but not more than six months £000's	More than six months but less than one year £000's	More than one year but not more than five years £000's	More than five years £000's	Total £000's
Shares	798,537	26,779	30,540	41,031	79,067	-	975,954
Amounts owed to credit institutions	6,056	32	67	137	109,796	-	116,088
Amounts owed to other customers	10,031	-	-	-	-	-	16,031
Derivative financial instruments	-	256	133	42	(13)	-	418
Total liabilities	**814,624**	**27,067**	**30,740**	**41,210**	**188,850**	**-**	**1,102,491**

24. 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**

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 2.6% of capital (£1.9m) on a net present value basis and £0.7m on profit at 31 December 2021 (2020: 2.0%, £1.4m, £0.1m). 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:

	2021 Assets £000's	2021 Liabilities £000's	2020 Assets £000's	2020 Liabilities £000's
Instrument type:				
Interest rate swaps	6,416	297	25	4,017
Total	**6,416**	**297**	**25**	**4,017**

Capital structure

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

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

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

24. Financial instruments (continued)

	2021 £000's	2020 £000's
Common Equity Tier 1 (CET1)		
General and other capital reserves	71,884	67,497
Prudent valuation adiustment (unaudited)	(124)	(110)
Pension asset	(839)	-
Intangible assets	(1,311)	(766)
	69,610	**66,621**
Tier 2 capital		
Collective provision	598	659
Total regulatory capital	**70,208**	**67,280**
Risk Weighted Assets (unaudited)	388,150	373,223
Capital ratios (unaudited)		
CET1 ratio	17.9%	17.9%
Total capital ratio	18.1%	18.0%
Leverage ratio	5.6%	5.7%

25. 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 2021 by a qualified actuary, independent of the scheme's sponsoring employer to take account of the actuarial method and assumptions required by Section 28 of FRS102. The major assumptions used by the actuary are shown on page 92.

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)

	2021 £000's	2020 £000's	2019 £000's
Fair value of scheme assets	42,066	44,002	39,308
Present value of scheme liabilities	(40,947)	(44,876)	(40,219)
Asset/(Deficit) in scheme	**1,119**	**(874)**	**(911)**

Reconciliation of opening and closing balances of the defined benefit obligation

	2021 £000's	2020 £000's
Defined benefit obligation at start of year	44,876	40,219
Current service cost	-	37
Interest expense	611	827
Actuarial (gain)/losses	(2,023)	5,477
Benefits paid and expenses	(2,517)	(1,691)
Losses due to benefit changes	-	7
Defined benefit obligation at end of year	**40,947**	**44,876**

25. Retirement benefit obligations (continued)

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

	2021 £000's	2020 £000's
Fair value of scheme assets at start of year	44,002	39,308
Interest income	598	808
Actuarial (gain)/losses	(17)	5,540
Contributions by Society	-	37
Benefits paid	(2,517)	(1,691)
Scheme assets at end of year	**42,066**	**44,002**

The actual return on the plan assets over the year ended 31 December 2021 was £581k (2020: £6,185k).

Total defined benefit costs recognised in the Income Statement

	2021 £000's	2020 £000's
Current service cost	-	37
Net interest cost	13	19
Losses due to benefit changes	-	7
Defined benefit cost recognised in profit and loss account	**13**	**63**

Defined benefit costs recognised in Other Comprehensive Income

	2021 £000's	2020 £000's
Return on plan assets (excluding amounts included in net interest cost) – gain	17	5,540
Experience gains/(loss) arising on the plan liabilities	-	141
Effects of changes in the demographic and financial assumptions underlying the present value of the plan liabilities: (loss)	(2,023)	(5,618)
Total amount recognised in Other Comprehensive Income – gain/(loss)	**(2,006)**	**63**

Assets	2021 £000's	2020 £000's	2019 £000's
Multi asset credit funds	2,114	1,863	1,635
Corporate bonds	2,758	2,541	2,468
Diversified growth funds	9,285	9,168	8,291
Liability driven investment funds	9,692	11,377	9,253
Insured pensioners	18,158	19,031	17,510
Other	59	22	151
Total	**42,066**	**44,002**	**39,308**

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.

25. Retirement benefit obligations (continued)

Assumptions	**2021 % per annum**	**2020 % per annum**	**2019 % per annum**
Rate of discount	1.80	1.40	2.10
Retail Price Index inflation	3.35	3.00	3.00
Consumer Price Index inflation	2.85	2.50	2.20
Salary growth	4.35	4.00	4.00
Allowance for revaluation of deferred pensions of CPI or 5% p.a. if less	2.85	2.50	2.20
Allowance for pension payment increases of RPI or 5% p.a. if less	3.25	2.90	3.00
Allowance for pension in payment increases of RPI or 2.5% p.a. if less	2.25	2.05	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

On 25 November 2020, the Government and UK Statistics Authority's joint consultation response on RPI reform was published. This confirmed their attention to amend the RPI calculation methodology to be aligned to that already in use for the calculation of the CPI (including housing) with effect from 2030 (known as CPIH) and no compensation for holders of index-linked gilts. The markets have adjusted since the announcement and it appears reasonable to conclude the the BOE curve for periods after 2030 reflect CPIH expectations, whilst for earlier periods it reflects the current RPI methodology.

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% (2020: 0.2%). For CPI, the Society reduced the long term gap between RPI and CPI to 0.5% in 2020 and this level has been maintained for 2021. This reflects an RPI-CPI wedge of 100bps pre-2030 and zero post-2030. At 31 December 2021, the change in actuary from Mercer to ISIO has also resulted in a change to the methodology used to calculate the RPI assumption. ISIO have derived the RPI assumption using their own inflation spot curve, compared to Mercer's own inflation curve adopted at the prior year. If the prior year methodology had been adopted, we estimate that the RPI assumption would have been 3.60% at 31 December 2021. The impact of this change in methodology has reduced balance sheet liabilities by c.£80k (0.2% of the defined benefit obligation) at 31 December 2021.

The mortality assumptions adopted at 31 December 2021 imply the following life expectancies:

Male retiring at age 60 in 2021	26.4 years (2020: 26.5 years)
Female retiring at age 60 in 2021	28.4 years (2020: 28.4 years)
Male at age 60 in 2041	27.6 years (2020: 27.7 years)
Female retiring at age 60 in 2041	29.6 years (2020: 29.6 years)

The best estimate of deficit contributions to be paid by the Society to the scheme for the period commencing 1 January 2022 is £nil. The Society will however pay the insurance premium for death in service benefits.

Mortality assumptions are based on publicly available mortality tables for the UK. Covid-19 has caused a short-term increase in deaths in the UK but the excess deaths have not generally had a material impact on UK pension scheme liabilities. The future impact of Covid on long term mortality improvements is currently uncertain, with potential adverse implications of delayed medical interventions and long covid, along with potential positive implications if the surviving population is less frail or the pandemic causes improved healthcare initiatives. ISIO have made an adjustment to the mortality assumption via the adoption of a non-default 2020 weight parameter, which has been derived using ISIO's in-house view.

26. Cash and cash equivalents

	Group 2021 £000's	**Group 2020 £000's**	**Society 2021 £000's**	**Society 2020 £000's**
Cash in hand and balances at Bank of England	165,780	156,845	165,780	156,845
Loans and advances to credit institutions	8,147	9,292	8,091	9,236
At 31 December	**173,927**	**166,137**	**173,871**	**166,081**

27. General reserve

	Group 2021 £000's	Group 2020 £000's	Society 2021 £000's	Society 2020 £000's
At 1 January	**66,384**	**65,508**	**66,302**	**65,438**
Profit for the financial year	3,183	891	3,194	879
Net gain/(loss) recognised directly in Other Comprehensive Income	1,302	(15)	1,302	(15)
At 31 December	**70,869**	**66,384**	**70,798**	**66,302**

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

28. Revaluation reserve

	Group 2021 £000's	Group 2020 £000's	Society 2021 £000's	Society 2020 £000's
At 1 January	1,012	1,020	1,012	1,020
Tax on revaluation reserve from changes in land and buildings	(28)	(8)	(28)	(8)
At 31 December	**984**	**1,012**	**984**	**1,012**

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

29. Available for Sale reserve

	Group 2021 £000's	Group 2020 £000's	Society 2021 £000's	Society 2020 £000's
At 1 January	101	32	101	32
Net (losses) gains from changes in fair value	(70)	66	(70)	66
Deferred tax on available for sale reserve	-	3	-	3
At 31 December	**31**	**101**	**31**	**101**

30. 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.

30. Country by Country Reporting (continued)

Total turnover, profit before tax and average number of employees

Total turnover for the year ended 31 December 2021 was £13,334k (2020: £11,862k). 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 2021 was £3,567k (2020: £925k). Corporation tax paid during the year ended 31 December 2021 was £260k (2020: £28k).

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 2021 was 171 (2020: 172).

Public subsidies received

The Society received no public subsidies in the year ended 31 December 2021 (2020: nil).

Annual Business Statement

Annual Business Statement for the year ended 31 December 2021

	2021 %	2020 %	Statutory limit %
Statutory percentages			
Lending limit	0.20	0.50	25.0
Funding limit	11.9	13.9	50.0

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

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

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

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

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

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

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

Other percentages	2021 %	2020 %
Gross capital as a percentage of shares and borrowings	6.51	6.28
Free capital as a percentage of shares and borrowings	6.21	6.05
Liquid assets as a percentage of shares and borrowings	26.95	26.05
Profit on ordinary activities after taxation as a percentage of year end total assets	0.27	0.08
Management expenses as a percentage of mean total assets	0.94	0.92

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 2020 and 2021 total assets. Management expenses represent the aggregate of administrative expenses and depreciation.

Information relating to Directors as at 31 December 2021

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
 **Dave Cheeseman** BSc, FIA 01/10/1968	Non-Executive Director	29/04/2021	Holloway Friendly Society Limited Amber River Group
 **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
 **Andrew Davies** 03/08/1967	Building Society Chief Risk Officer	29/09/2021	None
 **Richard Goddard** MA, FCA 09/06/1957	Non-Executive Director	23/11/2011	RCG Business Consultancy Ltd
 **Andrew Healy** MoB, BSc, Chartered FCIPD 10/11/1966	Building Society Chief Executive	17/12/2018	Leek United Home Loans Ltd Leek United Financial Services Ltd The Mortgage Outlet Ltd
 **John Kelly** ACA, BA 14/09/1965	Building Society Operations Director	26/04/2017	None
 **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

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