



The Loughborough
Building Society

**Business Review and
Summary Financial Statement**

for the year ended 31 October 2008



Directors

Paul R Blakemore BA, FCA

Chairman

Scott P Mellors FRICS

Deputy Chairman

Colin G Bradley BSc, ACA, ACIB

Cheryl D Clifford BA, FCIPD

Caroline Joyce BA, ACIB

Stephen R Peete BA, FCIB

Alan Roberts LL.B

Ian J Webb BSc, MCIM

Chief Executive

Operations Director

Finance Director

Stephen R Peete BA, FCIB

Caroline Joyce BA, ACIB

Colin G Bradley BSc, ACA, ACIB

Chief Executive's Introduction

Welcome to the Society's Summary Financial Statement, which contains an overview of the Society's performance over the past year, together with the Society's reports on Corporate Governance and on Directors' Remuneration.

This past 12 months has seen tremendous upheaval within the financial sector. Banks and Building Societies that were once household names have disappeared or are due to disappear. The Government has had to step in to protect investors in a number of institutions and to provide substantial capital injections to allow other banks to survive. We have seen the Financial Services Compensation Scheme (FSCS) limit increased to £50,000 per individual, per brand. Savers have become increasingly concerned about the safety of their money as a continuous stream of bad news jolted their confidence. Borrowers and potential borrowers have seen their options narrow as institutions hoarded cash and reduced the availability of mortgages.

The Loughborough has not been immune from these difficulties but I have been reassured by the loyalty and trust showed by our savings members in particular. At our first Members Forum, for example, I was told by one individual that he wasn't worried about his money because he knew the Society wouldn't do anything stupid. That attitude has been echoed by a number of people that I have spoken to who know that the Society has not indulged in high loan to value lending, or dabbled with sub prime or self certification mortgages.

Despite the financial crisis and the growing acceptance that the country is likely to face a difficult 12-18 months, your Society has continued to produce a solid set of results. Once again we have been successful in taking more costs out of the business. Our ratio of costs to mean assets has fallen for the 5th year in a row and now stands at 88 pence. We remain committed to seeking further efficiencies but undoubtedly things will be tougher in the coming year. The impact of the FSCS levy, designed to compensate customers in failed businesses including Bradford and Bingley and the Icelandic Banks will be substantial, and has cost the equivalent of 5 pence of mean assets in the year ended October 31, 2008. It is galling that these costs will fall on the members of organisations who have acted prudently and who were not prepared to offer what have turned out to be unaffordable savings rates and irresponsible mortgage deals.

The Loughborough has continued to offer prudently priced mortgage products and we have remained committed to helping first time buyers, particularly in our core area. We have advanced over £43 million and achieved a small increase in mortgage balances. Overall, assets have risen by more than 6% to £276.9 million. The Society's lending has been funded

entirely through the monies deposited by retail savers. The past 12 months have seen an inflow of more than £12 million which has allowed the Society to continue lending and to lower the Society's exposure to funding from the markets.

Despite the financial turmoil, your Society has not reduced its support for the communities within which it operates. Our "Community Matters" scheme has continued to provide local groups with grants and we collaborated with the Loughborough Echo to raise over £18,000 to fund the presence of a doctor on every flight of the local Air Ambulance. These efforts were rewarded at the Leicestershire Business Awards where the Society received the "Contribution to the Community" Award.

The coming 12 months are going to be difficult. Despite predictions that interest rates will fall to historically low levels, it seems clear that the UK is going to have to endure a recession. House prices have fallen over the past year and the next year may well bring further significant falls. Unemployment is increasing and we will do everything we can to help those who are facing genuine difficulties paying their mortgage.

We continue to remain focussed on the needs of our members. Our Annual General Meeting will take place on February 18th at Loughborough Town Hall and I would urge as many of you as possible to attend. The AGM is a real opportunity to question the Board and to let us have your views. This year for the first time you will be able to vote online and I hope that you will take the time and trouble to cast your vote even if you cannot attend the meeting. Our Charity of the Year, which for 2009 is The Shuttlewood Clarke Foundation, will benefit by 20p for every online vote and 10p per every postal vote cast up to a maximum of £1,000.

I would like to thank the Society's staff for their efforts in delivering another good set of results in what have been difficult circumstances. Our staff continue to "make a difference" on a daily basis and I know that their efforts are appreciated by the membership as a whole. Finally I would like to say thank you to you, our members for your support and trust and to assure you that we will continue to operate the Society for the benefit of all its members.

Stephen Peete

Chief Executive

8 December 2008

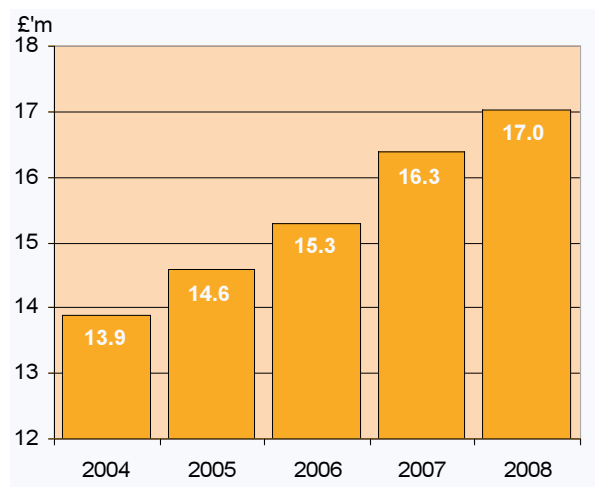
Society Performance over the past 5 years.

Key Performance Indicators (KPIs)

The Board uses a number of KPIs to measure and monitor progress and performance. Over the past 5 years, the Society planned to grow in a controlled manner, ensuring that the interests of borrowers and savers are safeguarded. Some of the KPIs are illustrated below to show the progress the Society has made with the help of members and staff.

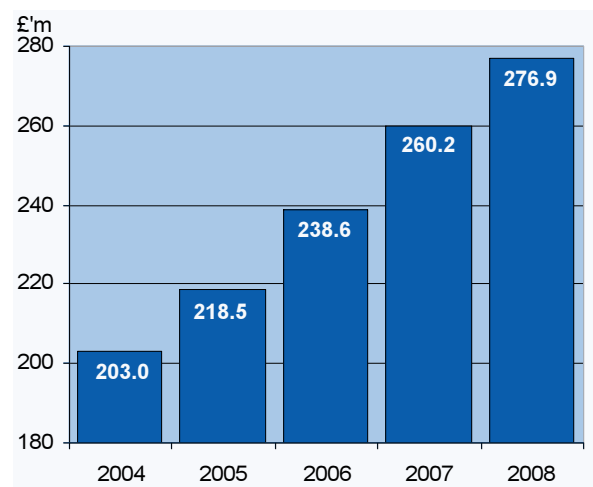
General Reserves

The Directors remain committed to maintaining a strong capital position to satisfy regulatory requirements and to protect investors. General Reserves were £17.0 million at October 2008.



Total Assets

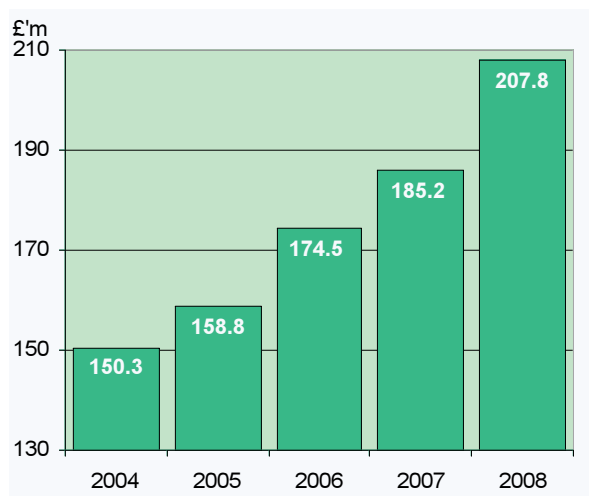
The high quality of our products and services is reflected in sustained asset growth, in our core markets of mortgages and savings, over a five-year period. Total assets were £276.9 million at October 2008.



Share Balances

(excluding accrued interest)

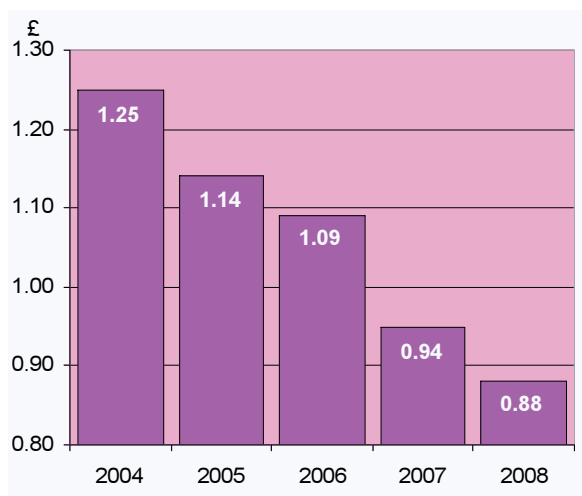
The Society continues to offer competitive products to new and existing members, resulting in continued growth in share balances, rising to £207.8 million at October 2008.



Management Expenses

% of Mean Assets (excluding exceptional items)

The Board reviews its management expenses each quarter. Lower costs allow us to maintain the branch network and offer competitive products for the benefit of all our members. The ratio was 88 pence at October 2008.



Summary Financial Statement for the Year ended 31 October 2008

The Directors have pleasure in presenting the Summary Financial Statement of the Society for the year ended 31 October 2008.

This Financial Statement is a summary of information in the audited Annual Accounts, the Directors' Report and Annual Business Statement, all of which will be available to members and depositors, free of charge on demand, at every office of the Loughborough Building Society from 19 January 2009.

Approved by the Board of Directors on 8 December 2008 and signed on its' behalf by: -

PR Blakemore **Chairman**
SP Mellors **Deputy Chairman**
SR Peete **Director and Chief Executive**

Summary Directors' Report

The Directors are pleased to present their 141st Annual Report, together with the Annual Accounts and Annual Business Statement of the Society for the year ended 31 October 2008.

Business Objectives and Activities

The principal business of the Society is that of raising, primarily by the subscription of members, a stock or fund for making to them advances secured on land for their residential use.

The business objectives are to promote savings and home ownership, primarily in the East Midlands, through a competitive interest rate structure on a variety of straightforward products combined with high levels of personal service to all of our members.

Business Review

We are delighted to be able to report that the Society has continued to make significant progress in key areas, despite an increasingly difficult trading environment. The Society's Key Performance Indicators are summarised on page 2.

The Society's ratio of costs to mean assets has been reduced for the fifth year in a row. At the end of the 2002/2003 financial year this ratio stood at £1.37. At the end of this year the figure had reduced to 88 pence, a fall of more than 35%. The Society has also acted to increase liquidity levels and thanks to the support of retail savers it has been able to reduce the level of wholesale funding to its lowest level for a number of years. Overall the Society has achieved an increase in assets of 6.4%, to a new record figure of £276.9 million.

The past 12 months have seen major problems in financial markets and it is clear that these problems are now feeding

over into the real economy. The rate of economic growth has fallen sharply and the third quarter of 2008 actually saw a contraction in the economy. It now seems likely that the fourth quarter will also see a contraction meaning that the U.K. is officially in recession. Unemployment has started to rise and experts are predicting a rise of close to 3 million which is likely to mean an increase in the number of people experiencing difficulties with their mortgage payments. We are pleased to report that the Society's arrears levels remain broadly unchanged compared to last year, with just 1 case in possession at the year end.

The Bank of England has moved to reduce interest rates in the light of the threat of an imminent recession. Rates were reduced by 0.25% on three occasions up to April 2008. Then in October the Bank took part in a concerted round of interest rate cuts with other central banks, cutting rates by a further 0.5% to 4.5%. In November the base rate was reduced by 1.5% and this month rates have been cut by a further 1% to a historic low of just 2%. It seems likely that rates will be reduced again during 2009 as the economy continues to contract.

Concerns over house prices and a reduction in the amount of mortgage finance available to consumers have combined to create a drastic fall in the number of housing and mortgage transactions. The Loughborough has concentrated on providing mortgage finance to existing members and those living within its core territory. The Society has withdrawn from providing mortgages through intermediaries. Overall gross lending was £43.25 million, with an average loan to value ratio of 41.29%. Net lending was positive despite the repayment of a sub participation loan by the Society's biggest borrower, and mortgage balances increased by 1%.

After the issue of Northern Rock in 2007, the past 12 months have seen a number of further failures. Household names have disappeared, brought down by a mix of injudicious lending and a lack of capital. Savers have been affected by the problems at Bradford and Bingley and a number of Icelandic banks. The Government has acted to stop retail savers losing any of their funds and in October the Financial Services Compensation Scheme limit was raised from £35,000 to £50,000 per individual, per brand. Overall savers have continued to support the Society, producing a retail inflow in the year of £12.6 million. Pre tax profit amounted to £894,000 in 2007/2008, with profit after tax at £632,000. The Society's Board continues to target a level of profit that is in line with the Society's mutual status. The charge for bad and doubtful debts amounted to £234,000. The Society has maintained its financial strength with the capital ratios remaining more than adequate to satisfy foreseeable requirements.

Summary Financial Statement

Continued

Principal Risks and Uncertainties

The Society has a risk averse culture which helps to protect members' interests and reduce exposure to the principal risks and uncertainties facing the business.

The principal business risks to which the Society is exposed are considered to be :

- Credit Risk, this relates to the risk that mortgage customers or treasury counterparties, to whom the Society has lent money, may default on their obligation to pay.
- Interest Rate Risk, this is the risk that income or expenditure, arising from the Society's assets or liabilities, varies as a result of changes in interest rates.
- Liquidity Risk, this relates to the Society's ability to meet its financial obligations as they fall due. The Society has policies in place to ensure it maintains sufficient funds in liquid form at all times.
- Operational Risk, this is the risk of a loss arising from inadequate or failed internal processes or systems, human error or external events. Processes and systems are in place to minimize these risks as far as is practicable.
- Regulatory Risk, this is the risk that the volume and complexity of regulatory issues, for instance TCF and related costs, such as the FSCS levy, may reduce the society's capital and ability to compete over a period of time.
- Strategic Risk, the risk of the Society entering unprofitable markets or offering unprofitable products. The Board has a strategic duty to ensure that the Society makes an adequate amount of profit to maintain capital ratios at a sufficient level to provide long term financial strength and stability for all members.

Building Societies operate in a highly competitive and regulated market with significant uncertainties arising from the general economic environment, in particular the demand for borrowing and the availability of funding.

The management of risk and strategic direction are key activities for the success of the business. The Board of Directors, aided by a number of committees, is responsible for ensuring that an up to date risk management structure is in place covering all aspects of the business.

Information Technology

The Society continues to operate an I.T. system provided by Bailey Computer Services. The level of service provided has continued to be of a very high standard.

Regulation

The Society is regulated by the FSA for all aspects of

mortgage lending and administration, as well as for deposit taking and the provision of financial services. In addition, the Society subscribes to the Banking Code and is a member of the Financial Ombudsman Scheme.

The Board remains concerned about the impact on all Societies of the manner in which the Government has sought to mitigate the cost of rescuing various institutions that have not been managed in a way that balanced risk and reward. It is likely that the Society will have to contribute an estimated £550,000 over the next 3 financial years to October 2010 towards the rescue of Bradford and Bingley and the Icelandic Banks. These payments will certainly limit the Society's ability to provide members with competitive interest rates.

Costs

The Society has again been successful in reducing its management expenses ratio. The core figure for 2007/2008 fell to 88 pence, a reduction of 6 pence from the previous year. The Board views the control of costs as playing an integral part in the Society's success and has continued to seek ways of reducing costs without compromising the level of service provided by the Loughborough, to all members.

Directors

The following persons served as Directors during the year: -

Non-Executive Directors

P R Blakemore BA, FCA	Chairman
S P Mellors FRICS	Deputy Chairman
Mrs C D Clifford BA, FCIPD	
A Roberts LL.B	Senior Independent Director
I J Webb BSc, MCIM	

Executive Directors

S R Peete BA, FCIB	Chief Executive
Mrs C. Joyce BA, ACIB	Operations Director
C G Bradley BSc, ACA, ACIB	Finance Director

The Directors retiring in accordance with the Rules are C.G. Bradley, S.P. Mellors and A. Roberts who, being eligible, offer themselves for re-election.

Auditors

The auditors, KPMG Audit Plc have signified their willingness to continue in office and a resolution will, therefore, be proposed at the Annual General Meeting that they should be re-appointed as auditors of the Society.

Management and Staff

The Directors would like to record their appreciation for the dedication and enthusiasm of the management and staff at the end of what has been a satisfactory year for the Society.

Thanks are also due to all our members and professional contacts for their continued support.

On behalf of the Board

Paul R. Blakemore, Chairman

8 December 2008

Summary Financial Statement

Continued

For the year ended 31 October 2008

	2008 £000	2007 £000
Results for the Year		
Net interest receivable	3,298	3,743
Other income and charges	319	105
Administrative expenses	(2,365)	(2,351)
Provisions	(358)	(52)
Profit for the year before taxation	894	1,445
Taxation	(262)	(438)
Profit for the year	632	1,007
Financial position at end of the year		
Assets		
Liquid Assets	64,720	49,260
Mortgages	210,904	209,535
Fixed and Other Assets	1,305	1,369
Total Assets	276,929	260,164
Liabilities		
Shares	212,494	189,529
Borrowings	45,160	51,692
Other liabilities	1,442	1,866
Provisions for contingent liabilities and commitments	**124	-
Reserves	16,986	16,347
Revaluation reserve	723	730
Total Liabilities	276,929	260,164
** Provision is in respect of FSCS levy		
Summary of key financial ratios	%	%
Gross capital as a percentage of shares and borrowings	6.87	7.08
Liquid assets as a percentage of shares and borrowings	25.12	20.42
Profit for the year as a percentage of mean total assets	0.24	0.40
Management expenses as a percentage of mean total assets	0.88	0.94

Key Financial Ratios

Gross capital comprises general reserves and revaluation reserve. The gross capital ratio measures the proportion which the Society's capital bears to the Society's liabilities to holders of shares and borrowings. Gross capital provides a financial buffer protecting investors against any losses that might arise from the Society's activities. The Board is committed to providing a secure home for investors' funds and Loughborough Building Society has a gross capital ratio in line with that of the Building Society industry.

The liquid assets ratio measures the proportion of the Society's shares and other borrowings that are held in the form of cash, short-term deposits and marketable securities. Liquid assets are generally readily realisable into cash, enabling the Society to meet requests by investors for withdrawals from their accounts, to make new mortgage loans to borrowers and to fund its general business activities.

Profit for the year as a percentage of mean total assets is the return on a Society's gross capital as a percentage of the average value of total assets during the year. The Society needs to make a reasonable level of profit each year in order to maintain its gross capital ratio at a suitable level to protect investors' funds. The Directors believe the profit for the year is consistent with the aims of mutuality.

Management expenses as a percentage of mean total assets measures the proportion of administrative expenses, including depreciation, as a percentage of the average value of total assets during the year.

Statement of the independent auditors to the members and depositors of Loughborough Building Society

Pursuant to section 76 of the Building Societies Act 1986, we have examined the summary financial statement of Loughborough Building Society set out on pages 3 to 5. This auditors' statement is made solely to the society's members, as a body, and to the society's depositors, as a body, in accordance with Section 76 of the Building Societies Act 1986. Our work has been undertaken so that we might state to the society's members and depositors those matters we are required to state to them in such a statement and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the society and the society's members as a body and the society's depositors as a body, for our work, for this statement, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Business Review and Summary Financial Statement in accordance with applicable United Kingdom law. Our responsibility is to report to you our opinion on the consistency of the summary financial statement within the Business Review and Summary Financial Statement with the full annual accounts, Annual Business Statement and Directors' Report and its conformity with the relevant requirements of Section 76 of the Building Societies Act 1986 and regulations made under it. We also read the other information contained in the Business Review and Summary Financial Statement and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the summary financial statement.

Basis of opinion

We conducted our work in accordance with Bulletin 1999/6 'The auditors' statement on the summary financial statement' issued by the Auditing Practices Board for use in the United Kingdom. Our report on the society's full annual accounts describes the basis of our audit opinion on those annual accounts.

Opinion

In our opinion the summary financial statement is consistent with the full annual accounts, the Annual Business Statement and Directors' Report of Loughborough Building Society for the year ended 31 October 2008 and conforms with the applicable requirements of Section 76 of the Building Societies Act 1986 and regulations made under it.

KPMG Audit Plc
Chartered Accountants
Registered Auditor

Birmingham
8 December 2008

Directors' Remuneration Report

The purpose of this report is to inform members, in line with good corporate governance practice, of the policy for the remuneration of the Society's Executive Management Team and its Non-Executive Directors. It provides details of the elements of Directors' remuneration and explains the process for setting them.

An advisory resolution will be put to this year's Annual General Meeting, inviting members to vote on the Directors' Remuneration Report.

Policy

The Board Staff and Remuneration Committee reviews and recommends to the Board the policy and practice on the remuneration of Executive Directors. The Committee takes into account relevant factors from the Combined Code of Corporate Governance.

The policy is designed to ensure that senior executive remuneration reflects performance and allows the Society to attract, motivate and retain high calibre, qualified executives, with the skills and experience needed to lead a business of this nature and complexity and develop it for the long term benefit of our members, in an increasingly regulated and competitive market.

In order to achieve this, the Committee seeks to ensure that remuneration levels are fair and competitive, reflecting market comparatives from similar financial institutions, and each individual's personal development and contribution to the Society's performance.

The Staff and Remuneration Committee comprises four Non-Executive Directors, as detailed on page 10. Meetings of the Committee are also attended by the Chief Executive, as appropriate. The Chief Executive withdraws from the meeting when his own remuneration is being considered.

The Chief Executive assesses individual performance of the other Executives against specific corporate and individual objectives and makes recommendations to the Staff and Remuneration Committee.

Executive Directors' Remuneration

Remuneration of the Society's Executive Management Team comprises a number of elements: basic salary, annual and medium term incentive schemes, contributions to pension schemes and other benefits.

Basic Salary

Basic salaries are paid at an appropriate level to take account of job content and responsibilities, external market competitiveness and individual performance in the role.

Annual Bonus

The Annual Bonus is an incentive scheme that provides non-pensionable rewards directly linked to the achievement of key performance targets as determined by the Society's Board. Performance targets are reviewed annually, by the Society's Board, to ensure they are aligned to business priorities. The overall objective is to improve Society performance whilst maintaining the financial strength of the Society for the benefit of its members. The maximum figure payable is 10% of basic salary, the amount paid for 2007/08 was 5%. In addition the Staff and Remuneration Committee awarded discretionary bonus payments to the Finance Director and the Operations Director of 5% and 2.5% of basic salary respectively. The payments are non-pensionable.

Medium Term Bonus

The current scheme with selected targets for asset growth and the reduction of core costs has been introduced for the three years commencing 2006/07. The maximum amount payable will be 10% of salary and any payments due under the scheme will be paid in December 2009. Payments are non-pensionable.

Pension Benefits

The Society operates a contributory money purchase scheme and makes contributions for all qualifying staff, including the Executive Directors. The Society also operates a death in service scheme for all members of the pension scheme. The scheme provides a lump sum of four times basic salary in the event of death in service.

Directors' Remuneration Report

Continued

Other Benefits

The Society provides other taxable benefits to Executive Directors comprising a car, health care provision and concessionary mortgage.

Service Contracts

All Executive Directors are employed on service contracts, which can be terminated by the Society on one year's notice and by the individual executives on 6 months' notice. The contracts terminate at age 65.

Non- Executive Directors' Remuneration

Non-Executive Directors are remunerated solely by fees. The Board's policy is to review the fees annually, with a maximum increase of the general percentage rise in staff salaries. They do not have service contracts and they do not receive any salary, pension, bonus incentives or other taxable benefits. The fees paid reflect time spent on Society affairs including membership of Board committees.

Directors' Remuneration (audited information)

Executive Directors (£ '000)

2008	Salary	Annual Bonus	Pension Contributions	Benefits	TOTAL
S. R. Peete	103	5	14	11	133
Mrs C. Joyce	73	6	9	4	92
C.G. Bradley	73	7	11	10	101
TOTALS	249	18	34	25	326

2007	Salary	Annual Bonus	Pension Contributions	Benefits	TOTAL
S. R. Peete	97	7	13	10	127
Mrs C. Joyce	68	5	8	7	88
C.G. Bradley	68	8	11	8	95
TOTALS	233	20	32	25	310

Non -Executive Directors (£ '000)

	2008	2007
	Fees	
P.R. Blakemore (Chairman)	29	29
S.P. Mellors (Deputy Chairman)	22	22
A. Roberts (Chairman of Audit and Compliance)	21	20
Mrs C.D.Clifford	17	17
I.J. Webb	17	14
J.B. Gibbins (Resigned 13 December 2006)	0	3
TOTALS	106	105

Paul R. Blakemore, Chairman Staff and Remuneration Committee

8 December 2008

Corporate Governance Report

Directors' Report on Corporate Governance

The Society's Board views good corporate governance as playing an essential role in discharging the Board's responsibilities to the Society's members. The Society's regulator, the FSA, requires the Board to have regard to the Combined Code on Corporate Governance issued by the Financial Reporting Council in developing its policies and practices. The Board agrees with and supports the principles of the Code and whilst the Society does not have to comply with them, as it is not a listed company, where it does not do so an explanation is given.

The Board

The Board's principal functions are to focus on strategic issues, to provide guidelines and parameters within which the business is managed, to review business and financial performance on a regular basis, to ensure that effective systems and controls are in place for risk management and ultimately to safeguard the interests of members. The Board generally meets each month.

There is a formal schedule of matters that are reserved for the Board and Board members have full and timely access to all of the information that they require to discharge their duties effectively.

The Board has four major Committees to discuss specific issues in greater depth than would be possible during Board Meetings. Each Committee has Terms of Reference that are approved by the Board and which are available from the Society's Secretary on request. The 4 principal Committees are those relating to Audit and Compliance, Nominations, Staff and Remuneration, and Assets and Liabilities. The Society also has a Development and Marketing Committee that assesses development and marketing strategy and considers opportunities to promote the Society's products.

Audit and Compliance Committee

The Committee considers regulatory compliance matters, the adequacy of internal controls and evaluation of risks. It also reviews both Internal and External audit reports, monitors the effectiveness of Internal and External Auditors and agrees the annual internal audit plan.

The Committee meets at least 4 times a year and the Chief Executive, Finance Director and Compliance Officer as well as representatives from both Internal and External Audit attend by invitation. Part of each meeting takes place without the Executives being present.

Whilst the Combined Code currently states that the Chairman of an organisation should not be a member of the Audit and Compliance Committee, the Board felt that the financial expertise of the Society's Chairman would be particularly beneficial to the operation of the Committee and Mr Blakemore has served as a member of the Committee since March 2007.

The following Non-Executive Directors served during the year: A. Roberts (Chairman), P.R. Blakemore and Mrs. C.D. Clifford.

Assets and Liabilities Committee

The remit of this Committee is to monitor risks on both sides of the balance sheet, including the use of derivatives for fixed rate products. The Committee also reviews the structure of interest rates and the treasury activities of the Society.

The following Directors served during the year: S.R. Peete (Chairman), P.R. Blakemore, C.G. Bradley, Mrs. C. Joyce and S.P. Mellors.

Nominations Committee

The Nominations Committee is responsible for making recommendations on appointments to the Board, to ensure that it comprises sufficient Directors who are fit and proper, independent and who can meet the collective and individual responsibilities of Board members efficiently and effectively. The Committee also reviews Board succession planning in the light of the challenges and opportunities facing the Society, and audits the skills and expertise the Board will require in future. The Committee did not meet in 2007/2008

Corporate Governance Report

Continued

Staff and Remuneration Committee

The Staff and Remuneration Committee is responsible for determining the remuneration of the Executive Directors within a framework agreed with the full Board. The Committee also considers the recommendations of the Executive Directors relating to the remuneration of all Society staff, before approving any overall increase in the level of staff remuneration. The Directors' Remuneration Report is set out on pages 7 and 8.

The Combined Code states that the Committee should set the remuneration of the Chairman. However the Board believes that the remuneration of all Non-Executive Directors should be determined in the manner described in the Directors' Remuneration Report.

Meetings of the Committee are held as required and are normally attended by the Chief Executive, who withdraws from the meeting when his own remuneration is under discussion.

The following Non-Executive Directors served during the year: P. R. Blakemore (Chairman), Mrs. C.D.Clifford, S. P. Mellors and A. Roberts.

Attendance at Board and Committee Meetings

The number of Board and Committee meetings attended by each Director during the year is shown below:

	Board	Audit and Compliance	Assets and Liabilities	Staff and Remuneration	Development and Marketing
P.R. Blakemore (Chairman)	10	4	4	1	*
S.P. Mellors (Deputy Chairman)	10	*	4	1	3
C.G. Bradley	10	*	4	*	1 (1)
Mrs.C.D.Clifford	10	3	*	1	*
Mrs C. Joyce	10	*	4	*	3
S.R. Peete	10	*	4	*	3
A. Roberts	10	4	*	1	*
I.J.Webb	9	*	*	*	3
Number of Meetings	10	4	4	1	3

*not a member of the Committee

() : number of meetings eligible to attend

Corporate Governance Report

Continued

Chairman and Chief Executive

Different people carry out the roles of Chairman and Chief Executive. The main role of the Chairman is to lead the Board and to ensure that it operates effectively. The Chief Executive's role is to put into effect the strategies agreed by the Board and the general operational management of the Society.

Board Composition and Independence

At the end of October 2008 the Board was made up of 5 Non-Executive directors, including the Chairman and Deputy Chairman, and 3 Executive Directors. The Board views all the Non-Executive Directors as being independent in character. Mr. S.P. Mellors is the Senior Partner of John German Estate Agents who operated for part of the year as managers of the Society valuation service. The size and composition of the Board is subject to regular review to ensure both adequate succession and that the Board has the necessary skills and experience to direct the Society's activities. Independent Directors are not expected to serve more than three full 3 year terms. Any total term lasting for more than 9 years will be approved only in exceptional circumstances, and then only on the basis of annual re-election. The maximum age for any Director is 70 at which point retirement is mandatory. The Board has elected Mrs. C.D. Clifford as the Society's Senior Independent Director, to replace Mr. A Roberts with effect from 1 November 2008. Mrs. Clifford is available to members if they have concerns regarding their membership of the Society which contact through the normal channels of Chairman, Chief Executive or Finance Director has failed to resolve or for which it is considered inappropriate.

Appointments to the Board

The Society has a recruitment policy, agreed by the Board, which details the process by which new Directors are appointed. All new Directors are then subject to election by the members at the Annual General Meeting, held in the next financial year following the Directors' appointment, in accordance with the Rules of the Society. The Rules also provide that all Directors must put themselves forward for re-election at least once every three years.

All Directors are Approved Persons as defined by the Society's regulator, the Financial Services Authority (FSA) and must continue to maintain the 'fit and proper' requirements of the FSA and comply with the FSA Principles for Approved Persons and its Code of Practice.

Information and Professional Development

All Directors are provided with clear, timely and accurate information for the effective conduct of business, including an established list of items for review and regular financial updates.

All Directors are given appropriate training following their appointment and are encouraged to attend industry events, seminars and training courses to maintain an up to date knowledge of the industry and the regulatory framework within which the Society operates.

All Directors are entitled to seek independent professional advice at the Society's expense.

Performance Evaluation

Each year all of the Directors are subject to a formal appraisal. The Chief Executive carries out an appraisal of both the Finance Director and the Operations Director based on a range of business and personal objectives agreed at the beginning of each year. The Chairman carries out the Chief Executive's appraisal, with performance also being measured against a range of business and personal objectives. The Staff and Remuneration Committee then discuss these appraisals with the other Non-Executive Directors, prior to agreeing any increase in remuneration.

The Chairman carries out an appraisal of the Non-Executive Directors, basing his assessment on each Director's contribution to the Board's performance, using criteria such as attendance, performance at meetings and additional training and development. The Chairman's performance is assessed by the Senior Independent Director, and pays special attention to the way in which the Chairman leads the Board and the effectiveness of the Board in formulating the Society's strategy.

The effectiveness of the Board and of the Board Committees is reviewed annually, with a formal discussion at the first Board Meeting after the Society's Annual General Meeting. The discussion considers the Society's performance against its peers, the comments of both internal and external audit and the results of any reviews or themed visits carried out by the FSA.

Corporate Governance Report

Continued

Remuneration

The Report on Directors' Remuneration on pages 7 and 8 sets out the remuneration policies for Executive and Non-Executive Directors.

Internal Control

The Board has delegated the responsibility for managing the system of internal control to senior management. The internal control system can provide only reasonable and not absolute assurance against material misstatement or loss. The Society's internal audit function has been outsourced to Mutual One Ltd who provide independent assurance to the Board regarding the effectiveness of internal controls through the Audit and Compliance Committee.

The Board has appointed Deloitte as the Society's Internal Auditors from 1 November 2008.

Relations with Members

As a mutual organisation the Society has members rather than shareholders. The Society seeks the views of members in a variety of ways including questionnaires, seminars, newsletters and market research.

Constructive Use of the Annual General Meeting

Each year the Society sends details of the Annual General Meeting (AGM) to all members who are entitled to vote. Members are encouraged to vote by completing a proxy form and returning it to the Society by an agreed deadline or by attending the AGM itself, which is normally held in the early evening to encourage attendance. Members will be able to vote on-line for the first time at the 2009 AGM. For a number of years the Society has encouraged members to vote by linking the number of votes cast to a donation to a local charity. This year the Society will donate 10 pence per postal vote and 20 pence per on-line vote, up to a maximum of £1,000 to its Charity of the Year, the Shuttlewood Clarke Foundation.

Board members are present at the AGM unless there are exceptional circumstances that prevent attendance. Board members are encouraged to meet with members both before and after the meeting and to answer questions on both a formal and informal basis.

Paul R. Blakemore, Chairman

8 December 2008

Tariff of Charges – From 1st March 2009

General

	£
Unpaid cheque/direct debit	25
Cheque re-issues	10
Breakdown of transactions (letter)	minimum 20
Telegraphic transfer of funds (UK)	30
Data Protection Act enquiry	10

Mortgages

Deeds release fee	50
Sealing fee on redemption of mortgage (waived if term expired or replacement mortgage is taken out)	90
Duplicate MIRAS 5	15
Backdated MIRAS 5	20
Duplicate statement	25
Letter confirming outstanding balance	10
Redemption statement (second & subsequent)	each 35
Second mortgage questionnaire	50
Consent to second charge	50
Own property insurance	30
Copy of deeds	25
Permission to let property	60
Unauthorised letting of property	100
Deed of postponement	60
Sale of part security	100
Change of repayment type and/or term	30
Transfer of Equity fee	90
Release of Guarantor fee	50

A charge may be levied for the provision of a mortgage reference to another financial institution

Investments

Telegraphic transfer of funds abroad	25	plus bank charges
Bank Draft	25	plus bank charges
Clearance of foreign cheque	25	plus bank charges
Special cheque presentation	20	
Stopped cheque (only if lost or stolen)	20	
Lost/duplicate passbook	15	
Duplicate statement (Postal account)	20	
Investors interest certificate (other than Section 352)	20	
Duplicate Section 352 certificate	15	
Accountants/Audit letter	35	

Residential Loans

	£
Application fee Residential Property to let	250
Application fee Further Advance	100

Commercial Loans

Application Fee (non refundable)	200
Arrangement fee	1% of loan, minimum 500
Annual management fee	125
Further Advance Application	1% of loan, minimum 250

Valuation Fees

A scale of valuation fees for mortgage purposes is available on request

Arrears/Possessions

Arrears letter (Residential – 2nd & subsequent)	each 30
Arrears letter (Commercial)	each 30
Arrears visit (plus WHMS charge)	40
Instruction of solicitors	60
Cancellation of bailiff appointment	25
Mortgage Possession fee (Residential)	300
Mortgage Possession fee (Commercial)	500
Mortgage Possession fee (Second Charge)	150
Capitalisation of rent arrears	50



Head Office

6 High Street, Loughborough, LE11 2QB - **Tel:** 01509 610707 - **Fax:** 01509 231058 - **Email:** enquiries@theloughborough.co.uk

Branch Offices

4 High Street, Loughborough LE11 2PY - **Tel:** 01509 610600 - **Fax:** 01509 610200 - **Email:** lboro@theloughborough.co.uk

1/2 Babington Lane, Derby DE1 1SU - **Tel:** 01332 290818 - **Fax:** 01332 293228 - **Email:** derby@theloughborough.co.uk

5 Market Place, Long Eaton, NG10 1JL - **Tel:** 0115 9728088 - **Fax:** 0115 9469624 - **Email:** longeaton@theloughborough.co.uk

www.theloughborough.co.uk

Loughborough Building Society Chief Executive Stephen R Peete BA FCIB

The Society is authorised and regulated by the Financial Services Authority and is entered in the FSA Register under number 157258.