The Loughborough Building Society

Annual Report and Accounts
Year Ended 31 October 2011

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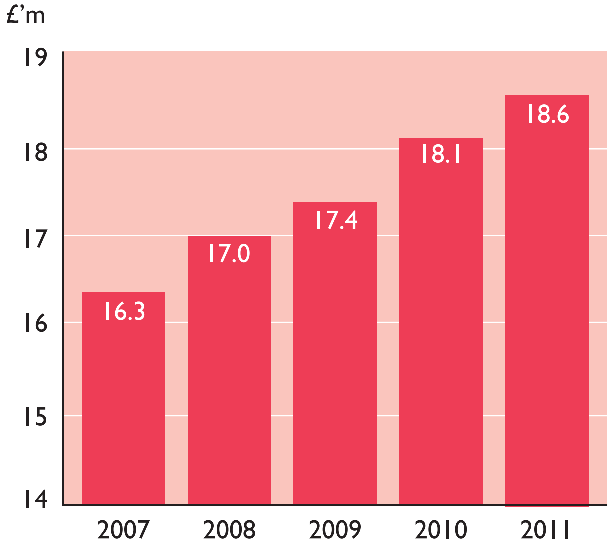
Society Performance over the past 5 years

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 has increased its assets as economic conditions have allowed, ensuring that the interests of borrowers and savers are safeguarded and that adequate liquid assets are held. The KPIs are shown below to illustrate the progress the Society has made with the help of members and staff.

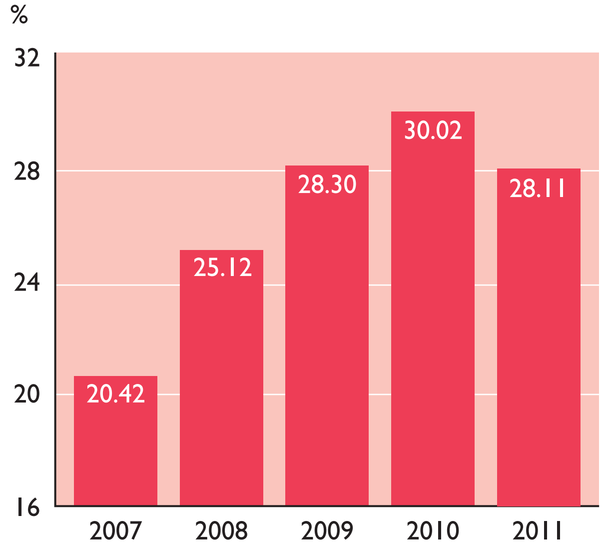
General Reserves

The Directors remain committed to maintaining a strong capital position to satisfy regulatory requirements and to protect investors. General reserves were £18.59m at October 2011.



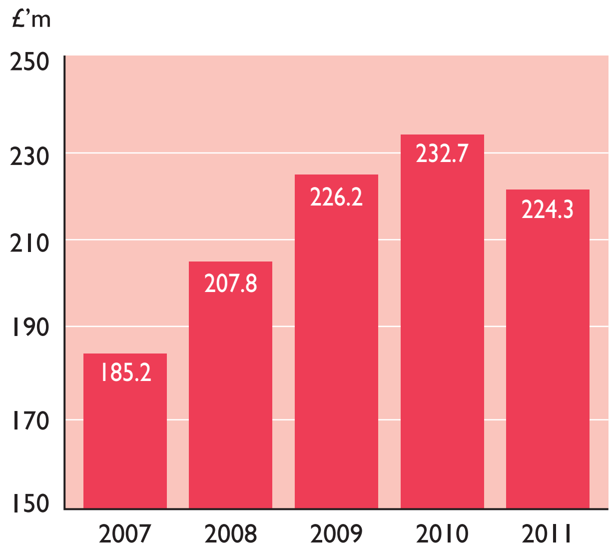
Liquidity Ratio as % of Shares and Borrowings

The Society maintains an adequate level of liquid assets at all times to meet liabilities as they fall due. The ratio was 28.11% at October 2011.



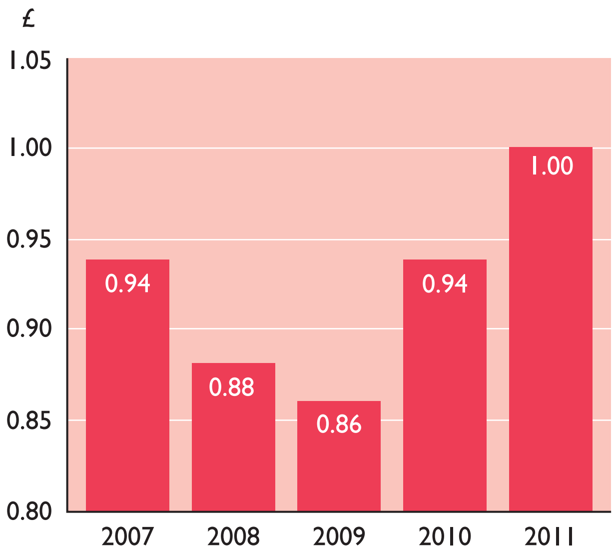
Share Balances (excluding accrued interest)

The Society has offered a range of competitive products to new and existing members, resulting in steady growth in share balances over a 5 year period. The balances were £224.3m at October 2011.



Management Expenses % of Mean Assets

The Board reviews its management expenses each quarter. The combination of high inflation, low asset growth and branch refurbishment has contributed to a rise in the ratio in recent years. The ratio was 100 pence at October 2011.



The Directors are pleased to present their 144th Annual Report, together with the Annual Accounts and Annual Business Statement of the Loughborough Building Society for the year ended 31 October 2011.

Business Objectives and Activities

The principal business activity of the Society is the provision of long term residential mortgages to borrowers, financed by personal savings from members, in keeping with traditional Building Society principles and values.

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 meet the needs of our members and safeguard their interests.

Business Review

Throughout the year under review, trading conditions in the financial services sector remained constrained and the Society continued to experience a slow housing market with low transaction volumes, that was not conducive to strong growth in mortgage assets. However, we are pleased to report again that the Society has achieved a solid overall performance with mortgage balances increasing year on year. The Society's Key Performance Indicators are illustrated on page 2, and again confirm the prudent management that has delivered a further increase in the level of capital and maintained the relatively high level of liquidity, positioning the Society well to meet future challenges and maximise opportunities.

The year started with expectations of higher base rates during 2011. However a combination of factors resulted in minimal GDP growth for the UK economy over the last 12 months and any prospect of an increase in bank base rate seems to have been deferred until the second half of 2012 at the earliest. The economy has also suffered high levels of inflation, affecting both consumers and businesses, and this combination of low growth and high inflation has resulted in 2011 being a very difficult year for the UK economy.

The bank base rate has remained at 0.50% throughout the financial year, and the Board has been able to maintain interest rates unchanged on both sides of the balance sheet. Our standard variable mortgage rate (SVR) is competitive against many other mutual organisations at 4.99%. However, competitive pressures in the retail savings market have led to a reduction in share balances of £8.47m over the year. This has resulted, contrary to recent years, in a small amount of additional deposit funding being taken from the wholesale markets and this source of funding represents 9.36% of share and deposit balances at the year end. The Board has ensured that funds were readily available for mortgage lending at all times during the year.

Gross lending in the year totalled £26.25m, an increase of 7.14% compared to 2010. This represents a very strong performance as all of the mortgage advances have again been originated directly, rather than through intermediary channels. However, the Board continues to assess alternative means of mortgage origination. Overall, mortgage balances after provision for losses rose by 1.35% in the year reflecting both the quality of retention products available to existing borrowers and the excellent service offered to all borrowers.

The Board is again pleased to record that, despite UK unemployment totals rising to over 2.5m, arrears levels have fallen slightly reflecting the quality of lending and the support to those borrowers experiencing difficulties with their monthly payments. However there is an expectation that UK arrears levels may rise in 2012, as government austerity measures continue to be felt and the Board has considered it appropriate to increase the provision for mortgage losses by £48,000 to reflect the on-going risks and uncertainties in the housing market.

At the start of the financial year, the Board committed to a substantial refurbishment of the Society's Long Eaton branch. The refurbished branch opened for business in March offering improved interview and counter facilities for all of our branch customers. The refurbishment also confirms the Board's intention to offer the best possible service for those members who prefer to transact their business with the Society in our branches and take advantage of the excellent customer facilities offered.

In addition, we reported last year that 3 agency outlets had been opened across the East Midlands. This has allowed the Society to expand its customer base and to demonstrate that individual personal service is at the heart of all our operations. As a result many new members are now using the Society for their investments, reflecting the safe and secure status that the Society offers.

The costs of these additional facilities for our members, together with the high level of price inflation, have contributed to an overall rise in costs with the management expense ratio rising to 100 pence of mean assets. Total assets declined by 1.14% during the year, also contributing to the rise in the cost ratio. The Board continues to seek ways of increasing operational efficiency, without compromising the level of service provided to our members.

Directors' Report

Business Review (continued)

Last year our pre tax profits were boosted by the write back of £288,000, due to a lower than expected charge for the Financial Services Compensation Scheme (FSCS) levy that all UK deposit taking firms have had to suffer, as a result of the failure of a number of banks over recent years. This year we are required to increase the level of levy provision by £40,000 giving a total liability at October 2011 of £115,000. This is a significant factor in the £238,000 reduction of our profit before tax.

Principal Risks and Uncertainties

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 current environment is characterised by uncertainty, a fragile economy and continued low interest rates.

The Society has a cautious approach to its risk appetite which helps to protect members' interests and reduce exposure to the principal risks and uncertainties facing the business. Processes, policies and controls are in place to minimise these risks as far as is practicable.

Many of the risks faced are those associated with any business striving to prosper in a competitive market, including margin pressures, regulatory and statutory developments as well as the challenges presented by the weak economy.

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.
- **Operational Risk,** this is the risk of a loss arising from inadequate or failed internal processes or systems, human error, key supplier failure or external events.
- **Regulatory Risk,** this is the risk that the volume and complexity of regulatory issues, for instance the Building Societies Sourcebook, 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.
- **Concentration Risk,** this is the risk of loss due to a large individual or connected exposure that could be affected by common factors including geographical location. The Board sets limits for maximum exposures to both borrowers and treasury counterparties.
- **Reputational Risk,** as a deposit taking institution, it is essential that the Society safeguards its members' funds and ensures that events do not arise which could damage our reputation and lead to a loss of public confidence.

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 including the Risk Committee formed in 2011, is responsible for ensuring that an up to date and effective risk management structure is in place covering all aspects of the business. All areas of risk are reviewed by the Risk Committee and, where appropriate, other Board committees as detailed in the Corporate Governance Report on pages 7 and 8.

Financial Risk Management Objectives and Policies

In addition to the risks outlined above, some risks arise from the very nature of being a building society. Primarily these are the raising of funds from savers and lending to mortgage borrowers and other counterparties. These financial risks are closely monitored and controlled by the Board, supported by its sub-committees.

Full details of the Society's approach to financial risk management, including the use of financial instruments for risk management purposes and the key risks faced are detailed in Note 22 to the Accounts.

Regulation

The Society is authorised and regulated by the Financial Services Authority (FSA) for all aspects of mortgage lending and administration, deposit taking and the provision of financial services. In addition, the Society is a member of both the Building Societies Association and the Financial Ombudsman Service.

During the year the Society has discussed, and had approved, its response to the Building Societies Sourcebook (BSOCS) with the FSA and is operating under the Limited approach to lending and the Matched approach to treasury.

Information Technology

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

Post Balance Sheet Events

The Board considers that there have been no events since the year end that have a material effect on the financial position of the Society.

Going Concern

The Directors have prepared forecasts of the Society's capital position, financial position and liquidity for the period ending twelve months from the date of approval of these financial statements. The Directors have also prepared forecasts to consider the effect on the Society's business, financial position, capital and liquidity of operating under stressed but plausible operating conditions.

The forecasts have satisfied the Directors that the Society has adequate resources to continue in business for the foreseeable future. Accordingly, the accounts continue to be prepared on a going concern basis.

Creditor Payment Policy

The Society's continuing policy concerning the payment of its trade creditors is to pay invoices within the agreed terms of credit, once the supplier's contractual obligations have been discharged. Amounts due to creditors of the Society as at 31 October 2011 represented 24 days, (2010: 23 days).

Liquid Assets

Liquid assets in the form of cash and investments were £70.28m at the year end. The combination of retail outflows and a small increase in mortgage balances has decreased liquid assets to 28.11% of total shares and borrowings at the year end (2010: 30.02%).

The holding of assets in liquid form allows the Society to meet its liabilities at all times as they fall due and the Board considers that this level is more than sufficient for the Society to meet this key requirement.

The Society has responded to the difficult market conditions without sacrificing quality and accessibility of liquidity and has built up the level of buffer assets, as required for all deposit taking institutions by its regulatory body. These assets consist mainly of investments in UK government treasury bills and deposits with the Bank of England.

The Society completes an Individual Liquidity Systems Assessment (ILSA) each year and this is reviewed in detail by the Risk Committee before being approved by the Board.

Loans and Advances

The total number of mortgages completed during the year was 210 plus 93 further advances on existing accounts, the amount advanced being £26.25m.

Mortgage Arrears

At the end of the year, there were 7 cases (2010: 8 cases) where mortgage repayments were twelve months or more in arrears, the amount of those arrears being £67,015 and the mortgage balances £897,781. There were no cases in possession at the year end, (2010: 4 cases).

Profit, Capital and Basel II

The Board continues to target a level of profit that is in line with the Society's mutual status. Profit after tax transferred to general reserve was £504,000.

The Society has increased its financial strength with the capital ratios remaining adequate to satisfy foreseeable requirements. At 31 October 2011, Free capital amounted to £19.07m or 7.63% of total shares and borrowings. Gross capital amounted to £19.45m or 7.78% of total shares and borrowings.

The Board has reviewed its risk assessment to meet the requirements of Basel II and the associated Capital Requirements Directive (CRD). The CRD requires the Society to conduct an assessment of the adequacy of its capital and resources. This is its Internal Capital Adequacy Assessment Process, (ICAAP) and the Society's Board approves and adopts the ICAAP on an annual basis, after detailed consideration by the Risk Committee.

Details of the Society's Basel II disclosures for Pillar 3 are available on the website or from the Secretary of the Society on request.

Donations

During the year, donations totalling £6,752 were made to local organisations through our community matters awards scheme. The panel, including two executives and two volunteers from the Society's membership, meets three times a year to assess applications for small sums of funding from community groups within the core area of operation.

There were no donations for political purposes.

Directors' Report

Directors

The following persons served as Directors during the year: -

Non-Executive Directors

S. P. Mellors FRICS	Chairman
J. P. Jessop ACMA	Deputy Chairman
D.T. Bowyer FCA	
Mrs C.D. Clifford BA, FCIPD	Senior Independent Director
I. J. Webb BSc, MCIM	

Executive Directors

G. Brebner BSc, ACA	Chief Executive
C.G. Bradley BSc, ACA, ACIB	Deputy Chief Executive and Finance Director
Mrs C. Joyce BA, ACIB	Operations Director

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

The Board has reviewed the business needs during the year in the light of increased regulation and emphasis on risk management. The Board Risk Committee was created in 2011 to monitor the principal risks facing the business. Further details are provided in the Corporate Governance Report on page 7.

The role of the Non-Executive Director is vital to the governance of the Society and now comes with increasing time demands and regulatory expectations, which have been met with dedication and commitment by the current Board.

Auditor

The auditor, KPMG Audit Plc has 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 auditor of the Society.

Management and Staff

The Directors would like to record their appreciation for the support and commitment of the management and staff at the end of what has been another challenging year for the Society. A new programme of staff training and development has commenced during the year, enabling staff to continue to develop their skills and maintain the excellent level of customer service expected by all our members.

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

On behalf of the Board
Scott P. Mellors
Chairman 9 December 2011

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 Financial Services Authority (FSA) requires the Board to have regard to the UK Corporate Governance Code issued by the Financial Reporting Council in developing its policies and practices. The Board agrees with and supports the general 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 would be given.

The Board

The Board's principal functions are to focus on strategic issues, to provide policies and parameters within which the business is to be 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 meets each month and there is a formal schedule of matters that are reserved for the Board meeting. Board members have full and timely access to all of the information that they require to discharge their duties effectively.

The Board has a number of 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. Details of the committees are set out below.

Audit and Compliance Committee

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

The Committee meets quarterly and the Chief Executive, Finance Director, Compliance Officer and representatives from both Internal and External Audit attend by invitation. Part of each meeting takes place without the Executives being present.

The following Non-Executive Directors served during the year: J. P. Jessop (Chairman), D. T. Bowyer and Mrs. C. D. Clifford. Both Mr. Jessop and Mr. Bowyer have recent relevant financial experience.

Assets and Liabilities Committee

The remit of this Committee is to monitor financial, liquidity and treasury 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 Committee met on five occasions in the year ended 31 October 2011.

The following Directors served during the year: G. Brebner (Chairman), D. T. Bowyer, C. G. Bradley, J. P. Jessop, 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 reviews the skills and expertise the Board will require in future.

The following Non-Executive Directors served during the year: S.P. Mellors (Chairman) and J.P. Jessop.

Risk Committee

The Board formed a Risk Committee during the year and it met on three occasions. The Committee is responsible for the oversight and challenge of the Society's risk management framework to identify, manage and mitigate key risks within the organisation. The Committee will, as required, review and recommend risk strategy policies and risk limits in accordance with the overall risk appetite of the Society.

The following Non-Executive Directors served during the year: D.T. Bowyer (Chairman), J.P. Jessop and I.J. Webb. In addition the three Executive Directors attend by invitation.

Corporate Governance Report

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, with due regard for the Remuneration Code regulations. 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 Committee is also responsible for setting the remuneration of all Non-Executive Directors, including the Chairman. The policy is described in the Directors' Remuneration Report on pages 11 and 12.

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

Development and Marketing Committee

The Development and Marketing Committee is responsible for determining the development and marketing strategy to achieve the corporate plan, considering opportunities to promote the Society's products and services, and for raising the Society's profile within its core area of operation. The Committee meets quarterly.

The following Directors served during the year: I.J. Webb (Chairman), C.G. Bradley, G. Brebner, Mrs. C. Joyce and S.P. Mellors.

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	Nominations	Development and Marketing	Risk
S.P. Mellors (Chairman)	12	*	5	4	1	4	*
J.P. Jessop (Deputy Chairman)	11	4	5	4	1	*	2
D.T. Bowyer	12	4	4	*	*	*	3
C.G. Bradley	12	*	5	*	*	4	*
G. Brebner	12	*	5	*	*	4	*
Mrs. C.D. Clifford	11	3	*	4	*	*	*
Mrs C. Joyce	12	*	5	*	*	4	*
I.J. Webb	12	*	*	*	*	4	3
Number of Meetings	**12**	**4**	**5**	**4**	**1**	**4**	**3**

*not a member of the Committee

Chairman and Chief Executive

The offices of Chairman and Chief Executive are distinct and held by different people. 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 2011 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. 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 Board has elected Mrs.C.D. Clifford as the Society's Senior Independent Director. Mrs Clifford is available to members if they have concerns regarding their membership of the Society where contact, through the normal channels of either Chairman or Executive Directors, 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 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 the review of salary and benefits.

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

Remuneration

The Report on Directors' Remuneration on pages 11 and 12 sets out the remuneration policies for Executive and Non-Executive Directors.

Financial Reporting

The Statement of Directors' Responsibilities on page 13 sets out the Board's responsibilities in relation to the preparation of the Society's Annual Report and Accounts and a statement that the Society's business is a going concern is included in the Directors' Report on page 5.

Internal Control

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

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, and market research. In addition the Society circulates all members with a magazine, Hi Society, twice each year. The Society also hosts a forum for members on a regular basis and invites members to question and discuss matters of policy and strategy with the Executive team. All members are made aware of planned events in the Hi Society magazine.

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 are again offered a choice as to how they may cast their vote, either by postal proxy, on-line voting or attendance at the 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. The Society will donate 10 pence per postal vote and 20 pence per on-line vote, up to a maximum of £1,000 amongst a number of local charities, selected by each individual voter from a short list.

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

Scott P. Mellors
Chairman

9 December 2011

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 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 the policy and practice on the remuneration of Executive Directors to the Board. The Committee is also responsible for setting the remuneration of the Non-Executive Directors including the Chairman. The Committee takes into account relevant factors from the UK Corporate Governance Code and the Society complies with the relevant and applicable aspects of the FSA Remuneration Code.

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 setting reward structures, the policy is to encourage improved performance without undue risk taking.

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 three Non-Executive Directors, as detailed on page 8. 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 comprises a number of elements: basic salary, annual and medium term incentive schemes, contributions to pension schemes and other benefits. Where bonus schemes are agreed, targets and measures are set at levels to exceed the planned performance of the Society. Payments are therefore only made when the measures have exceeded that planned performance.

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 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 long term benefit of its members. The maximum figure payable was set at 10% of basic salary, the amount paid for 2010/11 was 8%. The payments are non- pensionable.

Medium Term Bonus

The current scheme with selected targets for financial measures, quality outcomes and executive performance has been introduced for the three years commencing 2009/10. The maximum amount payable will be 25% of basic salary as at October 2012 and any payments under the scheme will be paid in December 2012. The 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.

Other Benefits

The Society provides other taxable benefits to Executive Directors comprising a car, or car allowance, 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 month's notice.

Directors' Remuneration Report

Directors' Remuneration (audited information)

Executive Directors (£ '000)

2011	Salary	Annual Bonus	Pension Contributions	Benefits	TOTAL
G. Brebner	**123**	**10**	**20**	**7**	**160**
C. G. Bradley	**92**	**7**	**15**	**11**	**125**
Mrs C. Joyce	**80**	**7**	**10**	**6**	**103**
TOTALS	**295**	**24**	**45**	**24**	**388**

2010	Salary	Annual Bonus	Pension Contributions	Benefits	TOTAL
G. Brebner	120	10	18	6	154
C. G. Bradley	90	7	14	10	121
Mrs C. Joyce	77	6	10	4	97
TOTALS	287	23	42	20	372

Non-Executive Directors' Remuneration

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

Non-Executive Directors (audited information)	£'000 Fees 2011	£'000 Fees 2010
S.P. Mellors (Chairman)	**31**	30
J.P. Jessop (Deputy Chairman)	**24**	23
D.T. Bowyer (appointed 1 March 2010)	**18**	11
Mrs. C.D Clifford	**18**	18
I.J. Webb	**18**	18
A. Roberts (retired 28 February 2010)	**-**	7
TOTALS	**109**	107

Mrs Cheryl D. Clifford
Chairman Staff and Remuneration Committee

9 December 2011

Directors' Responsibilities in respect of the Annual Report, the Annual Business Statement, the Directors' Report and the Annual Accounts

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

The Building Societies Act ("the Act") requires the Directors to prepare annual accounts for each financial year. Under that law they have elected to prepare the annual accounts in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

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

In preparing annual accounts, 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 accounting standards have been followed, subject to any material departures disclosed and explained in the annual accounts;
- prepare the annual accounts on the going concern basis unless it is inappropriate to presume that the society will continue in business.

In addition to the annual accounts, 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 Society.

Directors' Responsibilities for accounting records and internal controls

The Directors are responsible for ensuring that the Society:

- keeps proper accounting records that disclose with reasonable accuracy at any time the financial position of the 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 Services Authority under the Financial Services and Markets Act 2000.

The Directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Society 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.

Scott P. Mellors
Chairman 9 December 2011

Independent auditor's report to the members of Loughborough Building Society

We have audited the annual accounts of Loughborough Building Society for the year ended 31 October 2011, set out on pages 15 to 30. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

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.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 13, the directors are responsible for the preparation of annual accounts which give a true and fair view. Our responsibility is to audit, and express an opinion on, the annual accounts in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the annual accounts

A description of the scope of an audit of annual accounts is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm

Opinion on annual accounts

In our opinion the annual accounts:

- give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of affairs of the society as at 31 October 2011 and of the income and expenditure of the society for the year then ended; and

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

Opinion on other matters prescribed by the Building Societies Act 1986

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 for which the annual accounts are prepared 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.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Building Societies Act 1986 requires us to report to you if, in our opinion;

- proper 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.

Simon Clark (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants

One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH

9 December 2011

Income and Expenditure Account
for the year ended 31 October 2011

	Note	2011 £'000	Reclassified* 2010 £'000
Interest receivable and similar income	2	**8,586**	8,649
Interest payable and similar charges	3	**(5,239)**	(5,550)
Net interest receivable		**3,347**	3,099
Fees and commissions receivable*		**300**	336
Fees and commissions payable*		**(157)**	(62)
Other operating income*		**39**	52
Total income		**3,529**	3,425
Administrative expenses	4	**(2,637)**	(2,539)
Depreciation and amortisation	13	**(81)**	(46)
Other operating charges		**(3)**	(9)
Operating profit before provisions		**808**	831
Provisions for bad and doubtful debts	11	**(57)**	(170)
Operating profit before FSCS Levy		**751**	661
Provisions for liabilities - FSCS Levy (charge)/credit	20	**(40)**	288
Operating profit and profit on ordinary activities before tax		**711**	949
Tax on profit on ordinary activities	8	**(207)**	(261)
PROFIT FOR THE FINANCIAL YEAR	19	**504**	688

The above results are all derived from continuing operations.

Statement of Total Recognised Gains and Losses
for the year ended 31 October 2011

	2011 £'000	2010 £'000
Profit for the financial year	**504**	688
Unrealised surplus on revaluation of properties	**-**	161
Total recognised gains and losses relating to the year	**504**	849
Total recognised gains and losses since last annual report	**504**	849

There is no material difference between the profit on ordinary activities before tax and the profit for the financial year stated above and their historical cost equivalents.

The notes on pages 18 to 30 form part of these accounts.

* Reclassified, see note 1 on page 18.

Balance Sheet
as at 31 October 2011

	Note	2011 £'000	2010 £'000
ASSETS			
Liquid assets			
Cash in hand		**70**	70
Balances with Bank of England		**7,006**	-
Treasury Bills	10 (b)	**4,497**	12,473
Loans and advances to credit institutions	9	**42,881**	43,584
Debt Securities	10 (a)	**15,827**	19,961
		70,281	76,088
Loans and advances to customers			
Loans fully secured on residential property	12	**185,536**	181,366
Other loans	12	**13,264**	14,786
		198,800	196,152
Tangible fixed assets	13	**1,269**	1,218
Other assets	14	**208**	235
Prepayments and accrued income		**59**	58
TOTAL ASSETS		**270,617**	273,751
LIABILITIES			
Shares	15	**226,636**	235,110
Amounts owed to credit institutions	16	**11,785**	7,090
Amounts owed to other customers	17	**11,619**	11,282
Other liabilities	18	**1,016**	1,177
Provisions for liabilities	20	**115**	150
		251,171	254,809
Revaluation Reserve	19	**859**	872
Reserves			
General Reserves	19	**18,587**	18,070
TOTAL LIABILITIES		**270,617**	273,751

The notes on pages 18 to 30 form part of these accounts.

These accounts were approved by the Board of Directors on 9 December 2011 and were signed on its behalf by:

S. P. Mellors Chairman
J. P. Jessop Deputy Chairman
G. Brebner Director and Chief Executive

Cash Flow Statement

for the year ended 31 October 2011

	2011 £'000	2010 £'000
Net cash (outflow) from operating activities	**(10,181)**	(61)
Taxation paid	**(289)**	(151)
Capital expenditure and financial investment		
Purchase of debt securities	**(27,555)**	(31,005)
Sale and maturity of debt securities	**31,626**	42,472
Purchase of treasury bills	**(22,953)**	(32,456)
Sale and maturity of treasury bills	**30,934**	19,983
Purchase of tangible fixed assets	**(132)**	(95)
Sale of tangible fixed assets	**-**	6
Increase/(decrease) in cash	**1,450**	(1,307)
Reconciliation of operating profit to net cash (outflow) from operating activities		
Operating profit and profit on ordinary activities before tax	**711**	949
(Increase)/decrease in prepayments and accrued income	**(24)**	162
(Decrease) in accruals and deferred income	**(143)**	(244)
Increase in provisions for bad and doubtful debts	**48**	178
Depreciation and amortisation	**81**	46
Non cash movements in debt securities	**28**	39
Net cash inflow from trading activities	**701**	1,130
Net (increase)/decrease in loans and advances to customers	**(2,696)**	7,241
Net (decrease)/increase in shares	**(8,328)**	6,470
Net increase/(decrease) in deposits and other borrowings	**5,029**	(10,921)
Net (increase) in loans and advances to credit institutions	**(4,800)**	(3,500)
Net (decrease) in other liabilities	**(87)**	(481)
Net cash (outflow) from operating activities	**(10,181)**	(61)

Analysis of increase/(decrease) in cash	**At 1 Nov 2010**	**Net increase/(decrease)**	**At 31 Oct 2011**
Cash in hand	**70**	**-**	**70**
Loans and advances to credit institutions repayable on demand	**9,504**	**1,450**	**10,954**
	9,574	**1,450**	**11,024**

	At 1 Nov 2009	Net increase/(decrease)	At 31 Oct 2010
Cash in hand	45	25	70
Loans and advances to credit institutions repayable on demand	10,836	(1,332)	9,504
	10,881	(1,307)	9,574

Notes to the Accounts

1. Accounting Policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Society's accounts.

Basis of Preparation

These accounts have been prepared under the historical cost convention, as modified by the revaluation of the freehold premises, and in accordance with applicable UK accounting standards, the Building Societies (Accounts and Related Provisions) Regulations 1998, and the Building Societies Act 1986.

Taxation

The charge for taxation is based upon the profit for the year and takes into account taxation which is deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen, but not reversed, by the balance sheet date, except as otherwise required by Financial Reporting Standard 19, Deferred Taxation.

Tangible Fixed Assets and Depreciation

Depreciation is provided on a straight line basis to write off the cost, or valuation, less estimated residual value of tangible fixed assets, other than freehold land, over their estimated useful economic lives as follows:

Freehold Premises	50 years
Freehold refurbishment	8 years
Improvements to Leasehold Property	5 years
Software	3 years
Motor Vehicles	4 years
Office Equipment, fixtures and fittings	3 to 5 years

Freehold properties are revalued every 5 years, on an existing use basis, by an independent external valuer. An interim internal valuation is carried out in the third year after full revaluation. The surplus or deficit on revaluation is taken to revaluation reserve, to the extent to which previously taken surpluses exist in the revaluation reserve, otherwise deficits are taken to general reserves.

Liquid Assets

Liquid assets are shown at cost including debt securities which are intended for use on a continuing basis. Premiums and discounts arising on the purchase of debt securities held as financial fixed assets are amortised on a straight line basis over the period to maturity. Any amounts so amortised are charged or credited to the income and expenditure account for the relevant financial years. Where there is a permanent diminution in the value of a financial fixed asset, a provision is made so as to write down the cost of the security to its recoverable amount.

Off Balance Sheet Instruments

The Society uses interest rate contracts solely for hedging purposes. All interest related contracts are classified at the balance sheet date as hedging contracts and are valued, and income and expenditure recognised, on an equivalent basis to the assets and liabilities being hedged.

Provision for Loans and Advances

Provisions are made to reduce the value of loans and advances to the amount which the Directors consider is likely ultimately to be received.

Throughout the year, and at the year end, individual assessments are made of all loans and advances on properties that are in possession, or in arrears by three months or more. Specific provision is made against those loans and advances which are considered to be impaired. In considering the specific provision for impaired loans, account is taken of any discount which may be needed against the value of the property at the balance sheet date to agree a sale within three months of that date, the amounts recoverable under mortgage indemnity policies and anticipated realisation costs.

A general provision is made against those advances that have not been specifically identified as impaired, but where the Society's experience and the general economic climate would indicate that losses may ultimately be realised.

Interest in respect of all loans is credited to the income and expenditure account as it becomes receivable, except in respect of advances where the property has been taken into possession and where the collectability of the interest is subject to significant doubt. Such interest is credited to the suspended interest account.

Loans and advances in the balance sheet are shown net of provisions, specific and general, and net of the balance on the suspended interest account. The charge to the income and expenditure account comprises the movements in the provisions together with the losses written off in the year, less any recoveries of amounts previously written off.

Pension Costs

Pension costs are charged to the income and expenditure account in the year in which contributions are payable, as detailed in note 4.

Incentives to Borrowers

Cashbacks and other incentives to borrowers are written off in the year in which they are incurred and charged against interest receivable and similar income.

Operating Leases

Rental charges arising from operating leases are charged to the income and expenditure account on a straight line basis over the life of the lease.

Reclassification of 2010 balances

During the year, the Directors have reviewed the appropriate presentation of certain items within the income and expenditure account. As a result of this review, certain changes have been made to the presentation of these items. The comparative figures for 31 October 2010 have been reclassified to provide comparable numbers on which to base an assessment of the performance of the Society in 2011. The reclassifications do not impact on the overall profit made by the Society in 2010. As a result of this exercise, for 2010, fees and commissions receivable have increased by £277,000, fees and commissions payable have increased by £27,000 and other operating income has decreased by £250,000.

	2011 £'000	2010 £'000
2. Interest receivable and similar income		
On loans fully secured on residential property	**7,964**	8,453
On other loans	**787**	853
On debt securities		
interest	**161**	228
profit on disposals	**24**	35
On other liquid assets		
interest and other income	**575**	552
Net (expense) on financial instruments	**(925)**	(1,472)
	8,586	8,649

Total income on fixed income debt securities amounted to £123,534 (2010 : £189,067)

Interest on secured advances as shown above has been increased by £9,249 (2010 : reduced by £9,464) representing interest suspended on non-performing loans in accordance with the Society's accounting policy.

Movements in the suspended interest account are as follows:

	2011	2010
At 1 November 2010	**10**	-
Interest recovered during the year	**(19)**	-
Interest suspended in the year	**9**	10
At 31 October 2011	**-**	10

The amount of interest suspended as at the year end has been deducted from the appropriate assets in the balance sheet.

3. Interest payable and similar charges

	2011	2010
On shares held by individuals	**5,096**	5,680
On deposits and other borrowings	**192**	338
Net (income) on financial instruments	**(49)**	(468)
	5,239	5,550

4. Administrative expenses

	2011 £'000	2010 £'000
Staff costs		
Wages and salaries	**1,112**	1,060
Social security costs	**113**	110
Other pension costs	**96**	88
	1,321	1,258
Other Administrative expenses	**1,316**	1,281
	2,637	2,539

The Society makes a contribution of between 7.0% and 16.5% (2010: 7.0% and 15.5%) of individuals' basic gross pay into employees' Personal Pension schemes. There were no outstanding or prepaid contributions at either the beginning or the end of the financial year.

	2011	2010
Other Administrative expenses include:		
Amounts charged under other operating leases (note 21)	**47**	47
Remuneration of the Auditors and their associates (excluding VAT)		
Audit services - Statutory Audit of the annual report and accounts	**31**	30
Other services	**7**	8

5. Employees

The average number of persons employed by the Society during the year was :

	2011 Full time	2011 Part time	2010 Full time	2010 Part time
Head office	**26**	**2**	24	2
Branch offices	**12**	**5**	13	4
Total	**38**	**7**	37	6

6. Remuneration of Directors

	2011 £'000	2010 £'000
For services as Non-Executive Directors	**109**	107
For Executive services	**388**	372
	497	479

Full details are given in the Directors' Remuneration Report on pages 11 and 12.

7. Loans to Directors and Connected Persons

At 31 October 2011 there were outstanding mortgage loans granted in the ordinary course of business to 4 (2010 : 4) Directors and connected persons, amounting in aggregate to £531,164 (2010 : £570,542).

A register is maintained at the Head Office of the Society, in accordance with the requirements of Section 68 of the Building Societies Act 1986, which shows details of all loans, transactions and arrangements with Directors and their connected persons. A statement of the appropriate details contained in the register, for the financial year ended 31 October 2011, will be available for inspection at the Society's Head Office for a period of 15 days up to and including the Annual General Meeting.

	2011 £'000	2010 £'000
8. Tax on profit on ordinary activities		
Analysis of charge in year		
Current tax		
Corporation tax at 26.83% (2010 : 28.00%)	180	288
Total Current Tax	180	288
Deferred Tax	27	(27)
Total Deferred Tax (note 14)	27	(27)
Tax on profit on ordinary activities	207	261
Factors affecting the current tax charge for the year		
Profit on ordinary activities before tax	711	949
Tax at 26.83% (2010 : 28.00%)	191	266
Effects of:		
Difference between depreciation and capital allowances	(12)	(9)
Expenses not deductible for tax purposes	-	(3)
Other timing differences	13	42
Marginal relief	(12)	(8)
Current tax charge for year	180	288
9. Loans and advances to credit institutions		
Accrued interest	127	80
Repayable on demand	3,954	9,504
Other loans and advances by remaining maturity of:		
In not more than three months	32,800	29,000
In more than three months but not more than one year	6,000	4.000
In more than one year but not more than five years	-	1,000
	42,881	43,584

10. Debt Securities and Treasury Bills

The Directors of the Society consider that the primary purpose of holding debt securities, note 10(a), and treasury bills note 10(b), is prudential. The securities are held as financial fixed assets with the intention of use on a continuing basis in the Society's activities and are therefore classified as financial fixed assets.

10 (a). Debt Securities

	2011 £'000	2010 £'000
Issued by other borrowers	15,827	19,961
	15,827	19,961
Debt securities have remaining maturities as follows:		
Accrued interest	26	61
In not more than one year	9,754	16,648
In more than one year	6,047	3,252
	15,827	19,961
Transferable debt securities (excluding accrued interest) comprise:		
Listed	8,260	4,900
Unlisted	7,541	15,000
	15,801	19,900
Market value of listed transferable debt securities	8,248	4,899
Included in debt securities are:		
Unamortised premiums	52	4
Unamortised discounts	1	4

Movements during the year of debt securities held as financial fixed assets are as follows:

Cost (excluding accrued interest)	£'000
At 1 November 2010	19,874
Additions	27,555
Disposals and maturities	(31,626)
At 31 October 2011	15,803
Amortisation	
At 1 November 2010	(26)
Provided in the year	28
At 31 October 2011	2
Net book value at 31 October 2011	15,801
Net book value at 31 October 2010	19,900

10 (b). Treasury Bills

	2011	2010
Treasury bills have remaining maturities as follows:		
Accrued interest	5	-
In not more than one year	4,492	12,473
	4,497	12,473

Movements during the year of treasury bills held as financial fixed assets are as follows:

Cost (excluding accrued interest)	£'000
At 1 November 2010	12,473
Additions	22,953
Disposals and maturities	(30,934)
At 31 October 2011	4,492

11. Provisions for bad and doubtful debts

	Loans fully secured on residential property £'000	Loans fully secured on land £'000	Total £'000
At 1 November 2010			
General provision	455	392	847
Specific provision	182	-	182
	637	392	1,029
Income and expenditure account			
General provision	36	14	50
Specific provision	(44)	42	(2)
Net charge to income and expenditure account	(8)	56	48
At 31 October 2011			
General provision	491	406	897
Specific provision	138	42	180
	629	448	1,077

The charge shown in the income and expenditure account is made up as follows:

Movement in loss provision (above)	48
Losses in year	9
Total	57

12. Loans and advances to customers

	2011 £'000	2010 £'000
Loans fully secured on residential property	185,536	181,366
Loans fully secured on land	13,264	14,786
	198,800	196,152
The remaining maturity of loans and advances to customers from the date of the balance sheet is as follows:		
On call and at short notice	-	267
In not more than three months	224	90
In more than three months but not more than one year	1,065	473
In more than one year but not more than five years	11,002	10,153
In more than five years	187,586	186,198
	199,877	197,181
Less: provisions for bad and doubtful debts (note 11)	(1,077)	(1,029)
	198,800	196,152

13. Tangible fixed assets	Freehold Land and Buildings £'000	Improvements to Leasehold Property £'000	Equipment, Fixtures Fittings & Vehicles £'000	Total £'000
Cost or Valuation				
At 1 November 2010	**1,115**	**356**	**371**	**1,842**
Additions during year	**74**	**-**	**58**	**132**
Disposals during year	**-**	**-**	**(7)**	**(7)**
At 31 October 2011	**1,189**	**356**	**422**	**1,967**
Depreciation				
At 1 November 2010	**-**	**356**	**268**	**624**
Charged in year	**24**	**-**	**57**	**81**
Disposals during year	**-**	**-**	**(7)**	**(7)**
At 31 October 2011	**24**	**356**	**318**	**698**
Net Book Value				
At 31 October 2011	**1,165**	**-**	**104**	**1,269**
At 31 October 2010	1,115	-	103	1,218

The revaluation of the Society's freehold land and buildings was carried out on 31 October 2010 by Messrs Mather Jamie, Chartered Surveyors, on an existing use basis.

The historical cost of the revalued assets is £419,956 (2010 : £419,956). The accumulated historical cost depreciation on those revalued assets would be £126,173 (2010 : £122,081). Included in the total net book value of freehold land and buildings is £246,000 (2010 : £246,000) in respect of land on which no depreciation is provided.

The net book value of land and buildings occupied by the Society for its own activities is £961,217 (2010 : £908,333).

	2011 £'000	2010 £'000
14. Other Assets		
Deferred Taxation at 25.00% (2010: 28.00%)	**208**	235
	208	235
Deferred Taxation comprises:		
Capital allowances	**(16)**	(1)
Timing differences related to general mortgage loss provision	**224**	236
	208	235
Movement in deferred taxation		
At 1 November 2010	**235**	208
(Charge)/credit to income and expenditure account (note 8)	**(27)**	27
At 31 October 2011	**208**	235

In accordance with Financial Reporting Standard 19, the deferred tax liability of £79,349 (2010 : £94,080) arising on the revaluation of freehold premises has not been recognised.

15. Shares

	2011 £'000	2010 £'000
Held by individuals	**226,636**	235,110
Shares are repayable from the balance sheet date in the ordinary course of business as follows :		
Accrued interest	**2,312**	2,458
Repayable on demand	**188,946**	188,147
In not more than three months	**24,018**	28,426
In more than three months but not more than one year	**3,703**	12,630
In more than one year but not more than five years	**7,657**	3,449
	226,636	235,110

16. Amounts owed to credit institutions

	2011 £'000	2010 £'000
Amounts owed to credit institutions are repayable from the balance sheet date in the ordinary course of business as follows:		
Accrued interest	**35**	40
In not more than three months	**4,750**	4,550
In more than three months but not more than one year	**7,000**	2,500
	11,785	7,090

17. Amounts owed to other customers

	2011 £'000	2010 £'000
Amounts owed to other customers are repayable from the balance sheet date in the ordinary course of business as follows:		
Accrued interest	52	44
Repayable on demand	4,677	4,742
In not more than three months	5,390	1,606
In more than three months but not more than one year	1,500	4,890
	11,619	11,282

18. Other Liabilities

	2011 £'000	2010 £'000
Amounts falling due within one year		
Corporation tax	198	307
Income tax	255	291
Other creditors	563	579
	1,016	1,177

19. Reserves

	General Reserves £'000	Revaluation Reserve £'000
At 1 November 2010	18,070	872
Profit for the financial year	504	-
Depreciation transfer	13	(13)
At October 2011	18,587	859

20. Provisions for Liabilities

Financial Services Compensation Scheme Levy	2011 £'000
At 1 November 2010	150
Charge for the year	40
Paid in year	(75)
At 31 October 2011	115

Financial Services Compensation Scheme

Based on its share of protected deposits, the Society, in common with all regulated UK deposit takers, pays levies to the Financial Services Compensation Scheme (FSCS) to enable the FSCS to meet claims against it. The FSCS levy consists of two parts – a management expenses levy and a compensation levy. The management expenses levy covers the costs of running the scheme and the compensation levy covers the amount of compensation the scheme pays, net of any recoveries it makes using the rights that have been assigned to it. In 2008 a claim was triggered against the FSCS by the transfer of Bradford and Bingley plc's retail deposit business to Abbey National plc and similar issues with various Icelandic Banks, London Scottish plc and the transfer of core parts of Dunfermline Building Society to the Nationwide Building Society in the first half of 2009.

The FSCS has met the claims by way of loans received from HM Treasury on which it is liable to pay interest. The FSCS has, in turn, acquired the rights to the realisation of the assets of these institutions. The FSCS will have a further liability if there are insufficient funds available from the realisation of the assets of the institutions to fully repay the respective loans from HM Treasury. To the extent that the loans have not been fully repaid by 31 March 2012, the FSCS will agree a schedule of repayments with HM Treasury and levy the industry, including Loughborough Building Society, accordingly.

The Society recognised in last year's results, a provision for FSCS management expenses levy of £150,000, covering the scheme year 2010/11 based on its market participation to that date. A payment of £75,000 has been made in the year which, together with the charge in respect of scheme year 2011/12, has resulted in a provision of £115,000 at 31 October 2011.

The provision does not include any estimate for management expenses levies for future scheme years or for compensation levies which are expected to arise from the ultimate payout on the claims but the amounts of which are still uncertain.

21. Leases

Annual commitments

At 31 October 2011 the Society had annual commitments for operating leases relating to land and buildings as follows:

	2011 £'000	2010 £'000
Operating leases which expire:		
After two years and before five years	47	47

22. Financial Instruments

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

The Society has a formal structure for managing risk, including established risk limits, reporting lines, mandates and other control procedures. The policy statement is reviewed regularly by the Board Assets and Liabilities Committee, (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 of underlying price, rate or index inherent in the contract or agreement, such as interest rates. All transactions in derivatives are undertaken to manage the risks arising from underlying business activities.

These derivatives are only used by the Society in accordance with the Building Societies Act 1986 to limit the extent to which the Society will be affected by changes in interest rates or other factors specified in the legislation. Derivatives are not used in trading activity or for speculative purposes and consequently all such instruments are classified as hedging contracts.

The derivative instruments used by the Society in managing its balance sheet exposures are interest rate swaps. These are used to protect the Society from exposures arising principally from fixed rate mortgage lending, fixed rate savings products and fixed rate deposit funding. The duration of the off balance sheet contract is generally short to medium term and their maturity profile reflects the nature of the exposures arising from the underlying business activities.

Outstanding Derivative Contracts

The table below shows the notional principal amounts, credit risk weighted amounts and replacement costs of derivatives. Notional principal amounts indicate the volume of business outstanding at the balance sheet date and do not represent amounts at risk. The credit risk weighted amount is calculated according to rules specified by the Financial Services Authority, and is based on the replacement cost, but also takes into account measures of the extent of potential future exposure and nature of the counterparty. The replacement cost represents the cost of replacing contracts with a positive value, calculated at market rates current at the balance sheet date, and reflects the Society's maximum exposure should all counterparties default.

	2011 £'000	2010 £'000
Unmatured interest rate swaps		
Notional principal amount	**59,600**	63,450
Credit risk weighted amount	**43**	58
Replacement cost	**2**	84

Risk Management

The main financial risks arising from the Society's activities are liquidity risk, credit risk and interest rate risk. The Board reviews and agrees policies for managing each of these risks, as summarised below.

Liquidity Risk

Liquidity Risk is the risk of failing to meet demands and commitments to provide funds to customers and other third parties. The objective of liquidity is to help smooth mismatches between maturing assets and liabilities thereby maintaining public confidence in the solvency of the Society. The Society's policy is to maintain sufficient liquid funds at all times to ensure that liabilities can be met as they fall due. The Society has increased its operating level of liquidity above the normal range, in response to current market conditions.

Credit Risk

Credit Risk is the risk that counterparties will not be able to meet their obligations as they fall due. The Society is exposed to both retail credit risk, through mortgage lending, and wholesale credit risk, via treasury operations. Credit risk in relation to retail customers is governed by limits contained in the Society lending policy. Changes to the policy are reviewed by the Risk Committee prior to Board approval, and the approval of loan applications is mandated. Exposure to treasury counterparty risk is controlled within limits set in policies and procedures agreed by the Board, after review by the Society's ALCO.

22. Financial Instruments (continued)

Interest Rate Risk

Interest Rate Risk is the risk that income, arising from the Society's assets, or expenses, arising from the Society's liabilities, varies as a result of changes in interest rates. The Society is exposed to movements in interest rates reflecting the mismatch between the dates on which interest receivable on assets and interest payable on liabilities are next reset to market rates, or, if earlier, the dates on which the instruments mature. The Society manages this exposure continually by using both on and off- balance sheet financial instruments.

The following tables show the allocation of assets and liabilities at the balance sheet date, to time bands by reference to the earlier of the next interest repricing date and the maturity date.

After taking into account the derivatives entered into by the Society, the interest rate sensitivity exposure was:

As at 31 October 2011	Not more than three months £'000	More than three months but not more than six months £'000	More than six months but not more than one year £'000	More than one year but not more than five years £'000	Non interest bearing £'000	TOTAL £'000
Assets						
Liquid assets	**60,005**	**6,498**	**2,500**	**1,044**	**234**	**70,281**
Loans and advances to customers	**147,003**	**4,036**	**9,091**	**39,747**	**(1,077)**	**198,800**
Tangible fixed assets	**-**	**-**	**-**	**-**	**1,269**	**1,269**
Other assets	**-**	**-**	**-**	**-**	**267**	**267**
Total assets	**207,008**	**10,534**	**11,591**	**40,791**	**693**	**270,617**
Liabilities						
Shares	**208,089**	**4,875**	**3,703**	**7,657**	**2,312**	**226,636**
Amounts owed to credit institutions and other customers	**15,317**	**6,000**	**2,000**	**-**	**87**	**23,404**
Other liabilities	**-**	**-**	**-**	**-**	**1,016**	**1,016**
Provisions for liabilities	**-**	**-**	**-**	**-**	**115**	**115**
Reserves	**-**	**-**	**-**	**-**	**19,446**	**19,446**
Total liabilities	**223,406**	**10,875**	**5,703**	**7,657**	**22,976**	**270,617**
Off balance sheet items	**44,000**	**(3,300)**	**(7,800)**	**(32,900)**	**-**	**-**
Interest rate sensitivity gap	**27,602**	**(3,641)**	**(1,912)**	**234**	**(22,283)**	**-**

Comparative position at 31 October 2010

Total assets	206,985	14,698	6,913	44,461	694	273,751
Total liabilities	223,926	10,090	13,475	3,449	22,811	273,751
Off balance sheet items	32,950	2,200	2,350	(37,500)	-	-
Interest rate sensitivity gap	16,009	6,808	(4,212)	3,512	(22,117)	-

Liquid assets include cash in hand, balances with the Bank of England, treasury bills, loans and advances to credit institutions and debt securities. Other assets include prepayments, other assets and accrued income. Provisions for liabilities represent payments under the FSCS Levy.

The ALCO monitors the exposure to repricing risk on a quarterly basis.

22. Financial Instruments (continued)

Fair values of financial instruments

Set out below is a comparison of book and fair values of some of the Society's financial instruments as at 31 October 2011. Market values have been used to determine fair values. The table excludes certain financial assets and liabilities which are not listed or publicly traded, or for which a liquid and active market does not exist. It therefore excludes such items as mortgages, retail savings accounts and deposits with other credit institutions.

	2011 Book Value £'000	2011 Fair Value £'000	2010 Book Value £'000	2010 Fair Value £'000
On balance sheet instruments				
Debt securities (note 10a)	15,801	15,787	19,900	19,903
Treasury bills (note 10b)	4,492	4,492	12,473	12,472
	20,293	20,279	32,373	32,375
Off balance sheet instruments				
Interest rate swaps	-	(1,061)	-	(1,348)

Hedges

Hedges which comprise the 'Derivatives' referred to above are used to reduce the risk of loss arising from changes in interest rates. Gains and losses on instruments used for hedging are recognised in line with the item being hedged and are only recognised in the event of the underlying exposure itself being unwound. The following table sets out the movements in unrecognised and recognised gains and losses in the year to 31 October 2011.

	2011 Gains £'000	2011 Losses £'000	2011 Net gains/(losses) £'000
Gains and losses unrecognised at the start of financial year	84	(1,432)	(1,348)
Items unrecognised at the start of the year recognised in the year	(82)	751	669
Items unrecognised at the start of the year and unrecognised at the year end	2	(681)	(679)
Gains and losses arising in the year unrecognised in the year	-	(382)	(382)
Unrecognised at the end of the financial year	2	(1,063)	(1,061)
Of which:			
Expected to be realised in the year to 31 October 2012	2	(619)	(617)
Expected to be realised after 31 October 2012	-	(444)	(444)
	2	(1,063)	(1,061)

1. Statutory Percentages

	2011 %	Statutory Limit %
Lending Limit	**6.98**	**25.00**
Funding Limit	**9.36**	**50.00**

The above percentages have been calculated in accordance with the provisions of the Building Societies Act 1986.

The Lending Limit measures the proportion of business assets not in the form of loans fully secured on residential property. Business assets are the total assets of the Society as shown on the balance sheet plus provisions for bad and doubtful debts, less fixed assets and liquid assets. Loans fully secured on residential property are the amount of principal owing by borrowers and interest accrued not yet payable. This is the amount shown in the balance sheet plus provisions for bad and doubtful debts.

The Funding Limit measures the proportion of shares and borrowings not in the form of shares held by individuals.

The statutory limits are as laid down under the Building Societies Act 1986 and ensure that the principal purpose of the building society is that of making loans which are secured on residential property and are funded substantially by its members.

2. Other Percentages

	2011 %	2010 %
As a percentage of shares and borrowings :		
Gross capital	**7.78**	7.47
Free capital	**7.63**	7.33
Liquid assets	**28.11**	30.02
As a percentage of mean total assets:		
Profit for the financial year	**0.19**	0.25
Management expenses	**1.00**	0.94

The above percentages have been prepared from the Society's accounts and in particular:

'Shares and borrowings' represent the total of shares, amounts owed to credit institutions and amounts owed to other customers.

'Gross capital' represents the aggregate of the general reserves and the revaluation reserve.

'Free capital' represents the aggregate of gross capital and general loss provisions for bad and doubtful debts, less tangible fixed assets.

'Mean total assets' represents the average of total assets at the beginning and end of the year.

'Liquid assets' represent the total of cash in hand, balances with the Bank of England, treasury bills, loans and advances to credit institutions, and debt securities.

'Management expenses' represent the aggregate of administrative expenses, depreciation and amortisation.

3. Information relating to the Directors at 31 October 2011

Name Date of Birth	Date of Appointment	Business Occupation	Other Directorships
S. P. Mellors Chairman (7.6.51)	08.11.99	Chartered Surveyor	CPG Homes Ltd Jubilee Court (Loughborough) Management Co. No.2 Ltd Scott P. Mellors Ltd
J. P. Jessop Deputy Chairman (11.2.50)	01.03.09	Chartered Management Accountant	Kingdom Bank Ltd
D. T. Bowyer (3.3.55)	01.03.10	Chartered Accountant	Age Concern (Solihull) Family Care Trust
C. G. Bradley (10.11.52)	01.09.93	Building Society Deputy Chief Executive and Finance Director	None
G. Brebner (2.5.60)	13.07.09	Building Society Chief Executive	None
Mrs C. D. Clifford (29.12.57)	31.10.06	Group Director	BGL Ltd
Mrs C. Joyce (21.5.63)	10.11.03	Building Society Operations Director	None
I. J. Webb (5.12.69)	15.01.07	Marketing and Insight Director	Ian Webb Consulting Ltd

Documents may be served on the above named Directors c/o KPMG Audit Plc at the following address:

One Snowhill, Snow Hill Queensway, Birmingham B4 6GH.

The three Executive Directors are employed on contracts requiring a notice period of 12 months by the Society and 6 months by the individual. The contract for Mr G. Brebner was entered into on 1 July 2009. The contracts for Mr C. G. Bradley and Mrs C. Joyce were entered into on 19 October 2004.

The Loughborough
Building Society

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