



The Loughborough Building Society

Business Review and
Summary Financial Statement
for the year ended 31 October 2011



Directors

Scott P Mellors FRICS

Peter Jessop ACMA

David T Bowyer, FCA

Colin G Bradley BSc, ACA, ACIB

Gary Brebner BSc, ACA

Cheryl D Clifford BA, FCIPD

Caroline Joyce BA, ACIB

Ian J Webb BSc, MCIM

Chairman

Deputy Chairman

Chief Executive

Deputy Chief Executive and Finance Director

Operations Director

Gary Brebner BSc, ACA

Colin G Bradley BSc, ACA, ACIB

Caroline Joyce BA, ACIB

Chief Executive's Introduction

Loughborough Building Society results year ended 31 October 2011

It has been a curious twelve months. Most of the economic challenges of 2010 have repeated themselves in 2011. The UK financial markets have effectively remained in recession; record low interest rates since March 2009, a subdued housing market and consumer disposable income is being squeezed.

These conditions provide the backdrop for members to interpret the results for the year. I am pleased to say that your Society has performed well. The financial highlights for the year are:

- Gross mortgage advances were 7% up on the previous year
- Profit before tax and FSCS levy up to £751,000 (2010 £661,000)
- Mortgage assets have increased by £2.6m or 1.3% (2010 – decrease £7.4m or down 3.6%)
- Increased gross capital to £19.4m or 7.8% of shares and borrowings (2010 £18.9m and 7.5% respectively)

During the last year the economic climate has not been easy for borrowers or savers. The UK mortgage market has contracted over the last year. Despite this we have achieved increased gross lending in the year without compromise on quality. Interest receivable has remained at about 2010 levels. Net interest receivable has increased despite the low levels of income received from liquid assets held by the Society.

The Society has allowed total liquid assets to decline to £70m from the recent height of previous years but the level remains historically high. The overall amount held is in response to the financial crisis of 2008/9 and a requirement of our regulator, the

Financial Services Authority. Fees and commissions receivable have slightly fallen as competitive pressures have reduced average mortgage fees.

The Society has continued to leave the rates paid to savers unaltered. This was a deliberate measure to support our investor members in these difficult times. The consequence of paying higher interest rates to investors is that the interest rate margin has only been sustained by careful management of other funding. The Board believes this is the correct current policy, however this is only sustainable for a period and not indefinitely.

There was a planned increase in management expenses to strengthen the skills and management team of the Society, improve branch conditions for our members and develop an improved website.

It is inevitable that in a recession some borrowers will find themselves in difficulty. It is pleasing to report that arrears cases remain under control and are lower in number as management and staff continue to exercise judgement and provide forbearance to help those in times of distress, whilst protecting the wider interest of the membership.

However in view of the reduction in regional house prices and uncertain economic outlook, the Society has prudently strengthened its provisions against potential mortgage losses by £48,000.

During the year the Society has produced retained profits of £0.5m increasing the capital ratio, as noted above, which is an important indicator of financial stability.



Chief Executive's Introduction

Continued

Outlook for 2012

Although the Society does not provide forecasts, it is important that members understand the market conditions anticipated in the coming year. It would appear that the housing market will remain subdued for some time to come. Transaction volumes remain low and house price indicators show a mixed UK picture. However most regions are showing weakening of prices and fewer buyers are entering the market.

Growth in the wider economy is varied and some communities and businesses will come under further strain as the full spending cuts from the Government take effect. Unemployment is likely to rise in 2012 and interest rates remain low.

The Society only exists because of its members. Consequently we will continue to strive to improve access to our services further. There will be modest investments in new infrastructure including improvements and benefits to membership services.

I am grateful for the efforts of management and staff who continue to provide members with an excellent personal service. The Society remains committed to being customer led and member owned, providing financial security and long term value and choice for current and future generations of members.

I would like to thank you all for your support over the year and hope you have a successful and prosperous 2012.

Gary Brebner

Chief Executive

9 December 2011

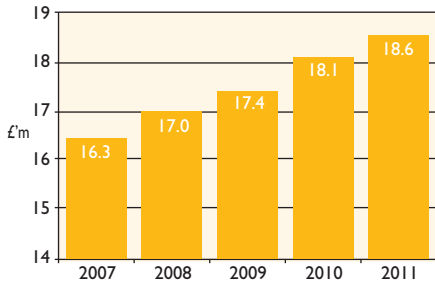
Society Performance over the past 5 years

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.

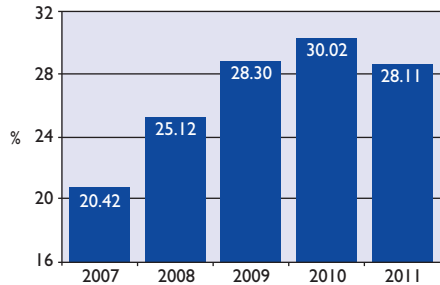
General Reserves

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.



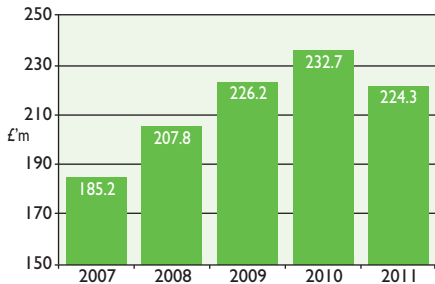
Liquidity Ratio as % of Shares and Borrowings

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.



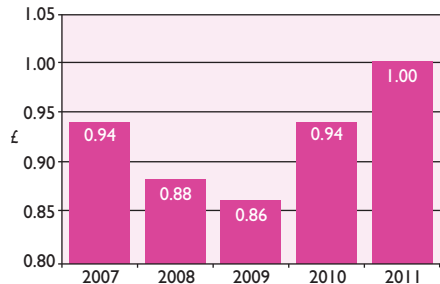
Share Balances (excluding accrued interest)

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.



Summary Financial Statement for the year ended 31 October 2011

The Directors have pleasure in presenting the Summary Financial Statement of the Society for the year ended 31 October 2011.

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 30 January 2012.

Approved by the Board of Directors on 9 December 2011 and signed on its behalf by: -

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

Summary Directors' Report

The Directors are pleased to present their 144th Annual Report together with the Annual Accounts and Annual Business Statement of the 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 3, 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 0.5% 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

Summary Financial Statement

Continued

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 ongoing 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.

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.

Summary Financial Statement

Continued

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, 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 13 to 16.

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.

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.



Summary Financial Statement

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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

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 14.

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

Summary Financial Statement

Continued

For the year ended 31 October 2011

	2011 £'000	2010 £'000
Results for the year		
Net interest receivable	3,347	3,099
Other income and charges	179	317
Administrative expenses	(2,718)	(2,585)
Provision for mortgage losses	(57)	(170)
Provision for FSCS levy	(40)	288
Profit for the year before taxation	711	949
Taxation	(207)	(261)
Profit for the year	504	688
Financial position at end of the year		
Assets		
Liquid Assets	70,281	76,088
Mortgages	198,800	196,152
Fixed and other assets	1,536	1,511
Total Assets	270,617	273,751
Liabilities		
Shares	226,636	235,110
Borrowings	23,404	18,372
Other liabilities	1,016	1,177
Provisions for liabilities – FSCS levy	115	150
Reserves	18,587	18,070
Revaluation reserve	859	872
Total Liabilities	270,617	273,751
Summary of key financial ratios	%	%
Gross capital as a percentage of shares and borrowings	7.78	7.47
Liquid assets as a percentage of shares and borrowings	28.11	30.02
Profit for the year as a percentage of mean total assets	0.19	0.25
Management expenses as a percentage of mean total assets	1.00	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 measures the ratio of profit after taxation for the year to 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.

Independent auditor's statement to the members and depositors of Loughborough Building Society

We have examined the summary financial statement of Loughborough Building Society, for the year ended 31 October 2011, set out on pages 4 to 8.

This auditor's 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 auditor

The directors are responsible for preparing the summary financial statement within 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 2008/3 'The auditor's statement on the summary financial statement in the United Kingdom' issued by the Auditing Practices Board.

Our report on the society's full annual accounts describes the basis of our opinions on those annual accounts, the Annual Business Statement and the Directors' Report.

Opinion on summary financial statement

In our opinion the summary financial statement is consistent with the full annual accounts, the Annual Business Statement and the Directors' Report of Loughborough Building Society for the year ended 31 October 2011 and conforms with the applicable requirements of section 76 of the Building Societies Act 1986 and regulations made under it.

Simon Clark
for and on behalf of **KPMG Audit Plc,**
Statutory Auditor
Chartered Accountants

One Snowhill
Snow Hill Queensway
Birmingham B4 6GH

9 December 2011

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 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 14. 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.

Directors' Remuneration Report

Continued

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

Continued

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)

	2011 Fees £'000	2010 Fees £'000
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

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 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.

Corporate Governance Report

Continued

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.

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 10 to 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

Corporate Governance Report

Continued

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.

Corporate Governance Report

Continued

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.

Remuneration

The Report on Directors' Remuneration on pages 10 to 12 sets out the remuneration policies for Executive and Non-Executive Directors.

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

Tariff of Charges

Effective from 1st March 2012

General	£	Residential Loans	£
Unpaid cheque/direct debit	25	Application fee Residential Property to let	250
Cheque re-issues	10	Application fee Further Advance	100
Breakdown of transactions (letter)	minimum 20		
Telegraphic transfer of funds (UK)	30	Commercial Loans	
Data Protection Act enquiry	10	Application Fee (non refundable)	200
		Arrangement fee	1% of loan, minimum 500
		Annual management fee	125
		Further Advance Application	1% of loan, minimum 250
Mortgages		Valuation Fees	
Deeds release fee	50	A scale of valuation fees for mortgage purposes is available on request	
Sealing fee on redemption of mortgage (waived if term expired or replacement mortgage is taken out)	90	Arrears/Possessions	
Duplicate MIRAS 5	15	Arrears letter (Residential – 2nd & subsequent)	each 30
Backdated MIRAS 5	20	Arrears letter (Commercial)	each 30
Duplicate statement	25	Arrears visit (plus WHMS charge)	40
Letter confirming outstanding balance	10	Instruction of solicitors	100
Redemption statement (second & subsequent)	each 35	Cancellation of bailiff appointment	25
Second mortgage questionnaire	50	Mortgage Possession fee (Residential)	300
Consent to second charge	50	Mortgage Possession fee (Commercial)	500
Own property insurance	30	Mortgage Possession fee (Second Charge)	150
Copy of deeds	25	Capitalisation of rent arrears	50
Repayment of existing debts from advance	30		
Permission to let property	75		
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		
<i>A charge may be levied for the provision of a mortgage reference to another financial institution</i>			
Investments			
Telegraphic transfer of funds abroad	30	plus bank charges	
Bank Draft	25	plus bank charges	
Clearance of foreign cheque	25	plus bank charges	
Stopped cheque (only if lost or stolen)	20		
Lost/duplicate passbook	15		
Duplicate statement (Postal account)	20		
Investors interest statement (other than Section 975)	20		
Duplicate Section 975 statement	15		
Accountants/Audit letter	35		



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