The Loughborough Building Society

Annual Report and Accounts

Year Ended 31 October 2010

Annual Report and Accounts

year ended 31 October 2010

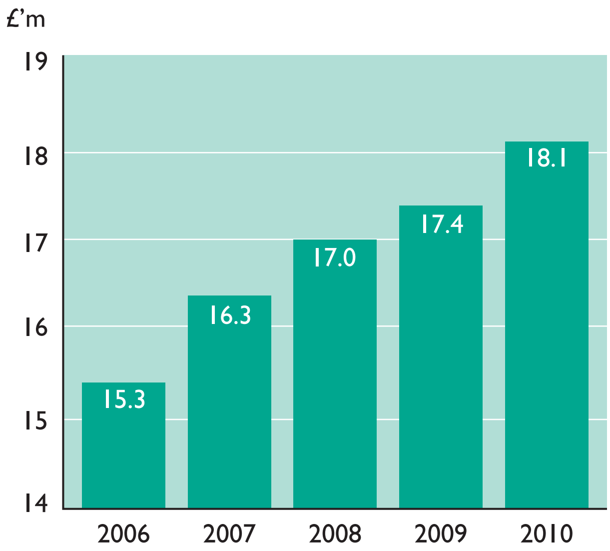
Society Performance over the past 5 years

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.

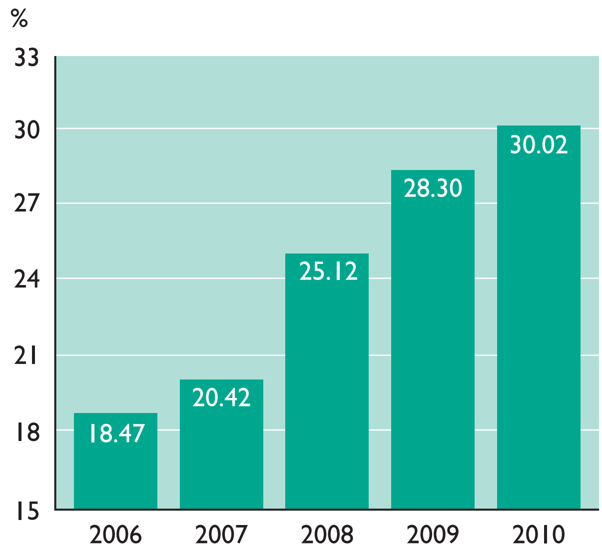
General Reserves

The Directors remain committed to maintaining a strong capital position to satisfy regulatory requirements and to protect investors. General reserves were £18.07m at October 2010.



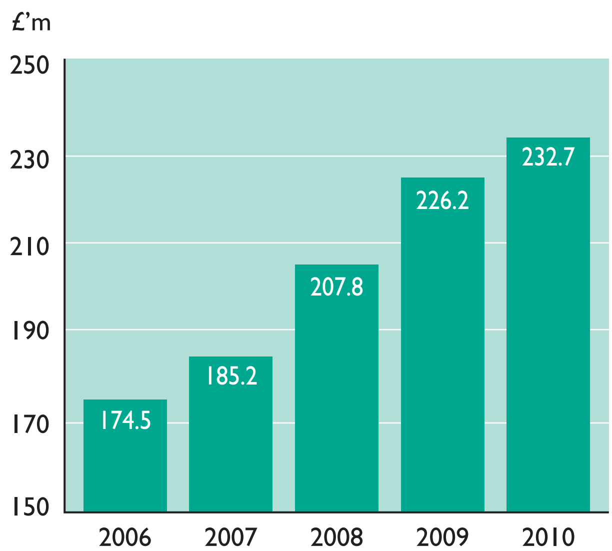
Liquidity Ratio as % of Shares and Borrowings

The Society maintains an adequate level of liquid assets at all times to meet liabilities as they fall due. The ratio was 30.02% at October 2010.



Share Balances (excluding accrued interest)

The Society offers a range of competitive products to new and existing members, resulting in continued growth in share balances, rising to £232.7m at October 2010.



Management Expenses % of Mean Assets (excluding exceptional items)

The Board reviews its management expenses each quarter. The careful control of costs allows the Society to maintain the branch network and offer competitive products for the benefit of all our members. The ratio was 94 pence at October 2010.

The Directors are pleased to present their 143rd Annual Report, together with the Annual Accounts and Annual Business Statement of the Loughborough Building Society for the year ended 31 October 2010.

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 financial year, trading conditions in the financial services sector have remained difficult and the Society continues to experience a very challenging market that is not conducive to mortgage asset growth. However, we are pleased to again report that the Society has achieved a good overall performance. 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 levels of capital and liquidity of the Society.

The last 12 months have seen the UK move out of the deepest recession in living memory. Although national growth figures have improved through 2010, it remains clear that mortgage demand is likely to remain subdued into 2011 and that a full economic recovery will be a slow process. The bank base rate has remained at just 0.5% throughout the financial year and, following the government's recent comprehensive spending review, the country faces a period of austerity with low growth and the risk of an increase in unemployment. The Board has managed to maintain interest rates unchanged on both sides of the balance sheet throughout the year and our standard variable mortgage rate (SVR) is competitive against many other mutual organisations at 4.99%.

The Board has sought to protect savers' rates, recognising that many members rely on interest from their investments. The Society has continued to see strong demand for its savings products and has achieved an overall retail inflow of £2.76m in the year. Existing and new members continue to invest with the Society in the knowledge that it is a safe, secure and traditional home for their investments. This inflow has enabled the Society to further reduce its borrowing from the wholesale markets to under 4.00% of share and deposit balances by year end and all of our mortgage lending is funded by retail savings provided directly by our investing members.

Gross lending in the year totalled £24.50m representing an increase of 10.46% compared to 2009. This represents a good result as all of the mortgage advances in 2010 were originated directly, rather than through intermediary channels. However in recent months, despite the Society having funds available to lend, the demand for mortgages has been weak and therefore in 2011 the Board will be examining alternative means of mortgage origination, without sacrificing the quality of lending. Overall, mortgage balances after provision for losses fell by 3.64% in the year reflecting the subdued lending market nationally.

The Board is again pleased to record that arrears levels have remained stable and well controlled, reflecting the quality of lending and the support to borrowers in difficulty. Nationally, unemployment has remained around 2.5 million and has not risen as forecast. However there is an expectation that levels may rise in 2011 and the Board has felt it appropriate to increase the provision for mortgage losses by £170,000 to reflect the risks and uncertainties in the property market.

At the start of 2010 the Society opened its first automated agency with Billson & Sharp Solicitors in the Clarendon Park area of Leicester, following the termination of their agency with a clearing bank group. The service facility we have been able to provide to existing and new members demonstrates that individual personal service is at the heart of all our operations and positive feedback that we receive at our member forums, and through the year, confirms this is appreciated by our customers.

The Board is also pleased to report that in October two further agencies have been opened in Nottinghamshire with Gascoines estate agents. These developments reflect the Board's desire that the Society will be able to resume its steady growth pattern when economic conditions allow, and will continue to serve an increasing number of members across its area of operation, bringing benefits to local communities.

The set up of these additional facilities for our members has contributed to an overall rise in costs, with the management expense ratio rising to 94 pence of mean assets. Total assets declined by 1.51% during the year, and this also contributed 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 we took a prudent approach to 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 and we fully recognised an expected total liability of £520,000. This year, under revised accounting guidance, we are now required to release £288,000 of this provision back into pre tax profit. If the write back is excluded, this year's trading profit was 34% lower than in 2009 reflecting higher costs and a narrowing of the interest margin, as the Board has protected the level of rates paid to savers throughout the year.

Principal Risks and Uncertainties

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

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 or external events.
- **Regulatory Risk,** this is the risk that the volume and complexity of regulatory issues, for instance the Mortgage Market Review and 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.

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

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

Information Technology

The Society continues to operate an I.T. system provided by Bailey Computer Services. The level of service provided 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.

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 2010 represented 23 days, (2009: 25 days).

Liquid Assets

Liquid assets in the form of cash and investments were £76.09 million at the year end. The combination of retail inflows and a small decline in mortgage balances has increased liquid assets to 30.02% of total shares and borrowings at the year end.

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.

Loans and Advances

The total number of mortgages completed during the year was 205 plus 78 further advances on existing accounts, the amount advanced being £24.50m.

Mortgage Arrears

At the end of the year, there were 8 cases (2009: 5 cases) where mortgage repayments were twelve months or more in arrears, the amount of those arrears being £45,934 and the mortgage balances £605,014. There were 4 cases in possession at the year end, (2009: 1 case).

Financial Risk Management Objectives and Policies

The Society has a formal structure for managing risk including establishing risk limits, reporting lines, mandates and other control procedures. This structure is reviewed regularly by the Society's Assets and Liabilities Committee (ALCO) as detailed on page 7.

Full details of the Society's approach to financial risk management and the key risks faced are given in Note 21 to the Accounts.

Profit, Capital and Basel II

The Society's 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 £688,000.
The Society has increased its financial strength with the capital ratios remaining adequate to satisfy foreseeable requirements. At 31 October 2010, Free capital amounted to £18.57 million or 7.33% of total shares and borrowings. Gross capital amounted to £18.94 million or 7.47% of total shares and borrowings.

The Board has continued to review 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. 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, charitable donations totalling £12,323 were made to local organisations, including Leonard Cheshire Disability, the 2010 Charity of the Year. 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	Appointed 1 March 2010
Mrs C D Clifford BA, FCIPD	Senior Independent Director
A.Roberts LL.B	Retired 28 February 2010
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

Directors' Report

Directors (continued)

Alan Roberts retired from the Board during the year after serving as a Director since 1998 and having been the Chairman of the Audit and Compliance committee for the last three years. Alan has made a most valuable contribution to the Board during his period of office and his legal expertise and wise counsel will be missed by the Board. We wish him well in his retirement.

David Bowyer joined the Board in March. A Chartered Accountant, he worked with KPMG in the Financial Services sector for over 25 years and brings significant financial and relevant sector experience which complements the current skill mix of the Board.

The Directors retiring in accordance with the Rules are Mr. D.T. Bowyer who, being eligible, offers himself for election and Mrs. C. Joyce and Mr. I. J. Webb who, being eligible, offer themselves for re-election.

Auditors

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

Management and Staff

The Directors would like to record their appreciation for the support and commitment of the management and staff at the end of what has been another challenging year for the Society.

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

On behalf of the Board
Scott P. Mellors
Chairman 8 December 2010

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 Combined Code on Corporate Governance 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 is 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 major Committees to discuss specific issues in greater depth than would be possible during Board meetings. Each Committee has Terms of Reference that are approved by the Board and which are available from the Society's Secretary on request. The principal Committees are those relating to Audit and Compliance, Nominations, Staff and Remuneration, Assets and Liabilities and Development and Marketing.

Audit and Compliance Committee

The Committee considers regulatory compliance matters, the annual compliance monitoring plan, the adequacy of internal controls and evaluation of 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 at least 4 times a year 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: A.Roberts (Chairman until 28 February), J. P. Jessop (Chairman from 1 March), 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 risks on both sides of the balance sheet, including the use of derivatives for fixed rate products. The Committee also reviews the structure of interest rates and the treasury activities of the Society.

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

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. The Committee also considers the recommendations of the Executive Directors relating to the remuneration of all Society staff, before approving any overall increase in the level of staff remuneration. The Directors' Remuneration Report is set out on pages 11 and 12.

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

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

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 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
S.P. Mellors (Chairman)	12	*	4	4	1	4
J.P.Jessop (Deputy Chairman)	12	4	4	4	1	*
D.T.Bowyer (appointed 1 March)	8 (8)	3 (3)	2 (3)	*	*	*
C.G. Bradley	12	*	4	*	*	4
G.Brebner	12	*	4	*	*	4
Mrs.C.D.Clifford	12	4	*	4	*	*
Mrs C. Joyce	12	*	4	*	*	4
I.J.Webb	12	*	*	*	*	4
A. Roberts (retired 28 February)	4 (4)	1 (1)	*	2 (2)	*	*
Number of Meetings	**12**	**4**	**4**	**4**	**1**	**4**

*not a member of the Committee ( ): number of meetings eligible to attend

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 2010 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 maximum age for any Director is 70 at which point retirement is mandatory.

The Board has elected Mrs.C.D.Clifford as the Society's Senior Independent Director. 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 4.

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 encouraged 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

8 December 2010

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

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

Policy

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

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

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

The Staff and Remuneration Committee comprises 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 Team comprises a number of elements: basic salary, annual and medium term incentive schemes, contributions to pension schemes and other benefits.

Basic Salary

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

Annual Bonus

The Annual Bonus is an incentive scheme that provides non-pensionable rewards directly linked to the achievement of key performance targets as determined by the Society's Board. Performance targets are reviewed annually, by the Society's Board, to ensure they are aligned to business priorities. The overall objective is to improve Society performance whilst maintaining the financial strength of the Society for the benefit of its members. The maximum figure payable was set at 10% of basic salary, the amount paid for 2009/10 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)

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**

2009	Salary	Annual Bonus	Medium Term Bonus	Pension Contributions	Benefits	TOTAL
G. Brebner*	39	-	-	5	2	46
C G Bradley	92	10	7	14	11	134
Mrs C Joyce	83	9	6	10	5	113
S R Peete*	28	-	-	4	4	36
TOTALS	242	19	13	33	22	329

* G.Brebner joined the Society as Chief Executive on 6 July 2009 and was appointed to the Board on 13 July 2009. He did not qualify for any bonus payments in 2008/09.

S.R.Peete resigned as Chief Executive on 31 January 2009. In addition to the above, he received £111,000 in cash and a vehicle to the value of £4,000 as compensation for loss of office. The cash payment represented £110,000 notice and £1,000 in respect of other benefits.

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 2010	£'000 Fees 2009
S P Mellors (Chairman)**	**30**	25
J P Jessop (Deputy Chairman)**	**23**	13
Mrs C D Clifford	**18**	17
I J Webb	**18**	17
D T Bowyer (appointed 1 March 2010)	**11**	-
A Roberts (retired 28 February 2010)	**7**	21
P R Blakemore (Chairman, resigned 13 July 2009)	**-**	22
TOTALS	**107**	115

** S. P. Mellors, previously Deputy Chairman, was appointed Chairman on 13 July 2009. J. P. Jessop, appointed to the Board on 1 March 2009, was then appointed Deputy Chairman on 13 July 2009.

Mrs Cheryl D. Clifford
Chairman Staff and Remuneration Committee

8 December 2010

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 judgments 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 8 December 2010

Independent Auditors' Report to the Members of Loughborough Building Society

We have audited the annual accounts of Loughborough Building Society for the year ended 31 October 2010 which comprise the Income and Expenditure Account, the Balance Sheet, the Cash Flow Statement, the Statement of Total Recognised Gains and Losses, and the related notes. These annual accounts have been prepared under the accounting policies set out therein.

We have examined the Annual Business Statement (other than the details of directors upon which we are not required to report) and the Directors' Report.

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 auditors' 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 auditors

The directors' responsibilities for preparing the Annual Report and Accounts including the Directors' Report, the Annual Business Statement and the annual accounts in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 13.

Our responsibility is to audit the annual accounts in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). We are also responsible for examining the Annual Business Statement (other than the details of directors) and for reading the information in the Directors' Report and assessing whether it is consistent with the accounting records and the annual accounts.

We report to you our opinion as to whether the annual accounts give a true and fair view and are properly prepared in accordance with the Building Societies Act 1986 and regulations made under it. In addition, we report to you our opinion as to whether certain information in the Annual Business Statement gives a true representation of the matters in respect of which it is given, whether the information in the Directors' Report is consistent with the accounting records and the annual accounts and whether 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 made under it.

We also report to you if, in our opinion, the annual accounts are not in agreement with the accounting records or if we have not received all the information and explanations that we require for our audit.

We read the other information contained in the Annual Report and Accounts and consider whether it is consistent with the audited annual accounts. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the annual accounts, Annual Business Statement and Directors' Report. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the annual accounts and the Annual Business Statement. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the annual accounts, and of whether the accounting policies are appropriate to the society's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the annual accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the annual accounts.

Opinion

In our opinion:

a) the annual accounts give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the affairs of the society as at 31 October 2010 and of the income and expenditure of the society for the year then ended;

b) 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;

c) the information given in the Directors' Report is consistent with the accounting records and the annual accounts; and

d) the annual accounts, 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 made under it.

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

8 December 2010

Income and Expenditure Account
for the year ended 31 October 2010

	Note	2010 £'000	2009 £'000
Interest receivable and similar income	2	8,649	10,588
Interest payable and similar charges	3	(5,550)	(7,427)
Net interest receivable		3,099	3,161
Fees and commissions receivable		59	107
Fees and commissions payable		(35)	(7)
Other operating income		302	232
Total income		3,425	3,493
Administrative expenses	4	(2,539)	(2,356)
Depreciation and amortisation	13	(46)	(42)
Other operating charges		(9)	(35)
Operating profit before provisions		831	1,060
Provisions for bad and doubtful debts	11	(170)	(64)
Operating profit before FSCS levy		661	996
Provisions for liabilities - FSCS Levy credit/(charge)	20	288	(480)
Operating profit and profit on ordinary activities before tax		949	516
Tax on profit on ordinary activities	8	(261)	(132)
PROFIT FOR THE FINANCIAL YEAR	19	688	384

The above results are all derived from continuing operations.

Statement of Total Recognised Gains and Losses for the year ended 31 October 2010

	Note	2010 £'000	2009 £'000
Profit for the financial year		688	384
Unrealised surplus on revaluation of properties	13	161	-
Total recognised gains and losses relating to the year		849	384
Total recognised gains and losses since last annual report		849	384

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.

Balance Sheet
as at 31 October 2010

	Note	2010 £'000	2009 £'000
ASSETS			
Liquid assets			
Cash in hand		70	45
Treasury Bills	10 (b)	12,473	-
Loans and advances to credit institutions	9	43,584	41,493
Debt Securities	10 (a)	19,961	31,530
		76,088	73,068
Loans and advances to customers			
Loans fully secured on residential property	12	181,366	187,468
Other loans	12	14,786	16,103
		196,152	203,571
Tangible fixed assets	13	1,218	1,014
Other assets	14	235	208
Prepayments and accrued income		58	80
TOTAL ASSETS		273,751	277,941
LIABILITIES			
Shares	15	235,110	228,810
Amounts owed to credit institutions	16	7,090	16,626
Amounts owed to other customers	17	11,282	12,741
Other liabilities	18	1,177	1,151
Provisions for liabilities	20	150	520
		254,809	259,848
Revaluation Reserve	19	872	717
Reserves			
General Reserves	19	18,070	17,376
TOTAL LIABILITIES		273,751	277,941

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

These accounts were approved by the Board of Directors on 8 December 2010 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 2010

	2010 £'000	2009 £'000
Net cash (outflow) from operating activities	**(61)**	(7,507)
Taxation paid	**(151)**	(223)
Capital expenditure and financial investment		
Purchase of debt securities	**(31,005)**	(79,438)
Sale and maturity of debt securities	**42,472**	82,273
Purchase of treasury bills	**(32,456)**	-
Sale and maturity of treasury bills	**19,983**	-
Purchase of tangible fixed assets	**(95)**	(8)
Sale of tangible fixed assets	**6**	-
Decrease in cash	**(1,307)**	(4,903)
Reconciliation of operating profit to net cash (outflow) from operating activities		
Operating profit and profit on ordinary activities before tax	**949**	516
Decrease in prepayments and accrued income	**162**	448
(Decrease) in accruals and deferred income	**(244)**	(2,525)
Increase in provisions for bad and doubtful debts	**178**	110
Depreciation and amortisation	**46**	42
Non cash movements in debt securities	**39**	(45)
Net cash inflow / (outflow) from trading activities	**1,130**	(1,454)
Net decrease in loans and advances to customers	**7,241**	7,223
Net increase in shares	**6,470**	18,351
Net (decrease) in deposits and other borrowings	**(10,921)**	(15,303)
Net (increase) in loans and advances to credit institutions	**(3,500)**	(16,500)
Net (decrease) / increase in other liabilities	**(481)**	176
Net cash (outflow) from operating activities	**(61)**	(7,507)

Analysis of decrease in cash	**At 1 Nov 2009**	**Net (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**
	At 1 Nov 2008	Net (decrease)	At 31 Oct 2009
Cash in hand	49	(4)	45
Loans and advances to credit institutions repayable on demand	15,735	(4,899)	10,836
	15,784	(4,903)	10,881

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
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.

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.

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.

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.

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.

	2010 £'000	2009 £'000
2. Interest receivable and similar income		
On loans fully secured on residential property	**8,453**	8,880
On other loans	**853**	958
On debt securities		
interest	**228**	1,131
profit on disposals	**35**	3
On other liquid assets		
interest and other income	**552**	747
Net (expense) on financial instruments	**(1,472)**	(1,131)
	8,649	10,588

Total income on fixed income debt securities amounted to £206,190 (2009 : £779,198)

Interest on secured advances as shown above has been reduced by £9,464 (2009 : £13,954) representing interest suspended on non-performing loans in accordance with the Society's accounting policy.

Movements in the suspended interest account are as follows:

	2010	2009
At 1 November 2009	**-**	2
Interest written off during the year net of recoveries	**-**	(16)
Interest suspended in the year	**10**	14
At 31 October 2010	**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

	2010	2009
On shares held by individuals	**5,680**	7,087
On deposits and other borrowings	**338**	1,036
Net (income) on financial instruments	**(468)**	(696)
	5,550	7,427

4. Administrative expenses

	2010 £'000	2009 £'000
Staff costs		
Wages and salaries	1,060	1,094
Social security costs	110	95
Other pension costs	88	78
	1,258	1,267
Other Administrative expenses	1,281	1,089
	2,539	2,356

The Society makes a contribution of between 7.0% and 15.5% (2009: 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.

	2010	2009
Other Administrative expenses include:		
Amounts charged under other operating leases	47	47
Remuneration of the Auditors and their associates (excluding VAT)		
Audit services - Statutory Audit of the annual report and accounts	30	29
Other services	8	7

5. Employees

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

	2010 Full time	2010 Part time	2009 Full time	2009 Part time
Head office	24	2	25	2
Branch offices	13	4	14	4
Total	37	6	39	6

6. Remuneration of Directors

	2010 £'000	2009 £'000
For services as Non-Executive Directors	107	115
For Executive services	372	329
	479	444

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

7. Loans to Directors and Connected Persons

At 31 October 2010 there were outstanding mortgage loans granted in the ordinary course of business to 4 (2009 : 4) Directors and connected persons, amounting in aggregate to £570,542 (2009 : £599,944).

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 2010, 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.

8. Tax on profit on ordinary activities

	2010 £'000	2009 £'000
Analysis of charge in year		
Current tax		
Corporation tax at 28.00% (2009 : 28.00%)	288	152
Total Current Tax	288	152
Deferred Tax	(27)	(20)
Total Deferred Tax (Note 14)	(27)	(20)
Tax on profit on ordinary activities	261	132
Factors affecting the current tax charge for the year		
Profit on ordinary activities before tax	949	516
Tax at 28.00% (2009 : 28.00%)	266	145
Effects of:		
Difference between depreciation and capital allowances	(9)	(3)
Expenses not deductable for tax purposes	(3)	-
Other timing differences	42	26
Marginal relief	(8)	(16)
Current tax charge for year	288	152

9. Loans and advances to credit institutions

	2010 £'000	2009 £'000
Accrued interest	80	157
Repayable on demand	9,504	10,836
Other loans and advances by remaining maturity of:		
In not more than three months	29,000	26,500
In more than three months but not more than one year	4,000	4.000
In more than one year but not more than five years	1,000	-
	43,584	41,493

10 (a). Debt Securities

	2010 £'000	2009 £'000
Issued by other borrowers	19,961	31,530
	19,961	31,530
Debt securities have remaining maturities as follows:		
Accrued interest	61	124
In not more than one year	16,648	26,294
In more than one year	3,252	5,112
	19,961	31,530
Transferable debt securities (excluding accrued interest) comprise:		
Listed	4,900	8,406
Unlisted	15,000	23,000
	19,900	31,406
Market value of listed transferable debt securities	4,899	8,378
Included in debt securities are:		
Unamortised premiums	4	-
Unamortised discounts	4	44

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

Cost (excluding accrued interest)	£'000
At 1 November 2009	31,341
Additions	31,005
Disposals and maturities	(42,472)
At 31 October 2010	19,874
Amortisation	
At 1 November 2009	(65)
Provided in the year	39
At 31 October 2010	(26)
Net book value at 31 October 2010	19,900
Net book value at 31 October 2009	31,406

10 (b). Treasury Bills

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

Cost (excluding accrued interest) and net book values	£'000
At 1 November 2009	-
Additions	32,456
Disposals and maturities	(19,983)
At 31 October 2010	12,473

The Directors of the Society consider that the primary purpose of holding debt securities and treasury bills 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.

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 2009			
General provision	**409**	**287**	**696**
Specific provision	**115**	**40**	**155**
	524	**327**	**851**
Income and expenditure account			
General provision	**46**	**105**	**151**
Specific provision	**67**	**(40)**	**27**
Net charge to income and expenditure account	**113**	**65**	**178**
At 31 October 2010			
General provision	**455**	**392**	**847**
Specific provision	**182**	**-**	**182**
	637	**392**	**1,029**

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

Movement in loss provision (above)	**178**
Recovery of amounts previously written off	**(8)**
Total	**170**

12. Loans and advances to customers

	2010 £'000	2009 £'000
Loans fully secured on residential property	**181,366**	187,468
Loans fully secured on land	**14,786**	16,103
	196,152	203,571
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**	95
In not more than three months	**90**	40
In more than three months but not more than one year	**473**	560
In more than one year but not more than five years	**10,153**	9,460
In more than five years	**186,198**	194,267
	197,181	204,422
Less: provisions for bad and doubtful debts (note 11)	**(1,029)**	(851)
	196,152	203,571

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 2009	**1,005**	**356**	**309**	**1,670**
Additions during year	**-**	**-**	**95**	**95**
Disposals during year	**-**	**-**	**(33)**	**(33)**
Revaluation	**110**	**-**	**-**	**110**
At 31 October 2010	**1,115**	**356**	**371**	**1,842**
Depreciation				
At 1 November 2009	**40**	**356**	**260**	**656**
Charged in year	**11**	**-**	**35**	**46**
Disposals during year	**-**	**-**	**(27)**	**(27)**
Revaluation	**(51)**	**-**	**-**	**(51)**
At 31 October 2010	**-**	**356**	**268**	**624**
Net Book Value				
At 31 October 2010	**1,115**	**-**	**103**	**1,218**
At 31 October 2009	965	-	49	1,014

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 (2009 : £ 419,956).The accumulated historical cost depreciation on those revalued assets would be £122,081 (2009 : £117,989). Included in the total net book value of freehold land and buildings is £246,000 (2009 : £495,000) 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 £908,333 (2009 : £726,865).

	2010 £'000	2009 £'000
14. Other Assets		
Deferred Taxation	**235**	208
	235	208
Deferred Taxation comprises:		
Capital allowances	**(1)**	14
Timing differences related to general mortgage loss provision	**236**	194
	235	208
Movement in deferred taxation		
At 1 November 2009	**208**	188
Credit to income and expenditure account (Note 8)	**27**	20
At 31 October 2010	**235**	208

In accordance with Financial Reporting Standard 19, the deferred tax liability of £94,080 (2009 : £51,305) arising on the revaluation of freehold premises has not been recognised.

15. Shares

	2010 £'000	2009 £'000
Held by individuals	**235,110**	228,810
Shares are repayable from the balance sheet date in the ordinary course of business as follows :		
Accrued interest	**2,458**	2,628
Repayable on demand	**188,147**	171,463
In not more than three months	**28,426**	27,440
In more than three months but not more than one year	**12,630**	11,701
In more than one year but not more than five years	**3,449**	15,578
	235,110	228,810

16. Amounts owed to credit institutions

	2010 £'000	2009 £'000
Amounts owed to credit institutions are repayable from the balance sheet date in the ordinary course of business as follows:		
Accrued interest	**40**	126
In not more than three months	**4,550**	12,500
In more than three months but not more than one year	**2,500**	4,000
	7,090	16,626

	2010 £'000	2009 £'000

17. Amounts owed to other customers

Amounts owed to other customers are repayable from the balance sheet date in the ordinary course of business as follows:

	2010 £'000	2009 £'000
Accrued interest	**44**	32
Repayable on demand	**4,742**	3,787
In not more than three months	**1,606**	3,342
In more than three months but not more than one year	**4,890**	5,580
	11,282	12,741

18. Other Liabilities

Amounts falling due within one year

	2010 £'000	2009 £'000
Corporation tax	**307**	170
Income tax	**291**	377
Other creditors	**579**	604
	1,177	1,151

19. Reserves

	General Reserves £'000	Revaluation Reserve £'000
At 1 November 2009	**17,376**	**717**
Profit for the financial year	**688**	**-**
Surplus on revaluation	**-**	**161**
Depreciation transfer	**6**	**(6)**
At October 2010	**18,070**	**872**

20. Provisions for Liabilities

a. Financial Services Compensation Scheme Levy	2010 £'000
At 1 November 2009	520
(Credit) for the year	(288)
Paid in year	(82)
At 31 October 2010	150

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.

We understand that the FSCS has met, or will meet, the claims by way of loans received from HM Treasury. The FSCS has, in turn, acquired the rights to the realisation of the assets of these banks. The FSCS is liable to pay interest on the loans from the Bank of England. The FSCS may have a further liability if there are insufficient funds available from the realisation of the assets of the banks to fully repay the respective Bank of England loans. To the extent that the loans have not been repaid in full by 31 March 2012, the FSCS will agree a schedule of repayments with HM Treasury. The FSCS will then levy the industry (including Loughborough Building Society) accordingly.

As a result of past notifications it received from the Financial Services Authority, the Society recognised a total provision for a levy of £604,000 in respect of both the management expenses, to cover all three scheme years, and estimated compensation levy. £520,000 of this provision remained at 31 October 2009. Since then, the estimate of interest payable has been revised based on estimated future LIBOR rates and changes in the loan balances. Furthermore, no provision has been made in these accounts for the Society's share of interest payments for the period subsequent to 31 March 2011 or for any compensation levy arising from any asset recovery shortfalls which result in the FSCS not being able to fully repay the HM Treasury loan. This is a refinement in the basis of estimate used following guidance issued by the FSA.

This has resulted in a provision release of £288,000, which, coupled with the amount paid in the year, leaves a remaining provision of £150,000 as at 31 October 2010. The Society's provision does not include management expense levies for any future scheme years, or for any compensation levies which may arise from any ultimate payout on the claims.

As further information is provided by the FSCS, the Society will continue to refine its estimate of the amount it will ultimately be required to pay.

b. Annual commitments

At 31 October 2010 the Society had annual commitments for operating leases relating to land and buildings as follows:

	2010 £'000	2009 £'000
Operating leases which expire:		
After two years and before five years	45	45

21. Financial Instruments (continued)

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.

	2010 £'000	2009 £'000
Unmatured interest rate swaps		
Notional principal amount	**63,450**	66,300
Credit risk weighted amount	**58**	138
Replacement cost	**84**	498

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, so as to retain full public confidence in the solvency of the Society. The Society has increased its operating level 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 approved by the Board, 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.

21. 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 2010	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	**58,896**	**12,480**	**2,500**	**2,000**	**212**	**76,088**
Loans and advances to customers	**148,089**	**2,218**	**4,413**	**42,461**	**(1,029)**	**196,152**
Tangible fixed assets	**-**	**-**	**-**	**-**	**1,218**	**1,218**
Other assets	**-**	**-**	**-**	**-**	**293**	**293**
Total assets	**206,985**	**14,698**	**6,913**	**44,461**	**694**	**273,751**
Liabilities						
Shares	**213,028**	**6,150**	**10,025**	**3,449**	**2,458**	**235,110**
Amounts owed to credit institutions and other customers	**10,898**	**3,940**	**3,450**	**-**	**84**	**18,372**
Other liabilities	**-**	**-**	**-**	**-**	**1,177**	**1,177**
Provisions for liabilities	**-**	**-**	**-**	**-**	**150**	**150**
Reserves	**-**	**-**	**-**	**-**	**18,942**	**18,942**
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)**	**-**
Comparative position at 31 October 2009						
Total assets	216,373	11,843	18,786	30,162	777	277,941
Total liabilities	218,532	9,155	12,126	15,578	22,550	277,941
Off balance sheet items	24,200	(3,400)	(2,550)	(18,250)	-	-
Interest rate sensitivity gap	22,041	(712)	4,110	(3,666)	(21,773)	-

Liquid assets include cash in hand, 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.

21. 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 2010. 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.

	2010 Book Value £'000	2010 Fair Value £'000	2009 Book Value £'000	2009 Fair Value £'000
On balance sheet instruments				
Debt securities	32,373	32,375	31,406	31,424
Off balance sheet instruments				
Interest rate swaps	-	(1,348)	-	(975)

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 2010.

	2010 Gains £'000	2010 Losses £'000	2010 Net gains/(losses) £'000
Gains and losses unrecognised at the start of financial year	498	(1,473)	(975)
Items unrecognised at the start of the year recognised in the year	(474)	951	477
Items unrecognised at the start of the year and unrecognised at the year end	24	(522)	(498)
Gains and losses arising in the year unrecognised in the year	60	(910)	(850)
Unrecognised at the end of the financial year	84	(1,432)	(1,348)
Of which:			
Expected to be realised in the year to 31 October 2011	82	(751)	(669)
Expected to be realised after 31 October 2011	2	(681)	(679)
	84	(1,432)	(1,348)

1. Statutory Percentages

	2010 %	Statutory Limit %
Lending Limit	**7.83**	**25.00**
Funding Limit	**7.25**	**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

	2010 %	2009 %
As a percentage of shares and borrowings :		
Gross capital	**7.47**	7.01
Free capital	**7.33**	6.88
Liquid assets	**30.02**	28.30
As a percentage of mean total assets:		
Profit for the financial year	**0.25**	0.14
Management expenses	**0.94**	0.86

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, 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 2010

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
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 Consultant	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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