



# The Loughborough Building Society

## Business Review and Summary Financial Statement

for the year ended 31 October 2010





# Directors

Scott P Mellors FRICS

Chairman

Peter Jessop ACMA

Deputy Chairman

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

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 2010

The previous twelve months have provided both opportunities and challenges for the Society. The UK has only recently officially ended being in recession, however the legacy of the recent financial problems still remain; record low interest rates, low consumer confidence and a subdued housing market.

It is against this backdrop members should interpret the results for the year. I am pleased to say that your Society has fared well. The financial highlights for the year are:

- Gross mortgage advances 10% up on the previous year
- Share balances have increased by £6.3m to £235.1m reflecting investor confidence in the Society
- Capital increased to £18.9m or 7.5% of shares and borrowings (2009 £18.1m and 7.1% respectively)
- Profit before tax and FSCS levy £661,000 (2009 £996,000)

During the last year the economic climate has not been easy for borrowers or savers. The UK mortgage and housing market remains subdued and is trading about 55% below its peak in 2007. Although we have a range of competitive mortgage products, overall demand has been low. Interest receivable from mortgages has fallen, reflecting the lower interest rate environment. Although this is good news for borrowers, the low rates also reduce the income from liquid assets held by the Society. The total liquid assets have been increased in part as a response to the financial crisis of 2008 and 2009 and also as a requirement of our regulator, the Financial Services Authority. Liquid assets now stand at £76m but the income received by the Society from those assets has reduced by over £1m in the past year.

During the year the Society has left the rates paid to savers unaltered. This was a deliberate measure to support our investor members. The consequence of returning higher interest rates to investors is that the interest rate margin has been kept lower and profits reduced. The Board believes this is the correct current policy, however should base rates remain low for an extended period into 2011 it may become unaffordable.

There was a planned increase in management expenses from an unusually low base. During the year the Society has opened three new agencies and has also strengthened its operating capabilities to protect the long term interests of members.

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 than last year. Although we are not complacent, management and staff continue to exercise judgement and skill in helping 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 mortgage balances by £170,000.

During the year the Society has re-valued its properties, the surplus arising, when combined with retained profits has increased reserves by £0.8m. This strengthens the capital base of the Society, an important indicator of financial stability.

## Outlook for 2011

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 planned spending cuts from the Government take effect. Unemployment is likely to rise 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 would like to thank you all for your support over the year.

I am also 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 for current and future generations of members.

**Gary Brebner**  
Chief Executive  
8 December 2010

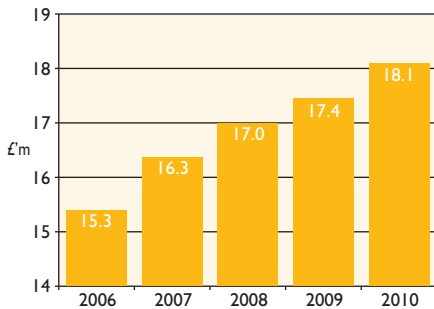
# Society Performance over the past 5 years.

## 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.

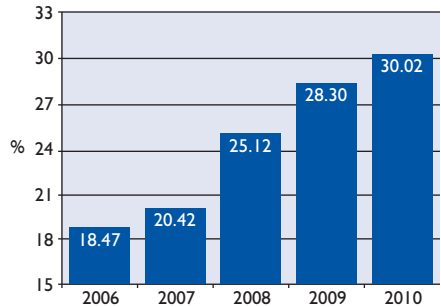
### General Reserves

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.



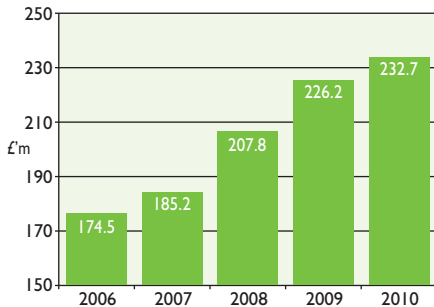
### Liquidity Ratio as % of Shares and Borrowings

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.



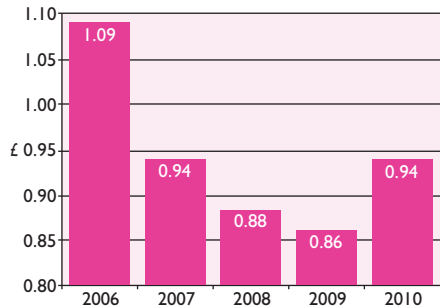
### Share Balances (excluding accrued interest)

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.



# Summary Financial Statement for the Year ended 31 October 2010

The Directors have pleasure in presenting the Summary Financial Statement of the Society for the year ended 31 October 2010.

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 24 January 2011.

Approved by the Board of Directors on 8 December 2010 and signed on its' behalf by: -

SP Mellors	<b>Chairman</b>
JP Jessop	<b>Deputy Chairman</b>
G Brebner	<b>Director and Chief Executive</b>

## Summary Directors' Report

The Directors are pleased to present their 143rd Annual Report, together with the Annual Accounts and Annual Business Statement of the 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 3 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.

# Summary Financial Statement

## Continued

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, 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.

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.

# Summary Financial Statement

## Continued

### 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.

### 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  
J P Jessop ACMA  
D T Bowyer FCA

Mrs C D Clifford BA, FCIPD

A Roberts LL.B

I J Webb BSc, MCIM

Chairman  
Deputy Chairman  
Appointed 1 March 2010  
Senior Independent Director  
Retired 28 February 2010

#### Executive Directors

G Brebner BSc, ACA  
C G Bradley BSc, ACA, ACIB

Mrs C Joyce BA, ACIB

Chief Executive  
Deputy Chief Executive and Finance Director  
Operations Director

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

# Summary Financial Statement

Continued

For the year ended 31 October 2010

	2010 £'000	2009 £'000
<b>Results for the year</b>		
Net interest receivable	3,099	3,161
Other income and charges	317	297
Administrative expenses	(2,585)	(2,398)
Provision for mortgage losses	(170)	(64)
Provision for FSCS levy	288	(480)
Profit for the year before taxation	949	516
Taxation	(261)	(132)
<b>Profit for the year</b>	<b>688</b>	<b>384</b>
<b>Financial position at end of the year</b>		
<b>Assets</b>		
Liquid Assets	76,088	73,068
Mortgages	196,152	203,571
Fixed and other assets	1,511	1,302
<b>Total Assets</b>	<b>273,751</b>	<b>277,941</b>
<b>Liabilities</b>		
Shares	235,110	228,810
Borrowings	18,372	29,367
Other liabilities	1,177	1,151
Provisions for liabilities – FSCS levy	150	520
Reserves	18,070	17,376
Revaluation reserve	872	717
<b>Total Liabilities</b>	<b>273,751</b>	<b>277,941</b>
<b>Summary of key financial ratios</b>	<b>%</b>	<b>%</b>
Gross capital as a percentage of shares and borrowings	7.47	7.01
Liquid assets as a percentage of shares and borrowings	30.02	28.30
Profit for the year as a percentage of mean total assets	0.25	0.14
Management expenses as a percentage of mean total assets	0.94	0.86

## 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.

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

Pursuant to section 76 of the Building Societies Act 1986, we have examined the summary financial statement of Loughborough Building Society set out on pages 4 to 7.

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

## Respective responsibilities of directors and auditors

The directors are responsible for preparing the 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 auditors' 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

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 2010 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

8 December 2010

# Directors' Remuneration Report

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

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

## Policy

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

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

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

The Staff and Remuneration Committee comprises three Non-Executive Directors, as detailed on page 13. 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.

# Directors' Remuneration Report

Continued

## 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 (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
<b>TOTALS</b>	<b>287</b>	<b>23</b>	<b>42</b>	<b>20</b>	<b>372</b>

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
<b>TOTALS</b>	<b>242</b>	<b>19</b>	<b>13</b>	<b>33</b>	<b>22</b>	<b>329</b>

\* 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.

# Directors' Remuneration Report

Continued

## 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)

	2010	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
<b>TOTALS</b>	<b>107</b>		<b>115</b>

\*\* 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



# Corporate Governance Report

## Directors' Report on Corporate Governance

The Society's Board views good corporate governance as playing an essential role in discharging the Board's responsibilities to the Society's members.

The Society's regulator, the FSA, requires the Board to have regard to the Combined Code on Corporate Governance issued by the Financial Reporting Council in developing its policies and practices. The Board agrees with and supports the 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), J.P. Jessop.

# Corporate Governance Report

Continued

## Staff and Remuneration Committee

The Staff and Remuneration Committee is responsible for determining the remuneration of the Executive Directors within a framework agreed with the full Board. The Committee also considers the recommendations of the Executive Directors relating to the remuneration of all Society staff, before approving any overall increase in the level of staff remuneration. The Directors' Remuneration Report is set out on pages 9 to 11.

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)	*	*
<b>Number of Meetings</b>	<b>12</b>	<b>4</b>	<b>4</b>	<b>4</b>	<b>1</b>	<b>4</b>

\*not a member of the Committee

( ) : number of meetings eligible to attend

# Corporate Governance Report

Continued

## Chairman and Chief Executive

The offices of the 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 Financial Services Authority (FSA), and must continue to maintain the 'fit and proper' requirements of the FSA and comply with the FSA Principles for Approved Persons and its Code of Practice.

## Information and Professional Development

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

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

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

## Performance Evaluation

Each year all of the Directors are subject to a formal appraisal. The Chief Executive carries out an appraisal of both the Finance Director and the Operations Director based on a range of business and personal objectives agreed at the beginning of each year. The Chairman carries out the Chief Executive's appraisal, with performance also being measured against a range of business and personal objectives. The Staff and Remuneration Committee then discuss these appraisals with the other Non-Executive Directors, prior to 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 9 to 11 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 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

## Tariff of Charges

<b>General</b>	<b>£</b>	<b>Residential Loans</b>	<b>£</b>
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	<b>Commercial Loans</b>	
Data Protection Act enquiry	10	Application Fee (non refundable)	200
		Arrangement fee	1% of loan, minimum 500
<b>Mortgages</b>		Annual management fee	125
Deeds release fee	50	Further Advance Application	1% of loan, minimum 250
Sealing fee on redemption of mortgage		<b>Valuation Fees</b>	
(waived if term expired or replacement mortgage is taken out)	90	A scale of valuation fees for mortgage purposes is available on request	
Duplicate MIRAS 5	15		
Backdated MIRAS 5	20	<b>Arrears/Possessions</b>	
Duplicate statement	25	Arrears letter (Residential – 2nd & subsequent)	each 30
Letter confirming outstanding balance	10	Arrears letter (Commercial)	each 30
Redemption statement (second & subsequent)	each 35	Arrears visit (plus WHMS charge)	40
Second mortgage questionnaire	50	Instruction of solicitors	60
Consent to second charge	50	Cancellation of bailiff appointment	25
Own property insurance	30	Mortgage Possession fee (Residential)	300
Copy of deeds	25	Mortgage Possession fee (Commercial)	500
Permission to let property	60	Mortgage Possession fee (Second Charge)	150
Unauthorised letting of property	100	Capitalisation of rent arrears	50
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>			
<b>Investments</b>			
Telegraphic transfer of funds abroad	25	plus bank charges	
Bank Draft	25	plus bank charges	
Clearance of foreign cheque	25	plus bank charges	
Special cheque presentation	20		
Stopped cheque (only if lost or stolen)	20		
Lost/duplicate passbook	15		
Duplicate statement (Postal account)	20		
Investors interest statement (other than Section 975)	20		
Duplicate Section 975 statement	15		
Accountants/Audit letter	35		

These charges have applied since 1 March 2009 and remain unchanged.



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Loughborough Building Society