

The Loughborough
where people make the difference



**Annual Report
& Accounts
2007**

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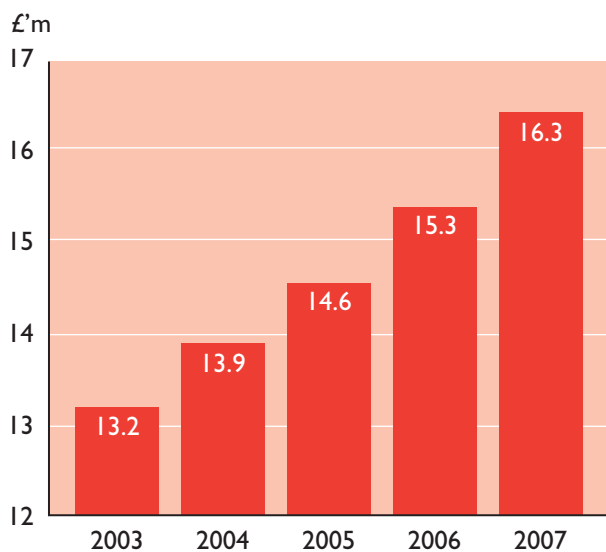
Society Performance over the past 5 years

Key Performance Indicators (KPIs)

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

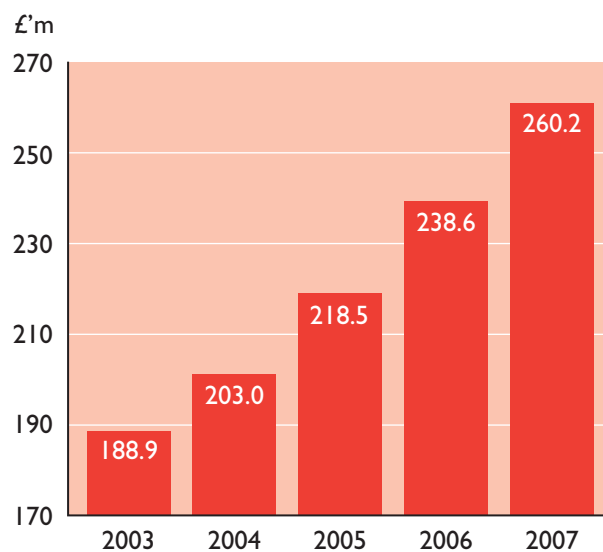
General Reserves

The Directors remain committed to maintaining a strong capital position to satisfy regulatory requirements and to protect investors. General reserves were £16.3m at October 2007.



Total Assets

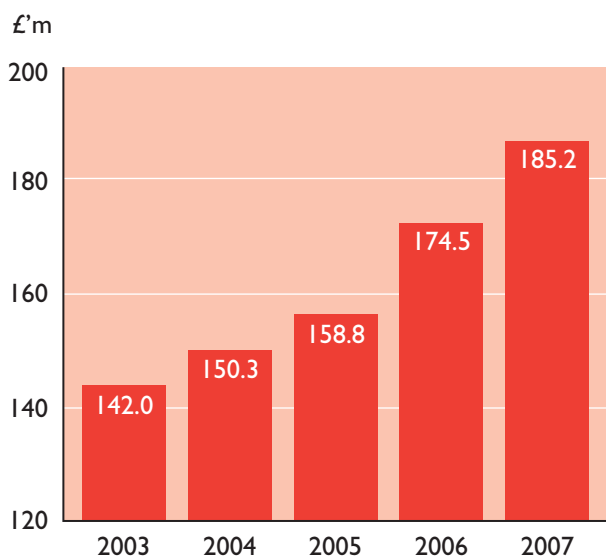
The high quality of our products and services is reflected in sustained asset growth, in our core markets of mortgages and savings, over a five-year period. Total assets were £260.2m at October 2007.



Share Balances

(excluding accrued interest)

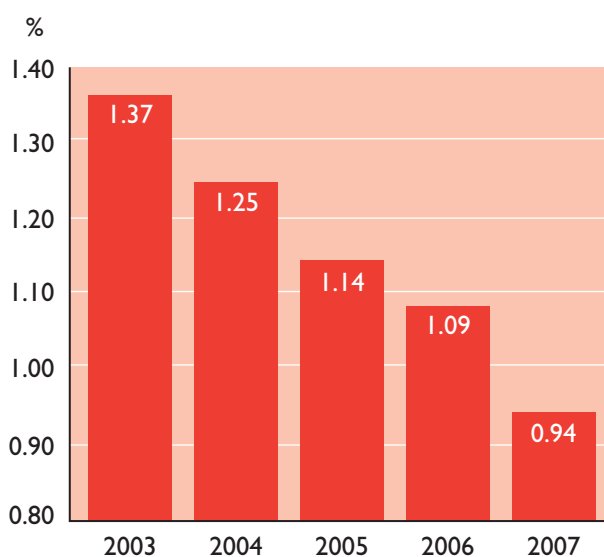
The Society continues to offer competitive products to new and existing members, resulting in continued growth in share balances, rising to £185.2m at October 2007.



Management Expenses % of Mean Assets

(excluding exceptional items)

The Board reviews its management expenses each quarter. Lower costs allow 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 2007.



The Directors are pleased to present their 140th Annual Report, together with the Annual Accounts and Annual Business Statement of the Society for the year ended 31 October 2007.

Business Objectives and Activities

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

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

Business Review

We are delighted to be able to report that this year has seen the Society achieve two significant milestones in its Key Performance Indicators as shown on page 2.

Firstly, total assets have passed the £250 million level and now stand at £260.16 million, with growth in the year of 9.04%. The growth in mortgage assets was 6.74%, to another new record of £210.15 million. Secondly, the ratio of costs to mean assets fell below £1.00 to stand at £0.94 for the year.

This has been very much a year of two halves. In the first part of the year the prime focus was on how the Bank of England was dealing with the problem of inflation. Interest rates were increased on 4 occasions and have reached 5.75%. As recently as July there was a common belief that rates would rise further to at least 6%. However, since then the problems in the American housing market have led to a significant shutdown in credit markets and eventually caused the first bank run in the UK for 140 years. Concerns were raised about the impact of the "credit crunch" on the real economy and there is no doubt that the perceived risks are now more on the downside, with a real prospect that the Bank of England may have to reduce rates to head off an economic downturn.

The Loughborough has continued to attract good quality mortgage business and total gross lending was a new record at £61.81 million. This was not achieved by sacrificing quality.

The Society has just 1 case in possession at year end and overall levels of arrears remain at historically low levels.

It has been noticeable that competition for retail funds has increased as wholesale markets have become more difficult due to the "credit crunch". We are pleased to report that the Loughborough has once again been successful both in attracting a retail inflow of more than £4.81 million during the year and in increasing the number of investor members. The Society has continued to offer a range of variable and fixed rate products, with the Postal Classic Account for the over-50's and the Penguin Account for young savers proving to be the most popular accounts. Investors' balances have increased by £11.52 million and at the end of the year stood at £189.53 million, another new record. The Society has continued to access the wholesale money markets in order to smooth out fluctuations between savings inflows and mortgage demand.

Pre tax profit amounted to £1,445,000 in 2006/2007, with profit after tax at £1,007,000. The Society's Board continues to target a level of profit that is in line with the Society's mutual status. The charge for bad and doubtful debts amounted to £52,000. The Society has maintained its' financial strength with the capital ratios remaining more than adequate to satisfy foreseeable requirements.

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.

Building Societies operate in a highly competitive and regulated market with significant uncertainties arising from the general economic environment, which in turn will affect the UK Housing market and levels of unemployment.

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.
- **Market Risk**, this incorporates the loss of income as a result of changes in interest rates.

Directors' Report

- **Liquidity Risk**, this concerns the Society's ability to meet its financial obligations as they fall due.
- **Operational Risk**, this is associated with internal processes and systems and the potential for these to not function properly.

The management of risk and strategic direction are key activities, vital 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.

The Board has been reviewing its risk assessment to meet the requirements of Basel II and the associated Capital Requirements Directive. The new Internal Capital Adequacy Assessment Process (ICAAP) was completed on schedule and the Financial Services Authority (FSA) have been informed that with effect from 1 January 2008 the Society will be adopting the new capital measures.

Information Technology

The Society continues to operate an I.T. system provided by Bailey Computer Services. The level of service provided has been excellent and fully vindicates the Board's decision to outsource the Society's I.T. requirements in 2006.

Regulation

The Society is regulated by the FSA for all aspects of mortgage lending and administration, as well as for deposit taking and the provision of financial services. In addition the Society subscribes to the Banking Code and is a member of the Financial Ombudsman Scheme. The Board remains concerned about the pressure caused by the constant flow of new regulatory requirements, including the new Capital Requirements Directive and the intended introduction of International Accounting Standards which will undoubtedly add to the Society's costs over the next few years.

Costs

The Society has again been successful in reducing its' management expenses ratio. The core figure for 2006/2007 fell to £0.94, a reduction of £0.15 from the previous year and a reduction of £0.43 over the last four years. The Board views the control of costs as playing an integral part in the Society's success and has continued to seek ways of reducing costs without compromising the level of service provided by the Loughborough, to all members.

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 are satisfied that the Society has adequate resources to continue in business for the foreseeable future. For this reason, the accounts continue to be prepared on the 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 relevant creditors of the Society as at 31 October 2007 represented 23 days. (2006: 23 days)

Liquid Assets

Liquid assets in the form of cash and investments were £49.26 million at the year-end representing 20.42% of total shares and borrowings.

Loans and Advances

The total number of mortgages executed during the year was 591 plus 173 further advances on existing accounts, the amount advanced being a record £61.81 million.

Mortgage Arrears

At the end of the year, there was 1 case (2006 : none) where mortgage repayments were twelve months or more in arrears, the amount of those arrears being £10,132 and the mortgage balance £112,053.

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 as detailed on page 6.

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

Capital Ratios

Profit after tax transferred to general reserve was £1,007,000. At 31 October 2007 free capital amounted to £16.62 million or 6.89% of total shares and borrowings. Gross capital amounted to £17.08 million or 7.08% of total shares and borrowings.

Directors

The following persons served as Directors during the year:-

Non-Executive Directors

P R Blakemore BA, FCA	(Chairman)
S P Mellors FRICS	(Deputy Chairman)
Mrs C D Clifford BA, FCIPD	
A Roberts LL.B	(Senior Independent Director)
I J Webb BSc, MCIM	(Appointed 15 January 2007)
J B Gibbins FCA	(Resigned 13 December 2006)

Executive Directors

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

The Directors would like to thank Barry Gibbins, who resigned as a Director in December 2006, for his contribution during his term of service on the Board. Barry served as a Director for over 12 years and had been chairman of the Audit and Compliance Committee since 2003. His financial acumen and Financial Services sector experience were of great assistance to the Board during his period of office.

Ian Webb joined the Board in January 2007 bringing with him a great deal of experience in the marketing field, gained at a range of large companies. He is currently Group Brand Director of Barratt Developments Plc, based in Ibstock, Leicestershire.

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

Auditors

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

Management and Staff

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

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

On behalf of the Board

Paul R. Blakemore
Chairman

7 December 2007

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 and until it ceased to be operative on January 1, 2007 the Society complied fully with the Code of Governance contained in Chapter 3 of the Interim Prudential Sourcebook for Building Societies issued by the Financial Services Authority (FSA).

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

The Board

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

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

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

Audit and Compliance Committee

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

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

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

The following Non-Executive Directors served during the year: A.Roberts (Chairman), P.R.Blakemore, Mrs. C.D.Clifford, J.B.Gibbins and S.P.Mellors. Mr. Roberts was appointed as Chairman following the resignation of J.B.Gibbins.

Assets and Liabilities Committee

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

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

Nominations Committee

The Nominations Committee is responsible for making recommendations on appointments to the Board, to ensure that it comprises sufficient Directors who are fit and proper, independent and who can meet the collective and individual responsibilities of Board members efficiently and effectively. The Committee also reviews Board succession planning in the light of the challenges and opportunities facing the Society, and audits the skills and expertise the Board will require in future.

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

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 10 and 11.

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

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

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

Attendance at Board and Committee Meetings

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

	Board	Audit and Compliance	Assets and Liabilities	Nominations	Staff and Remuneration	Development and Marketing
P R Blakemore (Chairman)	12	3(3)	4	1	1	*
S P Mellors (Deputy Chairman)	12	1(1)	4	1	1	2
C G Bradley	12	*	4	*	*	2
Mrs C D Clifford	12	3(3)	*	*	1	*
Mrs C Joyce	12	*	4	*	*	2
S R Peete	12	*	4	*	*	2
A Roberts	12	4	*	*	1	*
I J Webb (Appointed 15 January 2007)	8(10)	*	*	*	*	2
J B Gibbins (Resigned 13 December 2006)	2(2)	1(1)	*	*	*	*
Number of Meetings	12	4	4	1	1	2

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

Corporate Governance Report

Chairman and Chief Executive

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

Board Composition and Independence

At the end of October 2007 the Board was made up of 5 Non-Executive Directors, including the Chairman and Deputy Chairman, and 3 Executive Directors. The Board views all the Non-Executive Directors as being independent in character. Mr. Scott Mellors is the managing partner of John German Estate Agents who operate as managers of the Society's valuation services. 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 Mr. Alan Roberts as the Society's Senior Independent Director. Mr. Roberts is available to members if they have concerns regarding their membership of the Society which contact through the normal channels of Chairman, Chief Executive or Finance Director has failed to resolve or for which it is considered inappropriate.

Appointments to the Board

The Society has a recruitment policy, agreed by the Board, which details the process by which new Directors are appointed. All new Directors are then subject to election by the members at the Annual General Meeting, held in the next financial year following the Directors' appointment, in accordance with the Rules of the Society. The Rules also provide that all Directors must put themselves forward for re-election at least once every three years. On 15 January 2007 the Society appointed Mr. Ian Webb to the Board. Mr. Webb's appointment was made by means of an executive search company, working to criteria defined by the Nominations

Committee. The Society created a short list of candidates who were interviewed by the Nominations Committee, which then made the final choice.

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

Information and Professional Development

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

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

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

Performance Evaluation

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

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

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

Remuneration

The Report on Directors' Remuneration on pages 10 and 11 sets out the remuneration policies for Executive and Non-Executive Directors.

Financial Reporting

The Statement of Directors' Responsibilities on page 12 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 system of internal control to senior management. The internal control system can provide only reasonable and not absolute assurance against material misstatement or loss. The Society's internal audit function has been outsourced to Mutual One Ltd who provide independent assurance to the Board regarding the effectiveness of internal controls through the Audit and Compliance Committee.

Relations with Members

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

Constructive Use of the Annual General Meeting

Each year the Society sends details of the Annual General Meeting (AGM) to all members who are entitled to vote. Members are encouraged to vote by completing a proxy form and returning it to the Society by an agreed deadline or by attending the AGM itself, which is normally held in the early evening to encourage attendance. The proxy form for the 2008 Annual General Meeting will, for the first time, contain an abstention box. For a number of years the Society has encouraged members to vote by linking the number of votes cast to a donation to a local charity. This year the Society will donate 20 pence per vote, up to a maximum of £1,000 to its Charity of the Year, The Leicestershire and Derbyshire Air Ambulance.

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

Paul R. Blakemore
Chairman

7 December 2007

Directors' Remuneration Report

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

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

Policy

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

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

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

The Staff and Remuneration Committee comprises four Non-Executive Directors, as detailed on page 7. Meetings of the Committee are also attended by the Chief Executive, as appropriate. The Chief Executive withdraws from the meeting when his own remuneration is being considered.

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

Executive Directors' Remuneration

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

Basic Salary

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

Annual Bonus

The Annual Bonus is an incentive scheme that provides non-pensionable rewards directly linked to the achievement of key performance targets as determined by the Society's Board. Performance targets are reviewed annually, by the Society's Board, to ensure they are aligned to business priorities. The overall objective is to improve Society performance whilst maintaining the financial strength of the Society for the benefit of its members. The maximum figure payable is 10% of basic salary, the amount paid for 2006/07 was 7%. The Staff and Remuneration Committee agreed a discretionary bonus of 5% of salary to C.G.Bradley in view of additional responsibilities undertaken during the year.

Medium Term Bonus

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

Pension Benefits

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

Directors' Remuneration Report

Other Benefits

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

Service Contracts

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

Non-Executive Directors' Remuneration

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

Directors' Remuneration (audited information)

Executive Directors (£ '000)

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

2006	Salary	Annual Bonus	Medium Term Bonus	Pension Contributions	Benefits	TOTAL
S R Peete	92	5	9	11	11	128
Mrs C Joyce	65	4	7	7	8	91
C G Bradley	65	4	7	9	8	93
TOTALS	222	13	23	27	27	312

Non-Executive Directors (£ '000)

	Fees 2007	Fees 2006
P R Blakemore (Chairman)	29	29
S P Mellors (Deputy Chairman)	22	22
A Roberts (Chairman of Audit and Compliance)	20	18
Mrs C D Clifford (Appointed 31 October 2006)	17	-
I J Webb (Appointed 15 January 2007)	14	-
J B Gibbins (Resigned 13 December 2006)	3	21
P M Jackson (Resigned 31 October 2006)	-	18
TOTALS	105	108

Paul R. Blakemore

Chairman Staff and Remuneration Committee

7 December 2007

Statement of Directors' Responsibilities

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.

Paul R. Blakemore
Chairman

7 December 2007

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 2007 which comprise the Income and Expenditure Account, the Balance Sheet and the Cash Flow Statement and the related notes. These financial statements 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, 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 12.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

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 other information contained in the Annual Report accompanying the annual accounts, the annual business statement and the directors' report and consider whether it is consistent with the audited financial statements. 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 2007 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.

KPMG Audit Plc

Chartered Accountants
Registered Auditor

Birmingham
7 December 2007

Income and Expenditure Account

for the year ended 31 October 2007

	Note	2007 £'000	2006 £'000
Interest receivable and similar income	2	14,863	12,743
Interest payable and similar charges	3	(11,120)	(9,331)
Net interest receivable		3,743	3,412
Fees and commissions receivable		73	162
Fees and commissions payable		(175)	(83)
Other operating income		251	175
Total income		3,892	3,666
Administrative expenses - on-going	4	(2,306)	(2,414)
Administrative expenses - exceptional	4	-	(101)
Depreciation and amortisation	13	(45)	(77)
Other operating charges		(44)	(58)
Operating profit before provisions		1,497	1,016
Provisions for bad and doubtful debts	11	(52)	32
Operating profit and profit on ordinary activities before tax		1,445	1,048
Tax on profit on ordinary activities	8	(438)	(299)
PROFIT FOR THE FINANCIAL YEAR	19	1,007	749

The notes on pages 17 to 30 form part of these accounts.

The above results are all derived from continuing operations.

There were no recognised gains or losses for the years shown above, other than the profit for the year.

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.

Balance Sheet as at 31 October 2007

	Note	2007 £'000	2006 £'000
ASSETS			
Liquid assets			
Cash in hand		56	115
Loans and advances to credit institutions	9	27,882	18,964
Debt Securities	10	21,322	21,739
		49,260	40,818
Loans and advances to customers			
Loans fully secured on residential property	12	194,619	180,395
Other loans	12	14,916	15,911
		209,535	196,306
Tangible fixed assets	13	1,050	1,065
Other assets	14	227	244
Prepayments and accrued income		92	155
TOTAL ASSETS		260,164	238,588
LIABILITIES			
Shares	15	189,529	178,008
Amounts owed to credit institutions	16	33,078	25,389
Amounts owed to other customers	17	18,614	17,611
Other liabilities	18	1,866	1,510
		243,087	222,518
Revaluation Reserve	19	730	736
Reserves			
General Reserves	19	16,347	15,334
TOTAL LIABILITIES		260,164	238,588

The notes on pages 17 to 30 form part of these accounts.

These accounts were approved by the Board of Directors on 7 December 2007 and were signed on its behalf by:

Paul R. Blakemore	Chairman
Scott P. Mellors	Deputy Chairman
Stephen R. Peete	Director and Chief Executive

Cash Flow Statement

for the year ended 31 October 2007

	2007 £'000	2006 £'000
Net cash inflow from operating activities	7,168	2,991
Taxation paid	(263)	(311)
Capital expenditure and financial investment		
Purchase of debt securities	(19,788)	(32,789)
Sale and maturity of debt securities	20,210	31,524
Purchase of tangible fixed assets	(34)	(64)
Sale of tangible fixed assets	4	8
Increase in cash	7,297	1,359
Reconciliation of operating profit to net cash inflow from operating activities		
Operating profit and profit on ordinary activities before tax	1,445	1,048
Increase in prepayments and accrued income	(3)	(200)
Increase in accruals and deferred income	883	369
Increase / (Decrease) in provisions for bad and doubtful debts	52	(32)
Depreciation and amortisation	45	77
Amortisation of mortgage portfolio acquisition premium	(1)	-
Amortisation of mortgage portfolio acquisition premium	20	39
Net cash inflow from trading activities	2,441	1,301
Net increase in loans and advances to customers	(13,281)	(17,005)
Net increase in shares	10,711	15,655
Net increase in deposits and other borrowings	8,619	3,359
Net increase in loans and advances to credit institutions	(1,500)	(300)
Net increase / (decrease) in other liabilities	178	(19)
Net cash inflow from operating activities	7,168	2,991

Analysis of increase in cash	At 1 Nov 2006	Net increase/(decrease)	At 31 Oct 2007
Cash in hand	115	(59)	56
Loans and advances to credit institutions repayable on demand	8,789	7,356	16,145
	8,904	7,297	16,201
	At 1 Nov 2005	Net increase/(decrease)	At 31 Oct 2006
Cash in hand	47	68	115
Loans and advances to credit institutions repayable on demand	7,498	1,291	8,789
	7,545	1,359	8,904

I. 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 and the Building Societies (Accounts and Related Provisions) Regulations 1998.

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 Premises	5 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.

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.

Loans and Advances Acquired

Loans and advances acquired are included at their fair value. When the fair value of the assets acquired exceeds the acquired book value, the resulting premium is included in other assets and is amortised over the estimated economic life of the assets as an adjustment to interest receivable.

Notes to the Accounts

	2007 £'000	2006 £'000
2. Interest receivable and similar income		
On loans fully secured on residential property	11,127	9,730
On other loans	1,064	1,104
On debt securities		
interest	1,155	974
loss on disposals	-	(54)
On other liquid assets		
interest and other income	1,365	1,027
Net income / (expense) on financial instruments	152	(38)
	14,863	12,743

Total income on fixed income debt securities amounted to £778,105 (2006 : £596,480)

Interest on secured advances as shown above has been reduced by £1,522 (2006 : £14,353) representing interest suspended on non-performing loans in accordance with the Society's accounting policy.

Movements in the suspended interest account are as follows:

At 1 November 2006	-	10
Interest written off during year net of recoveries	(1)	(24)
Interest suspended in the year	2	14
At 31 October 2007	1	-

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

On shares held by individuals	8,618	7,067
On deposits and other borrowings	2,363	2,264
Net expense on financial instruments	139	-
	11,120	9,331

Notes to the Accounts

	2007 £'000	2006 £'000
4. Administrative expenses		
Staff costs		
Wages and salaries	978	1,049
Social security costs	96	105
Other pension costs	66	59
	1,140	1,213
Other Administrative expenses		
On-going	1,166	1,201
Exceptional	-	101
	2,306	2,515

The exceptional costs were non-recurring IT and redundancy costs in connection with the IT systems replacement completed in 2006.

The Society makes a contribution of between 7% and 15.5% (2006: 4% and 14.5%) 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.

Other Administrative expenses include:

Amounts charged under other operating leases	45	45
Remuneration of Auditors and their associates (excluding VAT)		
audit fees	28	27
non audit fees	8	1

Notes to the Accounts

5. Employees

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

	2007	2007	2006	2006
	Full time	Part time	Full time	Part time
Head office	27	2	31	3
Branch offices	14	5	14	4
Total	41	7	45	7

6. Remuneration of Directors

	2007	2006
	£'000	£'000
For services as Non-Executive Directors	105	108
For Executive services	310	312
	415	420

Full details are given in the Directors' Remuneration Report on pages 10 and 11.

7. Loans to Directors and Connected Persons

At 31 October 2007 there were outstanding mortgage loans granted in the ordinary course of business to 6 (2006:6) Directors and connected persons, amounting in aggregate to £914,775 (2006 : £759,305).

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 2007, 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.

	2007 £'000	2006 £'000
8. Tax on profit on ordinary activities		
Analysis of charge in year		
Current tax		
Corporation tax at 30% (2006 : 30%)	441	262
Total Current Tax	441	262
Deferred Tax	(3)	37
Total Deferred Tax (Note 14)	(3)	37
Tax on profit on ordinary activities	438	299
Factors affecting the current tax charge for the year		
Profit on ordinary activities before tax	1,445	1,048
Tax at 30% (2006 : 30%)	433	314
Effects of:		
Difference between depreciation and capital allowances	(17)	(29)
Expenses not deductible for tax purposes	6	2
Other timing differences	20	(8)
Marginal relief	(1)	(17)
Current tax charge for year	441	262
9. Loans and advances to credit institutions		
Accrued interest	237	175
Repayable on demand	16,145	8,789
Other loans and advances by remaining maturity of:		
In not more than three months	6,500	6,000
In more than three months but not more than one year	4,500	4,000
In more than one year but not more than five years	500	-
	27,882	18,964

Notes to the Accounts

	2007 £'000	2006 £'000
10. Debt Securities		
Issued by other borrowers	21,322	21,739
	21,322	21,739
Debt securities have remaining maturities as follows:		
Accrued interest	458	454
In not more than one year	10,173	16,210
In more than one year	10,691	5,075
	21,322	21,739
Transferable debt securities (excluding accrued interest) comprise:		
Listed	8,589	6,095
Unlisted	12,275	15,190
	20,864	21,285
Market value of listed transferable debt securities	8,545	6,118
Included in debt securities are:		
Unamortised premiums	12	-
Unamortised discounts	1	-

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

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

Cost (excluding accrued interest)	£'000
At 1 November 2006	21,285
Additions	19,788
Disposals	(20,210)
At 31 October 2007	20,863
Provision for amortisation	
At 1 November 2006	-
Provided in the year	(1)
At 31 October 2007	(1)
Net book value at 31 October 2007	20,864
Net book value at 31 October 2006	21,285

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 2006			
General provision	356	201	557
Specific provision	9	-	9
	365	201	566
Income and expenditure account			
General provision	48	(12)	36
Specific provision	16	-	16
Net charge / (credit) to income and expenditure account	64	(12)	52
At 31 October 2007			
General provision	404	189	593
Specific provision	25	-	25
	429	189	618

12. Loans and advances to customers

	2007 £'000	2006 £'000
Loans fully secured on residential property	194,619	180,395
Loans fully secured on land	14,916	15,911
	209,535	196,306
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	38	351
In not more than three months	3	254
In more than three months but not more than one year	424	222
In more than one year but not more than five years	6,152	5,519
In more than five years	203,536	190,526
	210,153	196,872
Less: provisions for bad and doubtful debts (note 11)	(618)	(566)
	209,535	196,306

Notes to the Accounts

	Freehold Land and Buildings	Improvements to Leasehold Property	Equipment, Fixtures Fittings & vehicles	Total
13. Tangible fixed assets	£'000	£'000	£'000	£'000
Cost or Valuation				
At 1 November 2006	1,005	356	582	1,943
Additions during year	-	-	34	34
Disposals during year	-	-	(74)	(74)
At 31 October 2007	1,005	356	542	1,903
Depreciation				
At 1 November 2006	10	356	512	878
Charged in year	10	-	35	45
Disposals during year	-	-	(70)	(70)
At 31 October 2007	20	356	477	853
Net Book Value				
At 31 October 2007	985	-	65	1,050
At 31 October 2006	995	-	70	1,065

The revaluation of the Society's freehold land and buildings was carried out on 31 October 2005 by Messrs Robert Ellis, Chartered Surveyors, on an existing use basis.

The historical cost of the revalued assets is £ 419,956 (2006 : £ 419,956). The accumulated historical cost depreciation on those revalued assets would be £109,805 (2006 : £105,713). Included in the total net book value of freehold land and buildings is £495,000 (2006 : £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 £742,599 (2006 : £750,466).

Notes to the Accounts

	2007 £'000	2006 £'000
14. Other Assets		
Unamortised mortgage portfolio acquisition premium	-	20
Deferred Taxation	227	224
	227	244
Deferred Taxation comprises:		
Capital allowances	43	60
Timing differences related to general mortgage loss provision	176	162
Other timing differences	8	2
	227	224
Movement in deferred taxation		
At 1 November 2006	224	261
Credit / (charge) to income and expenditure account	3	(37)
At 31 October 2007	227	224

In accordance with Financial Reporting Standard 19, the deferred tax liability of £59,073 (2006 : £63,177) arising on the revaluation of freehold premises has not been recognised.

15. Shares

Held by individuals	189,529	178,008
Shares are repayable from the balance sheet date in the ordinary course of business as follows :		
Accrued interest	4,313	3,503
Repayable on demand	156,596	153,706
In not more than three months	9,315	3,412
In more than three months but not more than one year	1,782	4,242
In more than one year but not more than five years	17,523	13,145
	189,529	178,008

16. Amounts owed to credit institutions

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

Accrued interest	528	539
In not more than three months	18,650	13,000
In more than three months but not more than one year	13,900	11,850
	33,078	25,389

Notes to the Accounts

	2007 £'000	2006 £'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:		
Accrued interest	346	262
Repayable on demand	5,729	5,117
In not more than three months	5,729	5,881
In more than three months but not more than one year	6,810	6,351
	18,614	17,611
18. Other Liabilities		
Amounts falling due within one year		
Corporation tax	460	282
Income tax	572	469
Other creditors	834	759
	1,866	1,510

19. Reserves

	General Reserves £'000	Revaluation Reserve £'000
At 1 November 2006	15,334	736
Profit for the financial year	1,007	-
Depreciation transfer	6	(6)
At 31 October 2007	16,347	730

20. Guarantees and Other Financial Commitments

a. Contingent liabilities

The Society has a contingent liability in respect of contributions to the Financial Services Compensation Scheme.

b. Annual commitments

At 31 October 2007 the Society had annual commitments for operating leases relating to land and buildings as follows:

	2007 £'000	2006 £'000
Operating leases which expire:		
After five years	45	45

21. Financial Instruments

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

The Society has a formal structure for managing risk, including established risk limits, reporting lines, mandates and other control procedures. The policy statement is reviewed regularly by the Board.

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 or stock market indices. 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.

Notes to the Accounts

21. Financial Instruments (continued)

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.

	2007	2006
	£'000	£'000
Unmatured interest rate swaps		
Notional principal amount	63,150	38,100
Credit risk weighted amount	93	49
Replacement cost	256	121

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 Society's policy is to maintain sufficient liquid funds at all times to ensure that liabilities can be met as they fall due. The objective of liquidity is to help smooth mismatches between maturing assets and liabilities thereby maintaining public confidence in the solvency of the Society. In addition it is the Society's policy to maintain committed borrowing facilities in order to provide additional flexibility in the management of the Society's liquidity. At the year end the Society had undrawn committed facilities of £12.0 m. (2006: £8.0 m.)

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.

All loan applications are assessed with reference to the Society's lending policy. Changes to the policy are approved by the Board, and the approval of loan applications is mandated. The Assets and Liabilities Board Committee is responsible for approving treasury counterparties.

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 instruments.

21. Financial Instruments (continued)

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

As at 31 October 2007	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	38,262	4,750	1,500	4,000	748	49,260
Loans and advances to customers	176,269	1,743	4,660	27,481	(618)	209,535
Tangible fixed assets	-	-	-	-	1,050	1,050
Other assets	-	-	-	-	319	319
Total assets	214,531	6,493	6,160	31,481	1,499	260,164
Liabilities						
Shares	167,591	-	1,294	16,331	4,313	189,529
Amounts owed to credit institutions and other customers	30,108	14,560	6,150	-	874	51,692
Other liabilities	-	-	-	-	1,866	1,866
Reserves	-	-	-	-	17,077	17,077
Total liabilities	197,699	14,560	7,444	16,331	24,130	260,164
Off balance sheet items	10,250	3,000	(3,750)	(9,500)	-	-
Interest rate sensitivity gap	27,082	(5,067)	(5,034)	5,650	(22,631)	-

Comparative position at 31 October 2006

Total assets	205,442	6,168	10,736	14,600	1,642	238,588
Total liabilities	184,895	13,811	7,093	10,905	21,884	238,588
Off balance sheet items	6,000	(1,700)	(1,000)	(3,300)	-	-
Interest rate sensitivity gap	26,547	(9,343)	2,643	395	(20,242)	-

Liquid assets include cash in hand, loans and advances to credit institutions and debt securities.

Other assets include prepayments, other assets and accrued income.

Notes to the Accounts

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 by category as at 31 October 2007. 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, share accounts and deposits with other credit institutions.

	2007 Book Value £'000	2007 Fair Value £'000	2006 Book Value £'000	2006 Fair Value £'000
On balance sheet instruments				
Debt securities	20,864	20,778	21,285	21,236
Off balance sheet instruments				
Interest rate swaps	-	83	-	4

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 2007.

	2007 Unrecognised gains £'000	2007 Unrecognised losses £'000	2007 Net gain/ (loss) £'000
Gains and losses			
Unrecognised at the start of financial year	121	(117)	4
Items unrecognised at the start of the year recognised in the year	(74)	91	17
Items unrecognised at the start of year and unrecognised at the year end	47	(26)	21
Gains and losses arising in the year unrecognised in the year	209	(147)	62
Unrecognised at the end of the financial year	256	(173)	83
Of which:			
Expected to be realised in the year to 31 October 2008	170	(115)	55
Expected to be realised after 31 October 2008	86	(58)	28
	256	(173)	83

22. Related Party Transactions

During the year John German Estate Agents, of which Mr S. P. Mellors is the Managing Partner, provided valuation services to the Society. This was done on normal commercial terms with a total value of £32,421 (2006 : £35,064). At 31 October 2007 the sum of £3,663 was owed by the Society.

Annual Business Statement

for the year ended 31 October 2007

I. Statutory Percentages

	2007 %	Statutory Limit %
Lending Limit	7.33	25.00
Funding Limit	21.43	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

	2007 %	2006 %
As a percentage of shares and borrowings :		
Gross capital	7.08	7.27
Free capital	6.89	7.04
Liquid assets	20.42	18.47
As a percentage of mean total assets:		
Profit for the financial year	0.40	0.33
Management expenses	0.94	1.13
Management expenses less exceptional items	0.94	1.09

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, loans and advances to credit institutions, and debt securities.

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

Annual Business Statement

for the year ended 31 October 2007

3. Information relating to the Directors at 31 October 2007

Name Date of Birth	Date of Appointment	Business Occupation	Other Directorships
P. R. Blakemore Chairman (6.12.51)	01.10.90	Chartered Accountant	B.B.M. Services Ltd Charnwood Accounting Solutions Ltd Godkin & Co Ltd KDB Bookkeeping Ltd
S. P. Mellors Deputy Chairman (7.6.51)	08.11.99	Chartered Surveyor	CPG Developments Ltd CPG Homes Ltd IM4U Ltd Jubilee Court 2 Management Co Ltd Linkfield Court Management Co Ltd
C. G. Bradley (10.11.52)	01.09.93	Building Society Finance Director	None
Mrs C. D. Clifford (29.12.57)	31.10.06	Human Resources Consultant	Budget Group Ltd Gilling Consulting Ltd
Mrs C. Joyce (21.5.63)	10.11.03	Building Society Operations Director	None
S. R. Peete (19.1.58)	08.04.98	Building Society Chief Executive	None
A.Roberts (24.1.47)	09.11.98	Solicitor	Cope Childrens Trust Ltd
I.J.Webb (5.12.69)	15.01.07	Group Brand Director	Barratt Developments Plc

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

2 Cornwall Street, Birmingham B3 2DL

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 contracts were entered into on 19 October 2004.

The Loughborough

where people make the difference

Head Office

6 High Street, Loughborough, LE11 2QB.

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Email: enquiries@theloughborough.co.uk

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Tel: (01509) 610600 Fax: (01509) 610200

Email: lboro@theloughborough.co.uk

1/2 Babington Lane, Derby, DE1 1SU.

Tel: (01332) 290818 Fax: (01332) 293228

Email: derby@theloughborough.co.uk

5 Market Place, Long Eaton, Nottingham, NG10 1JL.

Tel: (0115) 9728088 Fax: (0115) 9469624

Email: longeaton@theloughborough.co.uk

website: “www.theloughborough.co.uk”

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

Established 1867