

***The Loughborough***  
**Building Society**



**Annual Report and Accounts**  
**Year Ended 31 October 2009**

# Annual Report and Accounts

## year ended 31 October 2009

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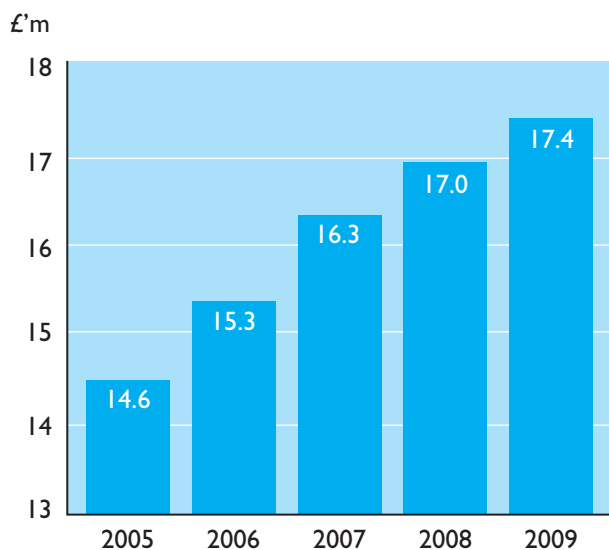
# Society Performance over the past 5 years

## 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.

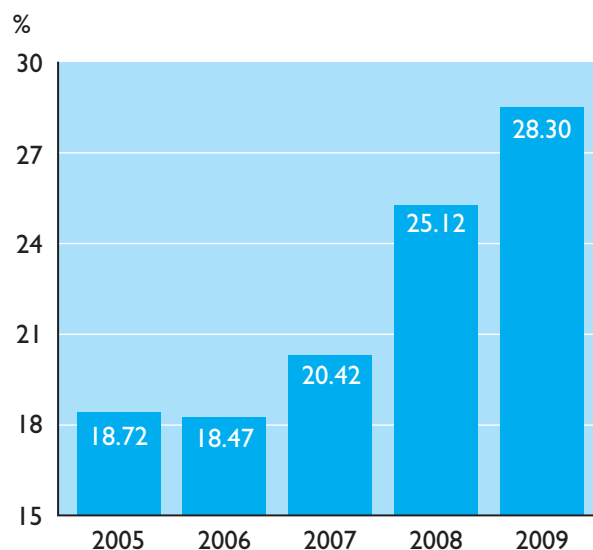
### General Reserves

The Directors remain committed to maintaining a strong capital position to satisfy regulatory requirements and to protect investors. General reserves were £17.38m at October 2009.



### Liquidity Ratio as % of Shares and Borrowings

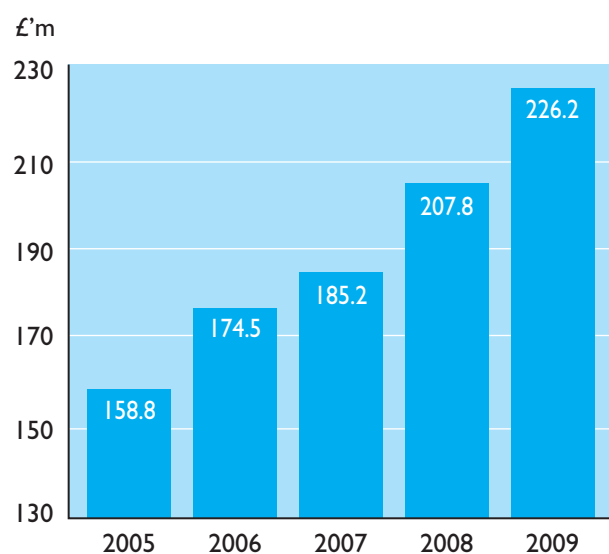
The Society maintains an adequate level of liquid assets at all times to meet liabilities as they fall due. The ratio was 28.30% at October 2009.



### Share Balances

(excluding accrued interest)

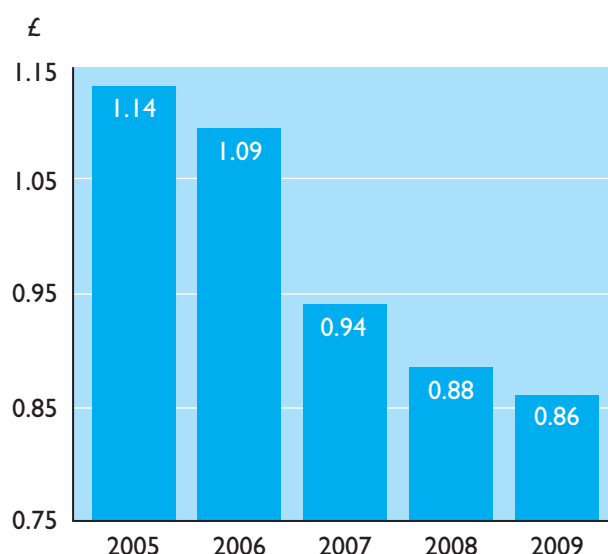
The Society continues to offer competitive products to new and existing members, resulting in continued growth in share balances, rising to £226.2m at October 2009.



### 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 86 pence at October 2009.



The Directors are pleased to present their 142nd Annual Report, together with the Annual Accounts and Annual Business Statement of the Loughborough Building Society for the year ended 31 October 2009.

### 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 meet the needs of our members and demonstrate the benefits of mutuality.

### Business Review

We are pleased to be able to report that the Society has continued to make good progress in key areas, despite the difficult trading environment. The Society's Key Performance Indicators are illustrated on page 2 and confirm the prudent management of the Society that has delivered an increase in both capital and liquidity and a further reduction in our cost base.

The past 12 months have seen a continuation of the liquidity problems in financial markets with the U.K. experiencing a deep recession in 2009 and it is widely expected that the impact of the recession will be felt into 2010 and that recovery will be a slow process.

Base rates were 4.50% at the start of the financial year but were then aggressively cut by the Bank of England to just 0.50% in a series of 5 consecutive monthly reductions. Whilst this has led to concerns for our savers, it is clear that the focus was to encourage the banking sector to lend and ensure that the U.K. moved out of recession at the earliest opportunity. Rates have remained at 0.50% since March 2009 and it appears unlikely that they will rise until positive signs of economic recovery are sustained. The Society has responded to these changes in official bank base rate and our standard variable mortgage rate (SVR) has reduced to 4.99%, in line with other mutual organisations of similar size.

The Board has sought to protect savers' rates during the rate cutting cycle and the Society has seen strong demand for its savings products, which have been competitively priced. Both existing and new savers have invested with the Society knowing that it is a safe, secure and traditional home for their investments. The total retail inflow during the year was £11.02m and this excellent result has allowed the Society to further reduce its borrowing of funds through the wholesale markets, to under 8% of share and deposit balances at year end.

The retail inflow has also enabled the Society to have an adequate level of funds available for mortgage lending. In recent months house prices appear to have stabilised, although analysts stress that supply is low and prices may fall further as volumes increase next year. Total mortgage advances in the year were £22.18m, down from £43.25m in 2007/08, in line with national trends in gross lending. Overall, mortgage balances declined by 3.41% as the Board controlled lending by limiting products and terms, prudently reflecting market conditions, although the Society has continued to offer loans to applicants that meet its underwriting criteria.

Unemployment has risen steadily in 2009 and is expected to peak towards 3 million over the next year. This will delay any economic recovery and 2010 is expected to be a difficult trading year for many business sectors. We are again pleased to report that arrears levels have remained well controlled, initially by careful underwriting and then by the manner in which we treat and support borrowers in difficulty. However in the current economic climate the Board felt it was prudent to allow an increase of £110,000 in the provision for mortgage losses.

The Society has again been successful in reducing its management expenses ratio. The ratio fell in 2008/09 to 86 pence, a reduction of 2 pence from the previous year and the sixth consecutive annual reduction. 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 and increasing operational efficiency, without compromising the level of service provided to all members. Asset growth of 0.37% was achieved in the year with assets rising to a new record total of almost £278 million.

# Directors' Report

## Business Review (continued)

The level of profit was considerably lower than in 2007/08, primarily due to the provision of £480,000 for interest payments due under the Financial Services Compensation Scheme (FSCS) levy, compared to £124,000 in 2007/08. The Board remains concerned about the impact on all societies, of the manner in which the Government has sought to mitigate the cost of rescuing various institutions that have not been managed in a way that balanced risk and reward.

## 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.

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. The Society has policies in place to ensure it maintains sufficient funds in liquid form at all times.
- **Operational Risk**, this is the risk of a loss arising from inadequate or failed internal processes or systems, human error or external events. Processes and controls are in place to minimise these risks as far as is practicable.
- **Regulatory Risk**, this is the risk that the volume and complexity of regulatory issues, for instance Treating Customers Fairly and related costs, such as the FSCS levy, may reduce the Society's capital and ability to compete over a period of time.
- **Strategic Risk**, the risk of the Society entering unprofitable markets or offering unprofitable products. The Board has a strategic duty to ensure that the Society makes an adequate amount of profit to maintain capital ratios at a sufficient level to provide long term financial strength and stability for all members.

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

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

## Information Technology

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

## Regulation

The Society is authorised and regulated by the FSA for all aspects of mortgage lending and administration, deposit taking and the provision of financial services. With effect from 1 November 2009, the Banking Code ceased to exist and from this date the FSA became responsible for the regulation of Retail Banking activities. In addition, the Society is a member of both the Building Societies Association and the Financial Ombudsman Service.

## Post Balance Sheet Events

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

## Going Concern

After making enquiries, the Directors have a reasonable expectation that the Society has adequate capital and liquid resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

## Creditor Payment Policy

The Society's continuing policy concerning the payment of its trade creditors is to pay invoices within the agreed terms of credit, once the supplier's contractual obligations have been discharged. Amounts due to creditors of the Society as at 31 October 2009 represented 25 days, (2008: 21 days).

## Liquid Assets

Liquid assets in the form of cash and investments were £73.07million at the year end. The combination of lower gross lending and significant retail inflows increased liquid assets to 28.30% of total shares and borrowings at year end. The holding of assets in liquid form allows the Society to meet its liabilities at all times as they fall due and the Board considers that this level is more than sufficient for the Society to meet this key requirement. The Society has responded to the difficult market conditions without sacrificing quality and accessibility of liquidity.

## Loans and Advances

The total number of mortgages completed during the year was 183 plus 109 further advances on existing accounts, the amount advanced being £22.18m.

## Mortgage Arrears

At the end of the year, there were 5 cases (2008: 2 cases) where mortgage repayments were twelve months or more in arrears, the amount of those arrears being £19,233 and the mortgage balances £282,279. There was 1 case in possession at the year end, (2008: 1 case).

## Financial Risk Management Objectives and Policies

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

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

## Profit, Capital and Basel II

The Society's Board continues to target a level of profit that is in line with the Society's mutual status. Profit after tax transferred to general reserve was £384,000.

The Society has maintained its financial strength with the capital ratios remaining more than adequate to satisfy foreseeable requirements. At 31 October 2009, Free capital amounted to £17.78 million or 6.88% of total shares and borrowings. Gross capital amounted to £18.09 million or 7.01% of total shares and borrowings.

The Board has been reviewing its risk assessment to meet the requirements of Basel II and the associated Capital Requirements Directive (CRD). The CRD requires the Society to conduct an assessment of the adequacy of its capital and resources. This is its Internal Capital Adequacy Assessment Process, (ICAAP) and the Society's Board approves and adopts the ICAAP on an annual basis. Details of the Society's Basel II disclosures for Pillar 3 are available on the website or from the Secretary of the Society on request.

## Donations

During the year, charitable donations totaling £11,952 were made to local organisations, including Shuttlewood Clarke, the 2009 Charity of the Year. There were no donations for political purposes.

## Directors

The following persons served as Directors during the year: -

### Non-Executive Directors

S P Mellors FRICS	Chairman
J P Jessop ACMA	Deputy Chairman (appointed 1 March)
Mrs C D Clifford BA, FCIPD	Senior Independent Director
A Roberts LL.B	
I J Webb BSc, MCIM	
P R Blakemore BA, FCA	Chairman (resigned 13 July)

### Executive Directors

G Brebner BSc, ACA	Chief Executive (appointed 13 July)
S R Peete BA, FCIB	Chief Executive (resigned 31 January)
C G Bradley BSc, ACA, ACIB	Deputy Chief Executive and Finance Director
Mrs C Joyce BA, ACIB	Operations Director

Paul Blakemore resigned from the Board during the year after serving as a Director since 1990 and having been the Society's Chairman for 7 years. Paul made a significant contribution to the Board during his period of office and his term as Chairman coincided with a period of steady asset growth coupled with strong financial performance. His financial guidance and business acumen will be missed by the Board, and we wish him well in his retirement. The Deputy Chairman, Scott Mellors was appointed Chairman following the resignation of Paul Blakemore.

# Directors' Report

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## Directors (continued)

Peter Jessop joined the Board in March. A Chartered Management Accountant, he has worked in the Financial Services sector for over 25 years and brings significant financial and compliance experience which complements the current skill mix of the Board. Peter Jessop was appointed Deputy Chairman on 13 July.

There was a change of Chief Executive during the year as Stephen Peete left in January by mutual consent, to pursue other career interests. The Board wishes to record its appreciation of Stephen's efforts as Chief Executive and wishes him well for the future.

Gary Brebner joined the Society in July as his replacement. Gary, a Chartered Accountant, brings a wide range of sector experience having worked as a consultant with KPMG for many years. He has a comprehensive mix of relevant skills to take the Society forward and to address the challenges we face.

The Directors retiring in accordance with the Rules are Mr. G. Brebner and Mr. J. P. Jessop who, being eligible, offer themselves for election and Mrs. C. D. Clifford who, being eligible, offers herself for re-election. Mr. A. Roberts will not be standing for election at the 2010 Annual General Meeting as he is retiring from the Board in February 2010.

## 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 a challenging year for the Society due to the economic downturn.

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

On behalf of the Board

**Scott P. Mellors**  
Chairman

9 December 2009

## 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 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 generally meets each month and there is a formal schedule of matters that are reserved for the Board meeting and 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), P. R. Blakemore, Mrs. C. D. Clifford and J. P. Jessop.

## 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 until 31 January), C.G. Bradley (Chairman from 1 February), P.R. Blakemore, G. Brebner, 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: P.R. Blakemore (Chairman), S.P. Mellors.

In addition, to oversee the appointment of the Chief Executive, a Recruitment Committee was formed by the Board, consisting of P. R. Blakemore (Chairman), Mrs C. D. Clifford 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 11 and 12.

The Committee is also responsible for setting the remuneration of all Non-Executive Directors, including the Chairman. The policy is described in the Directors' Remuneration Report. Meetings of the Committee are held as required and are normally attended by the Chief Executive, who withdraws from the meeting when his own remuneration is under discussion.

The following Non-Executive Directors served during the year: P. R. Blakemore (Chairman until 13 July), Mrs. C. D. Clifford (Chairman from 13 July), 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: S. P. Mellors (Chairman until 13 July), I. J. Webb (Chairman from 13 July), C. G. Bradley, G. Brebner and Mrs. C. Joyce.

## 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	*	7	2	2	4
J.P. Jessop (Deputy Chairman) Appointed 1 March	8 (8)	3 (3)	5 (5)	1 (1)	*	*
C.G. Bradley	12	*	7	*	*	3
G.Brebner (Appointed 13 July)	4 (4)	*	2 (2)	*	*	1 (1)
Mrs.C.D.Clifford	12	4	*	2	*	*
Mrs C. Joyce	12	*	6	*	*	4
A. Roberts	12	4	*	2	*	*
I.J.Webb	12	*	*	*	*	4
P.R.Blakemore (Resigned 13 July)	8 (8)	3 (3)	5 (5)	1 (1)	2	*
S.R.Peete (Resigned 31 January)	2 (2)	*	1 (1)	*	*	
<b>Number of Meetings</b>	<b>12</b>	<b>4</b>	<b>7</b>	<b>2</b>	<b>2</b>	<b>4</b>

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

P.R. Blakemore was Chairman until 13 July. The Deputy Chairman, S.P. Mellors was then appointed Chairman, with J.P. Jessop being appointed as Deputy Chairman.

## 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 2009 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.

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 11 and 12 sets out the remuneration policies for Executive and Non-Executive Directors.

# Corporate Governance Report

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## Financial Reporting

The Statement of Directors' Responsibilities on page 13 sets out the Board's responsibilities in relation to the preparation of the Society's Annual Report and Accounts and a statement that the Society's business is a going concern is included in the Directors' Report on page 4.

## Internal Control

The Board has delegated the responsibility for managing the systems of internal control to senior management. The internal control systems can provide only reasonable and not absolute assurance against material misstatement or loss. The Society's internal audit function has been outsourced to Deloitte who provided 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 were able to vote on-line for the first time at the 2009 AGM and this will continue to be available in 2010.

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, to its 2010 Charity of the Year, the Leonard Cheshire Disability.

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.

**Scott P. Mellors**  
Chairman

9 December 2009

# 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 8. Meetings of the Committee are also attended by the Chief Executive, as appropriate. The Chief Executive withdraws from the meeting when his own remuneration is being considered.

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

## Executive Directors' Remuneration

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

## Basic Salary

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

## Annual Bonus

The Annual Bonus is an incentive scheme that provides non-pensionable rewards directly linked to the achievement of key performance targets as determined by the Society's Board. Performance targets are reviewed annually, by the Society's Board, to ensure they are aligned to business priorities. The overall objective is to improve Society performance whilst maintaining the financial strength of the Society for the benefit of its members. The maximum figure payable was set at 10% of basic salary, the amount paid for 2008/09 was 7.0%. In addition, the Staff and Remuneration Committee awarded discretionary bonus payments to the Finance Director and Operations Director of £4,000 each. The payments are non pensionable.

## 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 under the scheme was set at 10% of basic salary as at October 2009. The amount paid was 7.5%. The payments are non-pensionable. A new scheme is under consideration for the period commencing 2009/10.

## Pension Benefits

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

## Other Benefits

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

## Service Contracts

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

# Directors' Remuneration Report

## Directors' Remuneration (audited information)

### Executive Directors (£ '000)

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 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 represents £110,000 notice and £1,000 in respect of other benefits.

2008	Salary	Annual Bonus	Pension Contributions	Benefits	TOTAL
S. R. Peete	103	5	14	11	133
C.G Bradley	73	7	11	10	101
Mrs C. Joyce	73	6	9	4	92
<b>TOTALS</b>	<b>249</b>	<b>18</b>	<b>34</b>	<b>25</b>	<b>326</b>

## Non- Executive Directors' Remuneration

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

Non-Executive Directors (audited information)	£'000 Fees 2009	£'000 Fees 2008
S P Mellors (Chairman)**	25	22
J P Jessop (Deputy Chairman), Appointed 1 March 2009**	13	-
A Roberts (Chairman of Audit and Compliance)	21	21
Mrs C D Clifford	17	17
I J Webb	17	17
P R Blakemore (Chairman), Resigned 13 July 2009	22	29
<b>TOTALS</b>	<b>115</b>	<b>106</b>

\*\* S.P.Mellors, previously Deputy Chairman, was appointed Chairman on 13 July 2009. J.P.Jessop was appointed Deputy Chairman on 13 July 2009.

# 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.

**Scott P. Mellors**  
**Chairman**

9 December 2009

# Independent Auditors' Report to the Members of Loughborough Building Society

We have audited the society annual accounts of Loughborough Building Society for the year ended 31 October 2009 which comprise the Society Income and Expenditure Account, the Society Balance Sheet, the Cash Flow Statement and the related notes. These annual accounts have been prepared under the accounting policies set out therein.

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

This report is made solely to the society's members, as a body, in accordance with section 78 of the Building Societies Act 1986. Our audit work has been undertaken so that we might state to the society's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the society and the society's members as a body, for our audit work, for this report, or for the opinions we have formed.

## Respective responsibilities of directors and auditors

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

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

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

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

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

## Basis of audit opinion

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

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

## Opinion

In our opinion:

- a) the annual accounts give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the affairs of the society as at 31 October 2009 and of the income and expenditure of the society for the year then ended;
- b) the information given in the Annual Business Statement (other than the information upon which we are not required to report) gives a true representation of the matters in respect of which it is given;
- c) the information given in the Directors' Report is consistent with the accounting records and the annual accounts; and
- d) the annual accounts, the Annual Business Statement and the Directors' Report have each been prepared in accordance with the applicable requirements of the Building Societies Act 1986 and regulations made under it.

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

One Snowhill  
Snow Hill Queensway  
Birmingham B4 6GH

9 December 2009

## Income and Expenditure Account for the year ended 31 October 2009

	Note	2009 £'000	2008 £'000
Interest receivable and similar income	2	10,588	16,475
Interest payable and similar charges	3	(7,427)	(13,177)
Net interest receivable		3,161	3,298
Fees and commissions receivable		107	89
Fees and commissions payable		(7)	(48)
Other operating income		232	317
Total income		3,493	3,656
Administrative expenses	4	(2,356)	(2,324)
Depreciation and amortisation	13	(42)	(41)
Other operating charges		(35)	(39)
Operating profit before provisions		1,060	1,252
Provisions for bad and doubtful debts	11	(64)	(234)
Operating profit before FSCS levy		996	1,018
Provisions for liabilities - FSCS Levy	20	(480)	(124)
Operating profit and profit on ordinary activities before tax		516	894
Tax on profit on ordinary activities	8	(132)	(262)
<b>PROFIT FOR THE FINANCIAL YEAR</b>	19	<b>384</b>	<b>632</b>

The notes on pages 18 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 2009

	Note	2009 £'000	2008 £'000
<b>ASSETS</b>			
<b>Liquid assets</b>			
Cash in hand		45	49
Loans and advances to credit institutions	9	41,493	29,940
Debt Securities	10	31,530	34,731
		<b>73,068</b>	<b>64,720</b>
<b>Loans and advances to customers</b>			
Loans fully secured on residential property	12	187,468	194,577
Other loans	12	16,103	16,327
		<b>203,571</b>	<b>210,904</b>
Tangible fixed assets	13	1,014	1,048
Other assets	14	208	188
Prepayments and accrued income		80	69
<b>TOTAL ASSETS</b>		<b>277,941</b>	<b>276,929</b>
<b>LIABILITIES</b>			
Shares	15	228,810	212,494
Amounts owed to credit institutions	16	16,626	30,432
Amounts owed to other customers	17	12,741	14,728
Other liabilities	18	1,151	1,442
Provisions for liabilities	20	520	124
		<b>259,848</b>	<b>259,220</b>
<b>Revaluation Reserve</b>	19	<b>717</b>	<b>723</b>
<b>Reserves</b>			
General Reserves	19	17,376	16,986
<b>TOTAL LIABILITIES</b>		<b>277,941</b>	<b>276,929</b>

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

These accounts were approved by the Board of Directors on 9 December 2009 and were signed on its behalf by:

<b>S. P. Mellors</b>	Chairman
<b>J. P. Jessop</b>	Deputy Chairman
<b>G. Brebner</b>	Director and Chief Executive

## Cash Flow Statement for the year ended 31 October 2009

	2009 £'000	2008 £'000
<b>Net cash (outflow) / inflow from operating activities</b>	<b>(7,507)</b>	<b>13,376</b>
<b>Taxation paid</b>	<b>(223)</b>	<b>(441)</b>
<b>Capital expenditure and financial investment</b>		
Purchase of debt securities	<b>(79,438)</b>	<b>(45,832)</b>
Sale and maturity of debt securities	<b>82,273</b>	<b>32,519</b>
Purchase of tangible fixed assets	<b>(8)</b>	<b>(39)</b>
Sale of tangible fixed assets	<b>-</b>	<b>-</b>
<b>Decrease in cash</b>	<b>(4,903)</b>	<b>(417)</b>
<b>Reconciliation of operating profit to net cash inflow from operating activities</b>		
Operating profit and profit on ordinary activities before tax	<b>516</b>	<b>894</b>
Decrease/(Increase) in prepayments and accrued income	<b>448</b>	<b>(22)</b>
(Decrease)/Increase in accruals and deferred income	<b>(2,525)</b>	<b>124</b>
Increase in provisions for bad and doubtful debts	<b>110</b>	<b>123</b>
Depreciation and amortisation	<b>42</b>	<b>41</b>
Non cash movements in debt securities	<b>(45)</b>	<b>(19)</b>
<b>Net cash (outflow) / inflow from trading activities</b>	<b>(1,454)</b>	<b>1,141</b>
Net decrease/(increase) in loans and advances to customers	<b>7,223</b>	<b>(1,492)</b>
Net increase in shares	<b>18,351</b>	<b>22,615</b>
Net (decrease) in deposits and other borrowings	<b>(15,303)</b>	<b>(6,306)</b>
Net (increase) in loans and advances to credit institutions	<b>(16,500)</b>	<b>(2,500)</b>
Net increase / (decrease) in other liabilities	<b>176</b>	<b>(82)</b>
<b>Net cash (outflow) / inflow from operating activities</b>	<b>(7,507)</b>	<b>13,376</b>

<b>Analysis of decrease in cash</b>	<b>At 1 Nov 2008</b>	<b>Net (decrease)</b>	<b>At 31 Oct 2009</b>
Cash in hand	49	(4)	45
Loans and advances to credit institutions repayable on demand	15,735	(4,899)	10,836
	<b>15,784</b>	<b>(4,903)</b>	<b>10,881</b>
	At 1 Nov 2007	Net (decrease)	At 31 Oct 2008
Cash in hand	56	(7)	49
Loans and advances to credit institutions repayable on demand	16,145	(410)	15,735
	<b>16,201</b>	<b>(417)</b>	<b>15,784</b>

# Notes to the Accounts

## 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, the Building Societies (Accounts and Related Provisions) Regulations 1998, and the Building Societies Act 1986.

### Taxation

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

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

### Tangible Fixed Assets and Depreciation

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

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

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

### Liquid Assets

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

### Pension Costs

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

## Provision for Loans and Advances

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

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

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

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

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

## Off Balance Sheet Instruments

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

## Incentives to Borrowers

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

## Operating Leases

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

## 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.

	2009 £'000	2008 £'000
<b>2. Interest receivable and similar income</b>		
On loans fully secured on residential property	8,880	11,577
On other loans	958	1,110
On debt securities		
interest	1,131	1,696
profit on disposals	3	8
On other liquid assets		
interest and other income	747	1,896
Net (expense) / income on financial instruments	(1,131)	188
	<b>10,588</b>	<b>16,475</b>

Total income on fixed income debt securities amounted to £779,198 (2008 : £964,508)

Interest on secured advances as shown above has been reduced by £13,954 (2008 : £7,039) 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 2008	2	1
Interest written off during year net of recoveries	(16)	(6)
Interest suspended in the year	14	7
At 31 October 2009	-	2

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	7,087	10,034
On deposits and other borrowings	1,036	2,997
Net (income) / expense on financial instruments	(696)	146
	<b>7,427</b>	<b>13,177</b>

## Notes to the Accounts

	2009 £'000	2008 £'000
<b>4. Administrative expenses</b>		
Staff costs		
Wages and salaries	1,094	1,022
Social security costs	95	99
Other pension costs	78	79
	<b>1,267</b>	<b>1,200</b>
Other Administrative expenses	1,089	1,124
	<b>2,356</b>	<b>2,324</b>

Wages and salaries include £111,000 in respect of compensation for loss of office, as detailed in the Directors' Remuneration Report on pages 11 and 12.

The Society makes a contribution of between 7.0% and 15.5% (2008: 7.0% and 15.5%) of individuals' basic gross pay into employees' Personal Pension schemes. There were no outstanding or prepaid contributions at either the beginning or the end of the financial year.

Other Administrative expenses include:

Amounts charged under other operating leases	47	45
Remuneration of the Auditors and their associates (excluding VAT)		
Audit services - Statutory Audit	29	29
Other services	7	9

## 5. Employees

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

	2009 Full time	2009 Part time	2008 Full time	2008 Part time
Head office	25	2	26	2
Branch offices	14	4	12	5
Total	<b>39</b>	<b>6</b>	<b>38</b>	<b>7</b>

## 6. Remuneration of Directors

	2009 £'000	2008 £'000
For services as Non-Executive Directors	115	106
For Executive services	329	326
	<b>444</b>	<b>432</b>

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

## 7. Loans to Directors and Connected Persons

At 31 October 2009 there were outstanding mortgage loans granted in the ordinary course of business to 4 (2008:7) Directors and connected persons, amounting in aggregate to £599,944 (2008 : £797,101).

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 2009, will be available for inspection at the Society's Head Office for a period of 15 days up to and including the Annual General Meeting.

## 8. Tax on profit on ordinary activities

### Analysis of charge in year

Current tax

Corporation tax at 28.00% (2008 : 28.83%)

Total Current Tax

Deferred Tax

Total Deferred Tax (Note 14)

Tax on profit on ordinary activities

### Factors affecting the current tax charge for the year

Profit on ordinary activities before tax

Tax at 28.00% (2008 : 28.83%)

Effects of:

Difference between depreciation and capital allowances

Other timing differences

Marginal relief

Current tax charge for year

## 9. Loans and advances to credit institutions

Accrued interest

Repayable on demand

Other loans and advances by remaining maturity of:

In not more than three months

In more than three months but not more than one year

	2009 £'000	2008 £'000
	152	223
	152	223
	(20)	39
	(20)	39
	132	262
	516	894
	145	258
	(3)	(26)
	26	5
	(16)	(14)
	152	223
	157	205
	10,836	15,735
	26,500	10,000
	4,000	4,000
	41,493	29,940

## Notes to the Accounts

	2009 £'000	2008 £'000
<b>10. Debt Securities</b>		
Issued by other borrowers	31,530	34,731
	<b>31,530</b>	<b>34,731</b>
Debt securities have remaining maturities as follows:		
Accrued interest	124	535
In not more than one year	26,294	24,999
In more than one year	5,112	9,197
	<b>31,530</b>	<b>34,731</b>
Transferable debt securities (excluding accrued interest) comprise:		
Listed	8,406	11,196
Unlisted	23,000	23,000
	<b>31,406</b>	<b>34,196</b>
Market value of listed transferable debt securities	8,378	10,780
Included in debt securities are:		
Unamortised premiums	-	-
Unamortised discounts	44	54

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:

<b>Cost (excluding accrued interest)</b>	<b>£'000</b>
At 1 November 2008	34,176
Additions	79,438
Disposals and maturities	(82,273)
At 31 October 2009	<b>31,341</b>
<b>Amortisation</b>	
At 1 November 2008	(20)
Provided in the year	(45)
At 31 October 2009	<b>(65)</b>
<b>Net book value at 31 October 2009</b>	<b>31,406</b>
Net book value at 31 October 2008	34,196

### 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 2008			
General provision	365	249	614
Specific provision	127	-	127
	<b>492</b>	<b>249</b>	<b>741</b>
Income and expenditure account			
General provision	44	38	82
Specific provision	(12)	40	28
Net charge to income and expenditure account	<b>32</b>	<b>78</b>	<b>110</b>
At 31 October 2009			
General provision	409	287	696
Specific provision	115	40	155
	<b>524</b>	<b>327</b>	<b>851</b>

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

Movement in loss provision (above)	110
Amounts written off during the year	57
Recovery of amounts previously written off	(103)
Total	<b>64</b>

### 12. Loans and advances to customers

	2009 £'000	2008 £'000
Loans fully secured on residential property	187,468	194,577
Loans fully secured on land	16,103	16,327
	<b>203,571</b>	<b>210,904</b>
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	95	188
In not more than three months	40	34
In more than three months but not more than one year	560	199
In more than one year but not more than five years	9,460	7,960
In more than five years	194,267	203,264
	<b>204,422</b>	<b>211,645</b>
Less: provisions for bad and doubtful debts (note 11)	<b>(851)</b>	<b>(741)</b>
	<b>203,571</b>	<b>210,904</b>

## Notes to the Accounts

	Freehold Land and Buildings	Improvements to Leasehold Property	Equipment, Fixtures Fittings & Vehicles	Total
<b>13. Tangible fixed assets</b>	£'000	£'000	£'000	£'000
<b>Cost or Valuation</b>				
At 1 November 2008	1,005	356	320	1,681
Additions during year	-	-	8	8
Disposals during year	-	-	(19)	(19)
At 31 October 2009	1,005	356	309	1,670
<b>Depreciation</b>				
At 1 November 2008	30	356	247	633
Charged in year	10	-	32	42
Disposals during year	-	-	(19)	(19)
At 31 October 2009	40	356	260	656
<b>Net Book Value</b>				
At 31 October 2009	965	-	49	1,014
At 31 October 2008	975	-	73	1,048

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 Directors are not aware of any material change in the value of the Society's freehold land and buildings and therefore the valuation has not been updated.

The historical cost of the revalued assets is £ 419,956 (2008 : £ 419,956). The accumulated historical cost depreciation on those revalued assets would be £ 117,989 (2008 : £ 113,897). Included in the total net book value of freehold land and buildings is £ 495,000 (2008 : £ 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 £ 726,865 (2008 : £ 734,732).

	2009 £'000	2008 £'000
<b>14. Other Assets</b>		
Deferred Taxation	208	188
	<b>208</b>	<b>188</b>
Deferred Taxation comprises:		
Capital allowances	14	17
Timing differences related to general mortgage loss provision	194	171
	<b>208</b>	<b>188</b>
Movement in deferred taxation		
At 1 November 2008	188	227
Credit / (charge) to income and expenditure account (Note 8)	20	(39)
At 31 October 2009	<b>208</b>	<b>188</b>

In accordance with Financial Reporting Standard 19, the deferred tax liability of £51,305 (2008 : £49,812) arising on the revaluation of freehold premises has not been recognised.

### 15. Shares

Held by individuals	228,810	212,494
Shares are repayable from the balance sheet date in the ordinary course of business as follows :		
Accrued interest	2,628	4,663
Repayable on demand	171,463	144,824
In not more than three months	27,440	19,999
In more than three months but not more than one year	11,701	18,670
In more than one year but not more than five years	15,578	24,338
	<b>228,810</b>	<b>212,494</b>

### 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	126	432
In not more than three months	12,500	24,250
In more than three months but not more than one year	4,000	5,750
	<b>16,626</b>	<b>30,432</b>

## Notes to the Accounts

	<b>2009</b>	<b>2008</b>
	<b>£'000</b>	<b>£'000</b>
<b>17. Amounts owed to other customers</b>		
Amounts owed to other customers are repayable from the balance sheet date in the ordinary course of business as follows:		
Accrued interest	<b>32</b>	<b>216</b>
Repayable on demand	<b>3,787</b>	<b>3,597</b>
In not more than three months	<b>3,342</b>	<b>7,690</b>
In more than three months but not more than one year	<b>5,580</b>	<b>3,225</b>
	<b>12,741</b>	<b>14,728</b>

### 18. Other Liabilities

Amounts falling due within one year

Corporation tax	<b>170</b>	<b>241</b>
Income tax	<b>377</b>	<b>602</b>
Other creditors	<b>604</b>	<b>599</b>
	<b>1,151</b>	<b>1,442</b>

### 19. Reserves

	<b>General Reserves</b>	<b>Revaluation Reserve</b>
	<b>£'000</b>	<b>£'000</b>
At 1 November 2008	<b>16,986</b>	<b>723</b>
Profit for the financial year	<b>384</b>	<b>-</b>
Depreciation transfer	<b>6</b>	<b>(6)</b>
At 31 October 2009	<b>17,376</b>	<b>717</b>

## 20. Provisions for Liabilities

### a. Financial Services Compensation Scheme Levy

	2009 £'000
At 1 November 2008	124
Charge for the year	480
Paid in year	(84)
At 31 October 2009	520

### Financial Services Compensation Scheme

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

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

As a result of notifications it received from the Financial Services Authority, the Society recognised in last year's results a provision for a levy of £124,000 for the scheme year 2008/09. A further provision charge of £480,000 has been recognised in the year to 31 October 2009 comprising the management expenses levy, which it will incur in respect of the remainder of the period of the initial 3 year loan facility from HM Treasury, and a compensation levy. These have been calculated with reference to the level of the Society's protected deposits, anticipated future interest rates and an initial estimate of anticipated proceeds from the eventual disposal of assets. The amounts do not take account of any levies which may be payable from any refinancing after the maturity of the initial 3 year loan facility, as any such amounts cannot currently be reliably estimated.

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

### b. Annual commitments

At 31 October 2009 the Society had annual commitments for operating leases relating to land and buildings as follows:

	2009 £'000	2008 £'000
Operating leases which expire:		
After two years and before five years	45	-
After five years	-	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 Assets and Liabilities Committee, (ALCO).

# Notes to the Accounts

## 21. Financial Instruments (continued)

Instruments used for risk management purposes include derivative financial instruments ('derivatives'), which are contracts or agreements whose value is derived from one or more of underlying price, rate or index inherent in the contract or agreement, such as interest rates. All transactions in derivatives are undertaken to manage the risks arising from underlying business activities.

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

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

### Outstanding Derivative Contracts

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

	2009 £'000	2008 £'000
<b>Unmatured interest rate swaps</b>		
Notional principal amount	66,300	67,500
Credit risk weighted amount	138	118
Replacement cost	498	377

### Risk Management

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

#### Liquidity Risk

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

#### Credit Risk

Credit Risk is the risk that counterparties will not be able to meet their obligations as they fall due. The Society is exposed to both retail credit risk, through mortgage lending, and wholesale credit risk, via treasury operations.

Credit risk in relation to retail customers is governed by limits contained in the Society lending policy. Changes to the policy are approved by the Board, and the approval of loan applications is mandated. Exposure to treasury counterparty risk is controlled within limits set in policies and procedures agreed by the Board, after review by the Society's ALCO.

## 21. Financial Instruments (continued)

### Interest Rate Risk

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

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

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

<b>As at 31 October 2009</b>	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
<b>Assets</b>						
Liquid assets	61,242	7,500	4,000	-	326	73,068
Loans and advances to customers	155,131	4,343	14,786	30,162	(851)	203,571
Tangible fixed assets	-	-	-	-	1,014	1,014
Other assets	-	-	-	-	288	288
<b>Total assets</b>	<b>216,373</b>	<b>11,843</b>	<b>18,786</b>	<b>30,162</b>	<b>777</b>	<b>277,941</b>
<b>Liabilities</b>						
Shares	198,903	2,200	9,501	15,578	2,628	228,810
Amounts owed to credit institutions and other customers	19,629	6,955	2,625	-	158	29,367
Other liabilities	-	-	-	-	1,151	1,151
Provisions for liabilities	-	-	-	-	520	520
Reserves	-	-	-	-	18,093	18,093
<b>Total liabilities</b>	<b>218,532</b>	<b>9,155</b>	<b>12,126</b>	<b>15,578</b>	<b>22,550</b>	<b>277,941</b>
Off balance sheet items	24,200	(3,400)	(2,550)	(18,250)	-	-
Interest rate sensitivity gap	22,041	(712)	4,110	(3,666)	(21,773)	-

### Comparative position at 31 October 2008

Total assets	229,956	9,417	3,228	32,976	1,352	276,929
Total liabilities	201,158	8,604	18,242	24,339	24,586	276,929
Off balance sheet items	1,800	2,350	7,700	(11,850)	-	-
Interest rate sensitivity gap	30,598	3,163	(7,314)	(3,213)	(23,234)	-

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

Other assets include prepayments, other assets and accrued income.

Provisions for liabilities represent payments under the FSCS Levy.

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

## 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 as at 31 October 2009. Market values have been used to determine fair values. The table excludes certain financial assets and liabilities which are not listed or publicly traded, or for which a liquid and active market does not exist. It therefore excludes such items as mortgages, retail savings accounts and deposits with other credit institutions.

	<b>2009 Book Value £'000</b>	<b>2009 Fair Value £'000</b>	<b>2008 Book Value £'000</b>	<b>2008 Fair Value £'000</b>
On balance sheet instruments				
Debt securities	<b>31,406</b>	<b>31,424</b>	34,196	34,000
Off balance sheet instruments				
Interest rate swaps	-	<b>(975)</b>	-	<b>(448)</b>

#### 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 2009.

	<b>2009 Gains £'000</b>	<b>2009 Losses £'000</b>	<b>2009 Net gains/(losses) £'000</b>
Gains and losses unrecognised at the start of financial year	<b>377</b>	<b>(825)</b>	<b>(448)</b>
Items unrecognised at the start of the year recognised in the year	<b>(307)</b>	<b>430</b>	<b>123</b>
Items unrecognised at the start of the year and unrecognised at the year end	<b>70</b>	<b>(395)</b>	<b>(325)</b>
Gains and losses arising in the year unrecognised in the year	<b>428</b>	<b>(1,078)</b>	<b>(650)</b>
Unrecognised at the end of the financial year	<b>498</b>	<b>(1,473)</b>	<b>(975)</b>
Of which:			
Expected to be realised in the year to 31 October 2010	<b>474</b>	<b>(951)</b>	<b>(477)</b>
Expected to be realised after 31 October 2010	<b>24</b>	<b>(522)</b>	<b>(498)</b>
	<b>498</b>	<b>(1,473)</b>	<b>(975)</b>

### 22. Related Party Transactions

During the prior year John German Estate Agents, of which Mr S. P. Mellors is the Senior Partner, provided valuation services to the Society, on normal commercial terms. Total value £6,415, of which £250 was owed by the Society at 31 October 2008. In the current year no valuation services were provided by John German. There were no other related party transactions.

### I. Statutory Percentages

	2009 %	Statutory Limit %
Lending Limit	8.17	25.00
Funding Limit	11.37	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

	2009 %	2008 %
<b>As a percentage of shares and borrowings :</b>		
Gross capital	7.01	6.87
Free capital	6.88	6.70
Liquid assets	28.30	25.12
<b>As a percentage of mean total assets:</b>		
Profit for the financial year	0.14	0.24
Management expenses	0.86	0.88

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 2009

### 3. Information relating to the Directors at 31 October 2009

<b>Name</b> <b>Date of Birth</b>	<b>Date of</b> <b>Appointment</b>	<b>Business</b> <b>Occupation</b>	<b>Other Directorships</b>
S. P. Mellors Chairman (7.6.51)	08.11.99	Chartered Surveyor	CPG Homes Ltd IM4U Ltd Jubilee Court 2 Management Co Ltd
J. P. Jessop Deputy Chairman (11.2.50)	01.03.09	Chartered Management Accountant	Kingdom Bank Ltd
C. G. Bradley (10.11.52)	01.09.93	Building Society Deputy Chief Executive and Finance Director	None
G. Brebner (2.5.60)	13.07.09	Building Society Chief Executive	None
Mrs C. D. Clifford (29.12.57)	31.10.06	Group Director	BGL Ltd
Mrs C. Joyce (21.5.63)	10.11.03	Building Society Operations Director	None
A. Roberts (24.1.47)	09.11.98	Solicitor	Cambria House Promotions Ltd Cope Childrens Trust Ltd Loughborough Masonic Hall Ltd
I. J. Webb (5.12.69)	15.01.07	Marketing Consultant	Ian Webb Consulting Ltd

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

One Snowhill, Snow Hill Queensway, Birmingham B4 6GH

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

**The Loughborough  
Building Society**



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**website: “[www.theloughborough.co.uk](http://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