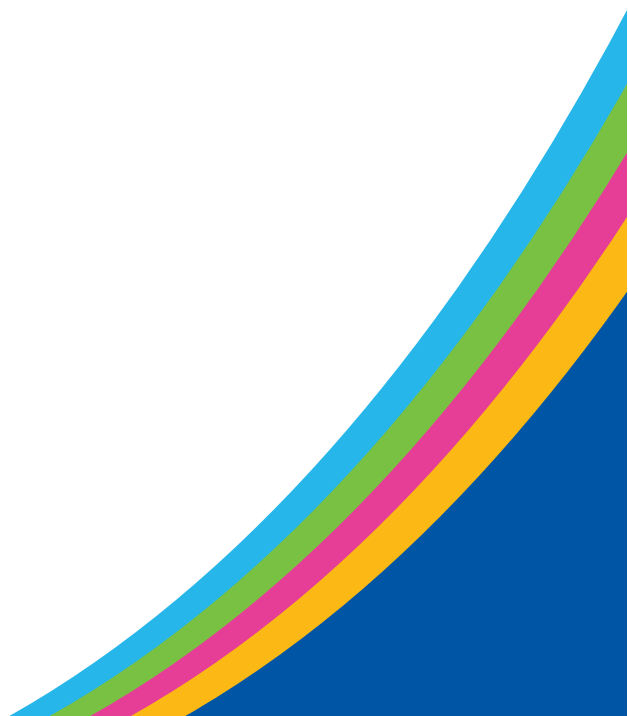




***The Loughborough***  
**Building Society**

**Business Review and  
Summary Financial Statement**

for the year ended 31 October 2009



# Directors

Scott P Mellors FRICS

Chairman

Peter Jessop ACMA

Deputy Chairman

Colin G Bradley BSc, ACA, ACIB

Gary Brebner BSc, ACA

Cheryl D Clifford BA, FCIPD

Caroline Joyce BA, ACIB

Alan Roberts LL.B

Ian J Webb BSc, MCIM

Chief Executive

**Gary Brebner BSc, ACA**

Deputy Chief Executive and Finance Director

**Colin G Bradley BSc, ACA, ACIB**

Operations Director

**Caroline Joyce BA, ACIB**

# Chief Executive's Introduction

## Results for 2009

I am pleased to present to you the financial results for the year. The results demonstrate the strength and resilience of the Society in a difficult and competitive market. The headlines are:

- Profit before tax of £516,000 (2008 - £894,000) – a reduction of £378,000 but nonetheless an excellent outcome allowing for the difficult trading conditions and FSCS levies;
- Asset growth of £1.0m (2008 - £16.8m) – which is a strong performance in a declining mortgage market; and
- Share balances have increased by £16.3m to £228.8m reflecting investor confidence in the Society.

The overall results and balance sheet strength show the robustness of the business in the most testing of market conditions. Through careful selection of mortgage products and prudent underwriting we are able to deliver competitive products in our chosen lending markets whilst providing a good return to investors. This is a continuous balancing act to ensure that the Society can provide good returns to investors and retain their confidence.

During the year we have continued to reduce our wholesale funding balances to below 8% of Shares Deposits and Loans ('SDL'). It is the Board's intention to continue to fund the majority of lending demand through retail funds.

The overall picture presented by these results should encourage investors that they can have confidence in the Society and how it is managed. During the financial year the Society has enjoyed retail inflows in eleven months out of twelve. Regular savings accounts and Classic accounts have continued to be popular. We were one of the few businesses to allow ISA investors to take advantage of the increased limits announced by the Government and effective for those in their 50th year or older.

Liquidity has increased from £64.7m to £73.1m and we have further strengthened our capital base where our gross capital is now 7%. In a low interest rate environment this provides challenges to achieve an adequate rate of return on these assets.

During the year The Society has changed some of its affinity partners to broaden the services it can provide to investors and borrowers. We regularly review our investor and borrower products to ensure we offer value to both sets of customers. This has been recognised by Mortgage Finance Gazette, a leading

national independent trade magazine who awarded The Loughborough 'Best Local Building Society'. It is a tremendous honour to be recognised with this award.

The business is not immune to recessionary pressures. We have seen a small increase in cases in arrears and this is reflected in the increased provision against mortgage balances of £110,000, however, only one case is in possession at year end. As a responsible lender and caring mutual we undertake a number of steps to help those who find themselves in difficult financial circumstances. Ideally we prefer to keep borrowers in their own homes whilst they work through their short term difficulties, although this is not always possible or indeed the wish of the borrower.

## Outlook for 2010

The Society does not provide financial forecasts. However I thought that members need to understand some of the market conditions we anticipate in the year ahead. It would appear that Bank of England rates will remain low for at least the first half of 2010 and that unemployment will continue to rise. Our proven policies and approach to prudent financial management will continue and be adapted appropriately to meet changes in market conditions.

The liabilities arising through FSCS levies might continue until the position regarding the failed banks has been resolved. Therefore, further charges may appear in the Income and Expenditure Account for the compensation scheme in the years ahead.

Despite these anticipated difficult market conditions we are committed to improving the services and facilities available to members. We will be seeking your views regarding product and service ideas in 2010. All of us here at the Society are committed to being customer-led in how we conduct ourselves day in and out and to ensuring that "where people make the difference" is a true differentiator.

## And finally

I would like to thank all of our staff for their efforts in delivering another good set of results and you, our members for your continuing support and trust.

**Gary Brebner**  
Chief Executive  
9 December 2009

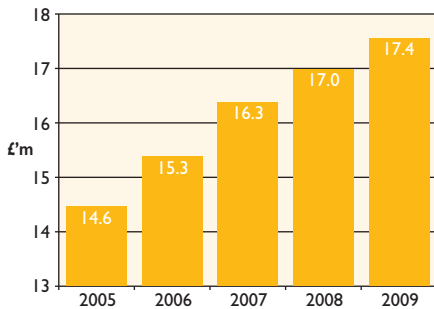
# Society Performance over the past 5 years.

## 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 and that adequate liquid assets are held. The KPIs are shown below to illustrate the progress the Society has made with the help of members and staff.

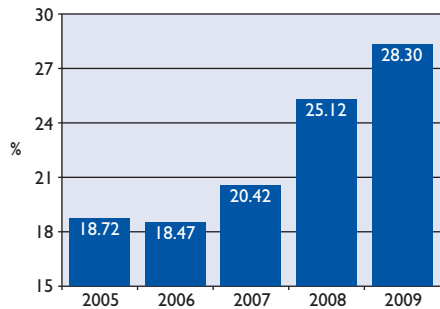
### General Reserves

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



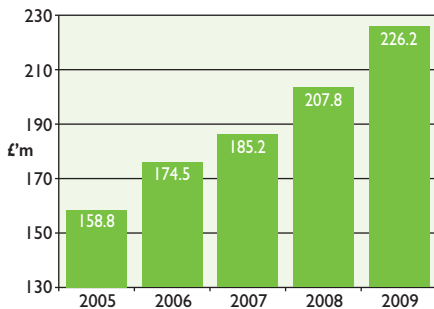
### Liquidity Ratio as % of Shares and Borrowings

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.



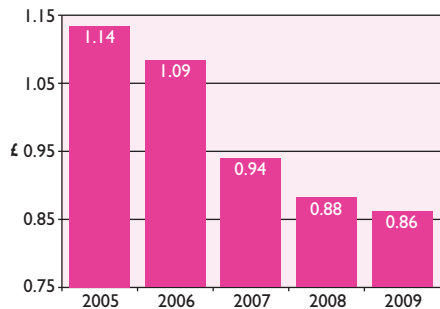
### Share Balances (excluding accrued interest)

The Society offers a range of 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.



# Summary Financial Statement for the Year ended 31 October 2009

The Directors have pleasure in presenting the Summary Financial Statement of the Society for the year ended 31 October 2009.

This Financial Statement is a summary of information in the audited Annual Accounts, the Directors' Report and Annual Business Statement, all of which will be available to members and depositors, free of charge on demand, at every office of the Loughborough Building Society from 25 January 2010.

Approved by the Board of Directors on 9 December 2009 and signed on its' behalf by: -

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

## Summary Directors' Report

The Directors are pleased to present their 142nd Annual Report, together with the Annual Accounts and Annual Business Statement of the 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.

# Summary Financial Statement

## Continued

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 that 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.

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.

# Summary Financial Statement

## Continued

### Information Technology

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

### Regulation

The Society is authorised and regulated by the 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.

### Donations

During the year, charitable donations totalling £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  
J P Jessop ACMA

Mrs C D Clifford BA, FCIPD

A Roberts LLB  
I J Webb BSc, MCIM  
P R Blakemore BA, FCA

Chairman  
Deputy Chairman  
(appointed 1 March)  
Senior Independent  
Director

Chairman  
(resigned 13 July)

#### Executive Directors

G Brebner BSc, ACA

S R Peete BA, FCIB

C G Bradley BSc, ACA, ACIB

Mrs C Joyce BA, ACIB

Chief Executive  
(appointed 13 July)  
Chief Executive  
(resigned 31 January)  
Deputy Chief Executive  
and Finance Director  
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.

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. 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.

# Summary Financial Statement

Continued

## 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

# Summary Financial Statement

Continued

For the year ended 31 October 2009

	2009 £'000	2008 £'000
<b>Results for the year</b>		
Net interest receivable	3,161	3,298
Other income and charges	297	319
Administrative expenses	(2,398)	(2,365)
Provision for mortgage losses	(64)	(234)
Provision for FSCS levy	(480)	(124)
Profit for the year before taxation	516	894
Taxation	(132)	(262)
<b>Profit for the year</b>	<b>384</b>	<b>632</b>
<b>Financial position at end of the year</b>		
<b>Assets</b>		
Liquid Assets	73,068	64,720
Mortgages	203,571	210,904
Fixed and other assets	1,302	1,305
<b>Total Assets</b>	<b>277,941</b>	<b>276,929</b>
<b>Liabilities</b>		
Shares	228,810	212,494
Borrowings	29,367	45,160
Other liabilities	1,151	1,442
Provisions for liabilities – FSCS levy	520	124
Reserves	17,376	16,986
Revaluation reserve	717	723
<b>Total Liabilities</b>	<b>277,941</b>	<b>276,929</b>
<b>Summary of key financial ratios</b>	%	%
Gross capital as a percentage of shares and borrowings	7.01	6.87
Liquid assets as a percentage of shares and borrowings	28.30	25.12
Profit for the year as a percentage of mean total assets	0.14	0.24
Management expenses as a percentage of mean total assets	0.86	0.88

## Key Financial Ratios

**Gross capital** comprises general reserves and revaluation reserve. The gross capital ratio measures the proportion which the Society's capital bears to the Society's liabilities to holders of shares and borrowings. Gross capital provides a financial buffer protecting investors against any losses that might arise from the Society's activities. The Board is committed to providing a secure home for investors' funds and Loughborough Building Society has a gross capital ratio in line with that of the Building Society industry.

**The liquid assets ratio** measures the proportion of the Society's shares and other borrowings that are held in the form of cash, short-term deposits and marketable securities. Liquid assets are generally readily realisable into cash, enabling the Society to meet requests by investors for withdrawals from their accounts, to make new mortgage loans to borrowers and to fund its general business activities.

**Profit for the year as a percentage of mean total assets** measures the ratio of profit after taxation for the year to the average value of total assets during the year. The Society needs to make a reasonable level of profit each year in order to maintain its gross capital ratio at a suitable level to protect investors' funds. The Directors believe the profit for the year is consistent with the aims of mutuality.

**Management expenses as a percentage of mean total assets** measures the proportion of administrative expenses, including depreciation, as a percentage of the average value of total assets during the year.

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

Pursuant to section 76 of the Building Societies Act 1986, we have examined the summary financial statement of Loughborough Building Society set out on pages 3 to 7.

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

## Respective responsibilities of directors and auditors

The directors are responsible for preparing the summary financial statement within the Business Review and Summary Financial Statement in accordance with applicable United Kingdom law.

Our responsibility is to report to you our opinion on the consistency of the summary financial statement within the Business Review and Summary Financial Statement with the full annual accounts, Annual Business Statement and Directors' Report and its conformity with the relevant requirements of section 76 of the Building Societies Act 1986 and regulations made under it.

We also read the other information contained in the Business Review and Summary Financial Statement and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the summary financial statement.

## Basis of opinion

We conducted our work in accordance with Bulletin 2008/3 'The auditors' statement on the summary financial statement in the United Kingdom' issued by the Auditing Practices Board.

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

## Opinion

In our opinion the summary financial statement is consistent with the full annual accounts, the Annual Business Statement and the Directors' Report of Loughborough Building Society for the year ended 31 October 2009 and conforms with the applicable requirements of section 76 of the Building Societies Act 1986 and regulations made under it.

## Simon Clark

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

One Snowhill  
Snow Hill Queensway  
Birmingham  
B4 6GH

9 December 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 13. Meetings of the Committee are also attended by the Chief Executive, as appropriate. The Chief Executive withdraws from the meeting when his own remuneration is being considered.

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

## Executive Directors' Remuneration

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

### Basic Salary

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

### Annual Bonus

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

# Directors' Remuneration Report

Continued

## 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 (audited information)

### Executive Directors (£ '000)

2009	Salary	Annual Bonus	Medium Term Bonus	Pension Contributions	Benefits	TOTAL
<b>G.Brebner *</b>	39	-	-	5	2	46
<b>C.G. Bradley</b>	92	10	7	14	11	134
<b>Mrs C. Joyce</b>	83	9	6	10	5	113
<b>S. R. Peete *</b>	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>

# Directors' Remuneration Report

Continued

## Non- Executive Directors' Remuneration

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

### Non Executive Directors (audited information) (£ '000)

	2009	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
TOTALS	115		106

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

Mrs Cheryl D. Clifford, Chairman Staff and Remuneration Committee

9 December 2009

# Corporate Governance Report

## Directors' Report on Corporate Governance

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

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

Continued

## Staff and Remuneration Committee

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

The Committee is also responsible for setting the remuneration of all Non-Executive Directors, including the Chairman. The policy is described in the Directors' Remuneration Report.

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

The following Non-Executive Directors served during the year: 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.

# Corporate Governance Report

## Continued

### 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.

# Corporate Governance Report

## Continued

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

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

## Remuneration

The Report on Directors' Remuneration on pages 9 to 11 sets out the remuneration policies for Executive and Non-Executive Directors.

## Internal Control

The Board has delegated the responsibility for managing the systems of internal control to senior management. The internal control systems can provide only reasonable and not absolute assurance against material misstatement or loss. The Society's internal audit function has been outsourced to Deloitte who 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, 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

## Tariff of Charges

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

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

**The Loughborough  
Building Society**



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Loughborough Building Society