The Loughborough Building Society

Annual Report and Accounts 2021

Contents

Key Performance Indicators

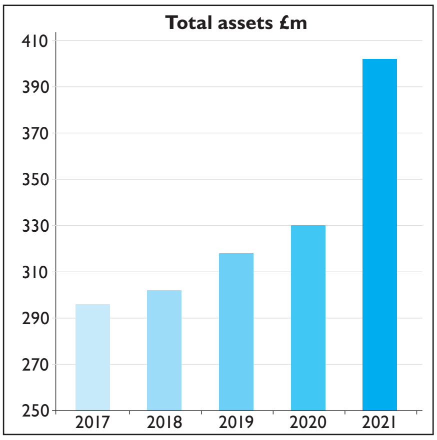
Founded in 1867, Loughborough Building Society remains true to the ideals of the group of local businessmen who got together to provide the people of Loughborough and District with opportunities to save and borrow money.

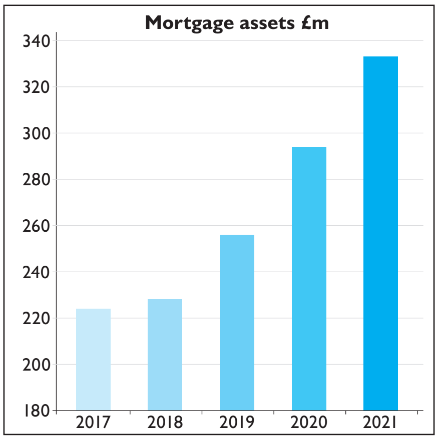
For over 150 years the Society has been helping people to buy their homes and save for their future and is proud to have remained an independent, mutual provider of mortgages and savings.

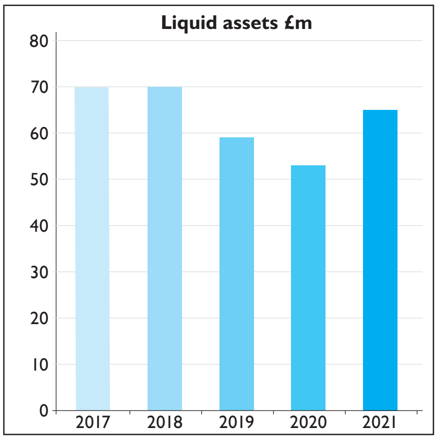
As a mutual building society we're owned by our customers – our savers and borrowers. To us you're more than a customer; you're a member and an individual.

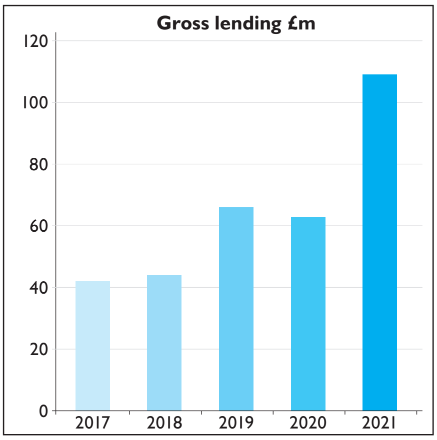
Unlike banks, being a mutual business means we don't have shareholders or dividends to pay. The Society is able to take a long term view and balance the needs of its members for competitive interest rates with the requirement to make enough profit to support capital and allow for continuing investment in new services and expertise.

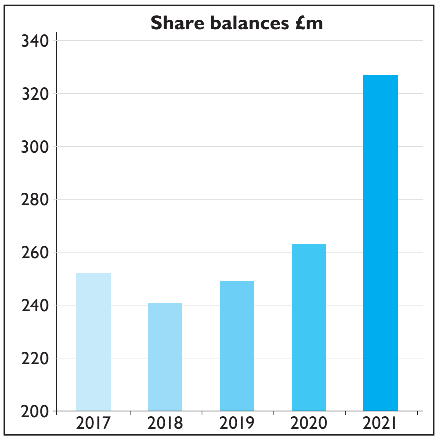
The Board manages the Society and oversees the agreed strategy using a variety of performance and control reports, including the use of key performance indicators. The graphs below show progress over the last five years across a number of key indicators. The calculation of each of the key performance indicators is explained on page 62.

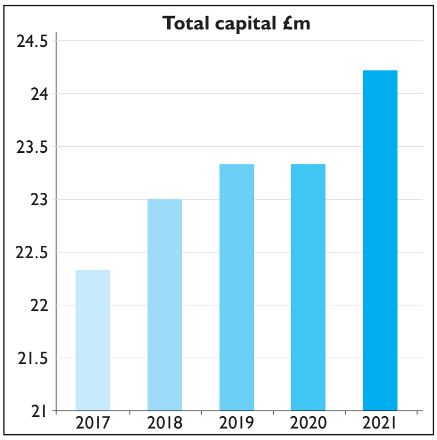


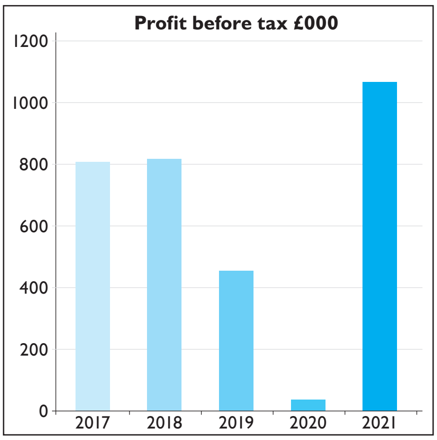


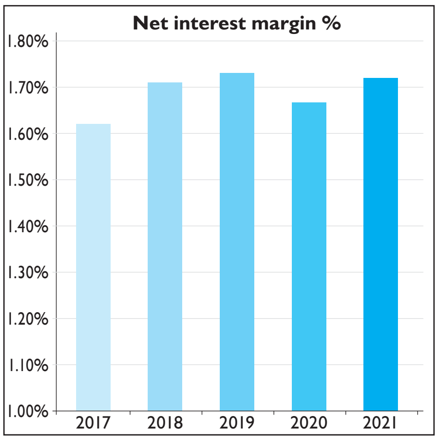


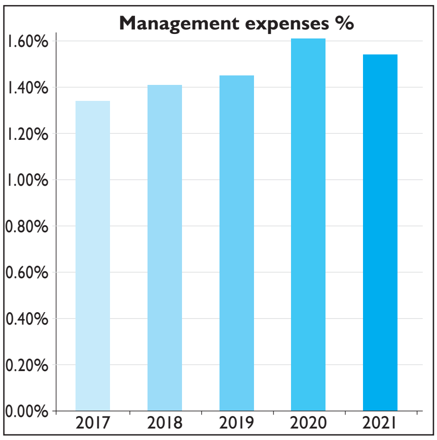












Directors' Report

The Board are pleased to present their 154th Annual Report, together with the Annual Accounts and Annual Business Statement of Loughborough Building Society for the year ended 31 October 2021.

Business Objectives and Activities

The principal business activity of the Society is the provision of long term residential mortgages to borrowers, financed by personal savings from members, in keeping with traditional building society principles and values. The business objectives are to promote savings and home ownership, historically largely in the East Midlands, though both mortgage and savings accounts are increasingly being provided to customers across England and Wales. This objective is achieved through a competitive interest rate structure on a variety of straightforward products, combined with high levels of personal service, to meet the needs of our members and safeguard their interests.

Business Review

Covid-19

The Covid-19 pandemic has affected all aspects of society throughout the year, but it is remarkable the extent to which the Society's staff and processes have adapted to the constraints imposed and the new methods of working that have been required. Both mortgage and savings business volumes were a record, service standards were maintained and risks were properly managed.

The following sections of this report contain more information on how the pandemic has affected the Society and its staff, but the Board are very encouraged by the resilience and adaptability shown by the staff and the Society's systems and processes.

Lending and Saving

Gross mortgage advances during the year were £109.2m, an increase of 74% on the 2020 figure of £62.6m and the highest annual advances total ever achieved by the Society. Growth in mortgage balances, after redemptions and repayments of principal, was £58.5m, which represented a percentage increase of 21.3% (2020: £18.8m or 7.2%). This growth will allow a greater level of investment in service, resources and systems for the benefit of existing and future members.

The housing market was supported by Government initiatives during the year, with the stamp duty concession, which was extended to 30th September 2021 probably having the largest impact. This demand helped the Society achieve its record lending. Demand has eased somewhat since the stamp duty concession ended, but it still remains at a healthy level and the Society goes into its new financial year with a good pipeline of new mortgage business to support its lending into the new period.

The Society's mortgage lending has also been supported by its continuing expansion in the broker generated sector of the market and this will be a continuing focus across the next year. The Society remains very active in the direct market, though, and this still represents a very significant proportion of total new business.

The year also saw the Society achieve record volumes of net savings receipts. Share account balances increased by £64.1m, compared to an increase £14.2m the previous year. This growth was built primarily on the Society's range of good value and straightforward savings products and the Board is pleased to note that the majority of the Society's savings business is still conducted through the branch network, showing how much customers value the excellent service. Growth in share account balances represented a 24.4% increase across the year (2020: 5.7%).

The Society's mortgage balances were over 98% funded by member share accounts (2020: 95%) and this provides a good level of funding security in the event of problems in the generally more volatile wholesale markets. The Society makes use of the wholesale money markets, to provide diversity within its funding strategy. The Society also uses Bank of England funding facilities to provide some ongoing funds and to provide guaranteed emergency funds in the unlikely event of such funding being required.

Profitability

Profit before tax has recovered very strongly from its figure just above break even last year to reach £1,067,000 (2020: £35,000). This recovery has largely been generated from increased mortgage assets and these additional assets will continue to support profit into the future. As a mutual organisation, the Society does not have profit maximisation as an objective, instead ensuring that both mortgage and savings rates offered to members provide them with long term value. However, the Board recognises that an acceptable level of profit makes the business more resilient, provides the capital that helps to ensure member protection and allows for more investment in customer service and new, member benefiting technology.

Although profit has shown very strong growth during the year, there are economic constraints that continue to restrict profit. Base rate has recently risen to 0.25%, which remains a very low level and just above its lowest ever. At the time of writing this report, financial markets are expecting further increases in the coming year. However, it remains likely that they remain low by historic standards for a considerable time to come. At a macro level very low interest rates generally benefit borrowers as they stimulate lending and thereby economic activity. However, they harm savers and they also act to compress the Society's net interest income, as market mortgage rates could continue to reduce, whilst market rates on savings and other funding balances get closer to their effective floor of zero and are unable to reduce to compensate.

Administrative expenses (including depreciation and amortisation) have increased during the year from £5.2m in 2020 to £5.6m in 2021, an increase of 7.7%. The Board recognises the importance of running the Society as efficiently as possible in order not only to support members' interests, but it also recognises the need to invest in people, equipment and new technology. Included in the above figure for the year is an increased amortisation charge incurred to write-off the Society's expenditure on its existing core processing system. This is being done in anticipation of migrating to a new core platform, probably some time in 2023. Once this migration is sanctioned by the Board (a detailed evaluation of alternative systems is now nearing completion), the new technology will allow for greater flexibility and a much more modern experience in the services provided to members and much more operational efficiency in processing growing business volumes.

Profit for the year has also been affected by fair value movements in the Society's portfolio of derivative financial instruments, which are used to hedge against adverse interest rate changes affecting the Society's fixed rate mortgage balances. These movements generated a gain of £271,000 in 2021, compared to a loss of £62,000 in 2020. In addition, the Income Statement shows an impairment charge of £65,000 during the year, compared to £55,000 in 2020. Although arrears remain low, both across the market generally and for the Society in particular, the Board remain cautious about the recoverability of recent house price gains in the event of a general market deterioration and have provided accordingly.

Impairment

As noted above, the impairment charge for the year was £65,000 (2020: £55,000), representing an impairment charge on loans and advances of £158,000 (2020: gain of £60,000), less a gain on sale of a stock item of £93,000 (2020: charge on revaluation of £115,000).

Provision is made for individual cases either in possession, or where the level of arrears or other known information about the case is such that individual consideration is appropriate.

The level of individual impairment at the end of the year was £37,000 (2020: £253,000). The principal reason for the decrease in individual impairment across the year is that a number of properties in possession at the previous year end have now been sold, resulting in a release of £239,000 from the provision.

The Society also maintains an allowance for collective impairment, which assesses loan cases for potential loss, should they become re-possessed and applies publicly available propensity to default (PD) data. In the Society's case, PD data published by the Fitch ratings agency is used for this purpose. In spite of the pandemic, Fitch PDs have not deteriorated since before 2019 and the pandemic has had little direct impact on the Society's allowance for loan impairment. This is consistent with the Society's own experience to date. However, the Board are cautious about the impact that recent positive movements in house prices have had on the calculations that support the loan impairment provision, judging that in the event of a general housing market downturn, such recent movements may prove irrecoverable and thereby affect cashflows that could be realised on any properties taken into possession and the impairment provision has been adjusted accordingly. During the year the provision for collective impairment has increased from £303,000 to £437,000.

The Society has participated in the Government sponsored scheme of offering mortgage payment holidays to customers affected by the pandemic. About 10% of our mortgage customers took up payment holidays. The Society's experience with these customers is encouraging, with the great majority of customers who took advantage of the scheme returning to full payment once the holiday period ended. The overall level of arrears remains low. However, the economic situation remains uncertain and the pandemic may represent a drag on recovery for some time to come. Any member facing an inability to keep up with mortgage payments is encouraged to contact the Society as early as possible so that we can work together on a solution.

Economic Conditions

One of the major influences on Society performance is the economy and economic conditions remains uncertain. As already noted above, bank base rate is lower than it has ever been previously and this adversely impacts both our saving members and the Society's own profitability. It is uncertain how long rates will remain at a very low level, but the Board has noted that financial markets generally see them remaining low for an extended period and has made its financial plans accordingly. The Government furlough scheme ended at the end of September 2021 and there were some fears that this could mark the start of a period of significant increases in unemployment. The full impact of that scheme's ending is not yet apparent, but early indications are that unemployment is probably not about to increase far above its current level. The Board remains conscious of the level of uncertainty within the economy at this time, though.

One aspect of the economy that was still performing strongly at year end was the housing market. Bank of England statistics report the number of mortgage approvals in September 2020 was at its highest level since 2007 and the Nationwide Building Society house price index shows that average prices grew by 10.0% in the year to October 2021, which is the highest rate of growth for five years. The end of the first period of lockdown appeared to release a strong pent-up demand for house moves and this carried on as customers look to take advantage of the Stamp Duty holiday. As noted above, though, the ending of this holiday concession may see some slow down in mortgage activity.

Branch Network

The Society's network of three branches in Loughborough, Derby and Long Eaton and its agency outlet in Southwell remain the route by which it continues to undertake the majority of its savings transactions with customers. Customer feedback constantly tells us how important this personal contact is for our members and the Board is happy to re-affirm its commitment to its branches and the staff who work there.

With that in mind, the Board is delighted to be able to announce the Society has acquired the freehold of a site in Anstey, close to Leicester and is currently engaged in redeveloping the property into a new Society branch, due to open in early 2022. The Society looks forward to being able to provide new members with the exceptional levels of customer service already enjoyed by its existing membership.

Society Staff

Finally in this review, the Board wishes to place on record its appreciation for the work of the Society's staff during another very difficult year. Staff in branches have continued to provide the personal attention that customers require. Head Office staff have used a combination of home working and working in the office, where this has been feasible under social distancing guidelines. The fact that record volumes of both savings and mortgage business have been processed and that servicing standards have been maintained shows the exceptional efforts they have made. The Board is proud of them all for what they have achieved and knows how much their efforts are appreciated by members.

Principal Risks and Uncertainties

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. Interest rates have been at historically very low levels for a number of years and the level of uncertainty and risk of economic disruption are heightened by both the Covid-19 pandemic and by Brexit.

The Society has a cautious approach to its risk appetite which helps to protect members' interests and reduce exposure to the risks and uncertainties facing the business. Processes, policies and controls are in place to reduce these risks to acceptable levels.

All major areas of risk are reviewed by the Risk Committee and, where appropriate, other Board committees as detailed in the Corporate Governance Report on pages 10 to 14. The Society maintains a comprehensive risk register, sets a risk appetite target against each risk identified, and takes actions and implements controls until the level of residual risk is acceptable. Progress is also monitored through the Risk Committee.

Many of the risks faced are those associated with any business striving to prosper in a competitive market, including margin pressures, regulatory and compliance developments.

The principal business risks to which the Society is exposed are outlined below. In addition, the Society is mindful of the risks associated with the potential adverse effects of the pandemic and of Brexit, and that any consequent economic downturn, disruption to financial markets or political instability could have an impact on its business model. The impact of both the pandemic and of Brexit have been given particular consideration throughout the year and this consideration is described in the list of principal business risks below. The Society has stress tested its Business Plan for these risks, and considers that it has appropriate management control processes and sufficient capital and liquidity resources to allow it to withstand such impacts.

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 placed money, may default on their obligation to pay. The impact of the pandemic on credit risk has been mitigated by payment holidays and the Government furlough scheme. As these have unwound there may have been an adverse credit risk impact. This has not yet shown itself in credit data, but the Board remain conscious of the risk. As noted earlier, the Board are also conscious of the risk that recent increases in house prices may not prove recoverable in the event of a general economic downturn and have adjusted the loan impairment provision accordingly.

- **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. The Bank of England Base Rate remained at an historic low of 0.10%. Very low rates tend to compress a building society's net interest margin and the Board have allowed for rates remaining low for an extended period in preparing the Society's business plan. The Society has also modelled the impact of rates going to zero and going negative.
- **Liquidity Risk**, this relates to the Society's ability to meet its financial obligations as they fall due. Times of significant uncertainty, such as caused by the pandemic or by Brexit, can increase liquidity risk as providers of funding, both retail customers and institutions, may withdraw from markets because of their own security concerns. The Society monitors its liquidity daily and conducts stress tests on its ability to fund its operations and meet liabilities as they fall due on a monthly basis. The Society has been able to fund itself effectively throughout the year, maintaining an active presence in both retail and institutional markets. It also participates in Bank of England schemes that would provide emergency funding should the unlikely need arise.
- **Operational Risk**, this is the risk of a loss arising from inadequate or failed internal processes or systems, human error, key supplier failure or external events including cyber risks. The pandemic has represented an operational risk event in that it required significant changes in how operations have been carried out to reflect reduced face to face customer contact and remote working for staff. Existing contingency plans were enacted and the Society's operations have remained effective throughout the period.
- **Regulatory Risk**, this is the risk that the volume and complexity of regulatory requirements and related costs reduce the Society's capital and ability to compete over a period of time. Regulatory changes are closely monitored and reported to the Board.
- **Conduct Risk**, this is the risk that the Society does not treat its customers fairly or provides inappropriate products for customers.
- **Strategic Risk**, this is the risk of the Society entering unprofitable markets, offering unprofitable products or being unable to keep up with changes in customer expectations. The Board has a strategic duty to ensure that the Society makes an adequate amount of profit to maintain capital ratios at a level sufficient to provide long term financial strength and stability for all members.
- **Concentration Risk**, this is the risk of loss due to a large individual or connected exposure that could be affected by common factors including geographical location. The Board sets limits for maximum exposures to both borrowers and treasury counterparties.
- **Reputational Risk**, as a deposit taking institution, it is essential that the Society safeguards its members' funds and ensures that events do not arise which could damage our reputation and lead to a loss of public confidence.
- **Climate Risk** is the risk of adverse impacts on the Society's business caused by climate change. These risks have been identified as being physical and transitional. Physical risks could create a direct impact, such as properties over which the Society holds a mortgage becoming uninhabitable or unsaleable due to increased risk of flooding. Transition risks could include developments such as potential disruption to certain sectors of the economy as society moves from higher to lower levels of carbon production in energy generation. In response to these risks, the Society is participating in industry initiatives to understand and plan for their effect. The Society is also engaged in work to meet the requirements of the PRA's supervisory statement SS3/19, which sets out regulatory expectations in response to climate risk. In light of this, the Society commissioned a statistical analysis of its mortgage book during the year to understand the potential impact of climate risk on existing accounts. This analysis suggests that direct, physical risks may not present a significant risk to the Society's business, but that transitional risks, especially the remediation costs of converting low energy efficiency homes to a better standard of energy efficiency may be substantial. The impact of this will be considered during 2022 as part of the Society's annual assessment of its capital position and the impact on this of various stress scenarios.

In addition to the risks outlined above, some risks arise from the very nature of being a building society. Primarily these are the raising of funds from savers and lending to mortgage borrowers and other counterparties. These financial risks are closely monitored and controlled by the Board, supported by its committees.

Further details of the Society's approach to financial risk management, including the use of financial instruments for risk management purposes and the key risks faced, are detailed in note 26 to the Accounts.

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

Regulation

The Society is authorised by the Prudential Regulation Authority (PRA) and regulated by the Financial Conduct Authority (FCA) and the PRA.

Going Concern

The Board have prepared forecasts of the Society's capital position, financial position and liquidity for the period ending twelve months from the date of approval of these financial statements. These forecasts also consider the effect on the Society's business, financial position, capital and liquidity of operating under stressed but plausible operating conditions, including the possible impact of the Covid-19 pandemic and the residual risks resulting from Brexit.

The Business has been significantly affected by the Covid-19 pandemic this year and the Board have paid particular attention to its impact in considering the issue of going concern. Specific considerations have included the following:

- Economic output lost earlier in the pandemic has recovered reasonably strongly and this is certainly encouraging. However, the pandemic looks set to continue for an as yet uncertain time. New strains of the disease and resulting restrictions that may be required could cause further decreases in output. The economic impact of such stresses, particularly on propensity to default and loss given default are still uncertain, but the Society's existing stress tests used to assess its capital position allow for a severe impact on the housing market and are probably worse than currently anticipated as a result of the pandemic. The Society's assessment is that it has sufficient capital to withstand such a stress.
- Profit has increased strongly across the year as a result of mortgage asset growth. This growth will support profit into future years. Although challenges arising from economic uncertainty in general and the very low interest rate environment in particular remain, the Board are confident the Society will generate an adequate level of profits to support its capital requirements.
- New business volumes were exceptionally strong during the year. Mortgage volumes are expected to reduce somewhat in 2021/22, but are still expected to be sufficient to achieve satisfactory levels of growth with further support for profitability. Current experience suggests the Society will be able to find sufficient funds to support this growth.
- The need for many staff to work largely from home represented a significant operational resilience event, which the Society has coped with. Business volumes processed during the year were the highest recorded. There is no indication of a breakdown in customer service or underwriting standards as a result of new working practices.

As a result of this, the Board are satisfied that the Society has adequate resources to continue in business for the foreseeable future. Accordingly, the accounts continue to be prepared on a going concern basis.

Liquid Assets

Liquid assets in the form of cash and investments amounted to £65.2m (2020: £52.7m) representing 17.3% (2020: 17.3%) of shares and borrowings. Liquidity requirements are reviewed by the Board on an ongoing basis and annually as part of the Society's Individual Liquidity Adequacy Assessment Process (ILAAP), ensuring that the Society has at all times adequate resources to meet its commitments as they fall due. The ILAAP is reviewed by the Assets and Liabilities Committee before being approved by the Board. The Society has invested its liquid funds under the challenging interest rate environment without sacrificing quality and accessibility and has maintained an adequate level of high quality liquid assets (in the form of deposits with the Bank of England), as required for all deposit taking institutions by the PRA. The Society meets its regulatory requirements under Capital Requirements Directive (CRD) for the liquidity coverage ratio. The Society is also a member of the Bank of England's Discount Window Facility which is a source of short term collateralised borrowing.

Loans and Advances

The total number of mortgages completed during the year was 707 (2020: 412) plus 53 (2020: 34) further advances on existing accounts, the total amount advanced being £109.2m (2020: £66.2m).

Mortgage Arrears and Forebearance

At the end of the year, there were 3 cases (2020: 5 cases) where mortgage repayments were twelve months or more in arrears, the amount of those arrears being £9,100 (2020: £43,000) and the mortgage balances £117,000 (2020: £725,000). There were 2 (2020: 2) of these cases in the Society's possession at the year end. These are held short term to satisfy loan repayments.

The Society uses forbearance measures to assist those borrowers experiencing financial difficulty. Where it is considered there is a possibility of a loss in such cases, a provision has been made in accordance with the Society's accounting policy for losses. There were 8 cases (2020: 11 cases) with balances outstanding of £551,000 (2020: £910,000) where forbearance measures such as transfer to interest only and deferred payments were in place at the year end.

A particular category of forbearance that has been relevant since 2020 has been payment holidays granted in response to the Covid-19 pandemic. The Society, in common with other UK mortgage lenders, granted an initial three month payment holiday to customers who applied for the facility because their income was adversely affected by the pandemic. Customers were able to apply for an extension of up to a further three months in certain circumstances. 273 customers were granted a payment holiday during the year, of which 19 were still recording a payment shortfall with the remainder having returned to regular monthly payments.

Profits and Capital

The Board seeks to achieve a level of profit and capital that is in line with the Society's mutual status. Profit after tax transferred to general reserve was £871,000 (2020: £12,000). The reasons for the increase in profit transferred to the general reserve are explained in the Business Review section of this report.

The Society has maintained its financial strength with capital ratios remaining satisfactory for foreseeable requirements. At 31 October 2021, free capital amounted to £22.7m (2020: £21.4m) or 6.0% (2020: 7.0%) of total shares and borrowings. Gross capital amounted to £24.2m (2020: £23.3m) or 6.4% (2020: 7.7%) of total shares and borrowings. The definitions of free capital and gross capital are shown in the Annual Business Statement on page 61.

The Board meets the requirements of the Capital Requirements Directive (CRD) under which the Society conducts an assessment of the adequacy of its capital and resources through an Internal Capital Adequacy Assessment Process, (ICAAP). The Board is satisfied that the Society holds adequate capital to meet the CRD's Pillar 1 minimum requirements and its own assessment of risks under Pillar 2. The Board approves and adopts the ICAAP on an annual basis, after detailed consideration by the Risk Committee.

The Pillar 3 disclosures under the CRD are available on the website or from the Secretary of the Society on request. The "Country-by-Country" reporting required under Article 89 of the CRD is disclosed on page 60.

Directors

The following served as Directors during the year and up to the date of signing this report:

Non-Executive Directors

H.E. Sachdev FCMA	Chair of the Board
R. W. Barlow BA, FCA	Senior Independent Director
R. L. Curtis-Bowen	
J.E. Pilcher ACIB, FCT	
C.J. Bradley ACMA, CF, Dip PFS	
S.M.S. Choudhry Phd, FCSI, FLIBF	

Executive Directors

G. Brebner BSc, ACA	Chief Executive
C. Joyce BA, ACIB	Customer Service Director
A. Payton BSocSc, FCA	Finance Director

The role of the Non-Executive Director is vital to the governance of the Society and comes with increasing time demands and regulatory expectations, which have again been met with dedication and commitment by all Board members.

Donations

There were no donations for political purposes.

Auditor

Deloitte LLP have signified their willingness to continue in office and therefore a resolution for their re-appointment will be proposed to the Society's forthcoming Annual General Meeting.

Management and Staff

The Board would like to record their appreciation for the loyalty and dedication of the management and staff and their commitment to the Society throughout another challenging year. A programme of staff training has continued during the year, enabling staff to continue to develop relevant skills and maintain the excellent level of customer service expected by all our members.

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

On behalf of the Board
Helen Sachdev,
Chair of the Board
17 January 2022

Corporate Governance Report

The Board is responsible for the governance of the Society on behalf of the members. The Board is committed to good practice in corporate governance, and has regard to the principles of the UK Corporate Governance Code (the Code) issued by the Financial Reporting Council. The Code is addressed to listed companies, but the Board agrees with and supports its general principles. This report explains how the Society has regard to the principles of the Code insofar as it applies to a building society.

A revised UK Corporate Governance Code was issued by the Financial Reporting Council in July 2018 and applies to accounting periods beginning on or after 01 January 2019. This is the second year the Society has reported against the revised Code.

Code Section 1 – Board leadership and company purpose

Principle A – A successful company is led by an effective and entrepreneurial board, whose role is to promote the long-term sustainable success of the company, generating value for shareholders and contributing to wider society.

Principle B – The board should establish the company's purpose, values and strategy, and satisfy itself that these and its culture are aligned. All directors must act with integrity, lead by example and promote the desired culture.

Principle C – The board should ensure that the necessary resources are in place for the company to meet its objectives and measure performance against them. The board should also establish a framework of prudent and effective controls, which enable risk to be assessed and managed.

Principle D – In order for the company to meet its responsibilities to shareholders and stakeholders, the board should ensure effective engagement with, and encourage participation from, these parties.

Principle E – The board should ensure that workforce policies and practices are consistent with the company's values and support its long-term sustainable success. The workforce should be able to raise any matters of concern.

Board comment

The Board's principal functions are to focus on strategic issues, to provide policies and parameters within which the business is to be managed, to review business and financial performance on a regular basis and to ensure that effective systems and controls are in place for risk management. All of these functions have the aim of creating security and long term value for members. The Board is also aware of the Society's role as a mutually owned business and believes that ensuring such businesses remain sustainable provides important choice and competition in the financial services sector.

The Board meets nine times a year and there is a formal schedule of matters that are reserved for the Board meeting. Board members have full and timely access to all of the information that they require to discharge their duties effectively.

The Statement of Directors' Responsibilities on page 19 sets out the Board's responsibilities in relation to the preparation of the Society's Annual Report and Accounts. A statement that the Society's business is a going concern is included in the Directors' Report on page 4.

As a mutual organisation the Society has members rather than shareholders. The Society seeks the views of members in a variety of ways. The Society circulates all members with a magazine, "Hi Society", twice each year. The Society also has a member panel called "talkback" which any member may join. These measures serve to increase the understanding of members' issues and keep in touch with members' opinions.

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 or by attending the AGM itself. The 2021 AGM will take place as a closed meeting due to issues associated with the ongoing pandemic. Members are again offered a choice as to how they may cast their vote, either by postal proxy, on-line voting or attendance at the AGM. For a number of years the Society has encouraged members to vote by linking the number of votes cast to a donation to charity. The Society will donate 20 pence per postal vote and £1 per on-line vote, up to a maximum of £1,000.

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

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

The Chair, with the assistance of the Chief Executive in his role as Secretary, ensures that all Directors receive 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 entitled to seek independent professional advice, in respect of their role as a Director of the Society, at the Society's expense.

The Society maintains liability insurance cover for all Directors.

The Board delegates, to a number of committees, specific issues to discuss 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. Details of the committees are set out below.

Audit and Compliance Committee

This Committee considers regulatory compliance matters, internal and external audit arrangements, adequacy of internal controls and financial reporting. Full details of the work of this Committee can be found in the Audit and Compliance Committee Report on pages 15 to 16.

Assets and Liabilities Committee

The remit of this Committee is to monitor financial, liquidity and treasury risks on both sides of the balance sheet, including the use of derivatives for fixed rate products. The Committee reviews in detail financial projections and the Individual Liquidity Adequacy Assessment Process (ILAAP). The Committee also oversees the work plan for the monthly Management Assets and Liabilities Committee (MALCO) and reviews its output.

The Committee meets at least quarterly and also reviews the structure of interest rates and the treasury activities of the Society.

The following Directors served during the year: G. Brebner (Chair), A. Payton, C. Joyce, J.E. Pilcher, H.E. Sachdev, C. Bradley and S.M.S. Choudhry.

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 annually 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 Non-Executive Directors served during the year: H.E. Sachdev (Chair), R.L. Curtis-Bowen and R.W. Barlow.

Remuneration Committee

The Remuneration Committee is responsible for determining the remuneration policies and practices of the Society, within a framework agreed with the full Board, with due regard to the Remuneration Code. 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 policy is described in the Directors' Remuneration Report on pages 17 to 19.

The following Non-Executive Directors served during the year: R.L. Curtis-Bowen (Chair), H.E. Sachdev, C.J. Bradley and R.W. Barlow.

Risk Committee

The Risk Committee is responsible for the oversight and challenge of the Society's risk management framework to identify, manage and mitigate key risks within the organisation. The Committee will, as required, review and recommend risk strategy, policies and risk limits in accordance with the overall risk appetite of the Society.

The Committee meets at least quarterly and also considers the Credit Policy and the Internal Capital Adequacy Assessment Process (ICAAP).

The following Non-Executive Directors served during the year: J.E. Pilcher (Chair), R.W. Barlow and S.M.S. Choudhry. In addition, the Executive Directors attend by invitation.

Attendance at Board and Committee Meetings

The number of Board and Committee meetings attended by each Director during the year is shown over. Figures in brackets indicate the number of meetings which the Director was eligible to attend.

	Board	Audit and Compliance	Assets and Liabilities	REMCO	Nominations	Risk
H.E. Sachdev	9 (9)	*	4 (4)	5 (5)	2 (2)	*
G. Brebner	9 (9)	Note 1	4 (4)	Note 2	Note 2	Note 1
A. Payton	9 (9)	Note 1	4 (4)	*	*	Note 1
C. Joyce	9 (9)	Note 1	4 (4)	*	*	Note 1
C.J. Bradley	9 (9)	7 (7)	4 (4)	4 (4)	*	*
J.E. Pilcher	9 (9)	*	4 (4)	*	*	5 (5)
S.M.S. Choudhry	7 (9)	*	4 (4)	*	*	4 (5)
R.L. Curtis-Bowen	8 (9)	7 (7)	*	5 (5)	2 (2)	*
R.W. Barlow	9 (9)	7 (7)	*	5 (5)	2 (2)	5 (5)
Number of meetings	9	7	4	5	2	5

* Not a member of the Committee
Note 1 Executive Directors attend by invitation
Note 2 CEO attends Nominations and Remuneration Committees by invitation

Code section 2 – Division of responsibilities

Principle F – The chair leads the Board and is responsible for its overall effectiveness in directing the company. They should demonstrate objective judgement throughout their tenure and promote a culture of openness and debate. In addition, the chair facilitates constructive board relations and the effective contribution of all non-executive directors, and ensures that directors receive accurate, timely and clear information.

Principle G – The board should include an appropriate combination of executive and non-executive (and, in particular, independent non-executive) directors, such that no one individual or small group of individuals dominates the board's decision making. There should be a clear division of responsibilities between leadership of the board and the executive leadership of the company's business.

Principle H – Non-executive directors should have sufficient time to meet their board responsibilities. They should provide constructive challenge, strategic guidance, offer specialist advice and hold management to account.

Principle I – The board, supported by the company secretary, should ensure that it has the policies, processes, information, time and resources it needs in order to function effectively and efficiently.

Board comment

The offices of Chair and Chief Executive are distinct and held by different people. The main role of the Chair 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.

The Chair sets the Board's agenda and ensures that sufficient time is available for discussion of all agenda items. The Chair promotes a culture of openness and encourages effective discussion between both Executive and Non-Executive Directors.

The Board acts in the best interests of members by providing independent and constructive advice and challenge to management. The Board includes a mix of skilled and well informed Non-Executive Directors who provide the expertise for an effective annual review of strategy.

At 31 October 2021, the Board was made up of six Non-Executive Directors, including the Chair, Deputy Chair / Senior Independent Director, and three 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.

The Senior Independent Director is available to members if they have concerns regarding their membership of the Society where contact, through the normal channels of either Chair or Executive Directors, has failed to resolve or for which it is considered inappropriate. The Society's Senior Independent Director throughout the year was R.W. Barlow.

All Directors are informed of the expected time commitment prior to their appointment. All Directors undertake that they can commit sufficient time to properly carry out their role. This is confirmed in the annual review process.

Directors must inform the Board before accepting any other directorships.

The attendance of Directors at the various Board committees is shown in the table above.

Code section 3 – Composition, succession and evaluation

Principle J – Appointments to the board should be subject to a formal, rigorous and transparent procedure and an effective succession plan should be maintained for board and senior management. Both appointments and succession plans should be based on merit and objective criteria and, within this context, should promote diversity of gender, social and ethnic backgrounds, cognitive and personal strengths.

Principle K – The Board and its committees should have a combination of skills, experience and knowledge. Consideration should be given to the length of service of the board as a whole and membership regularly refreshed.

Principle L – Annual evaluation of the board should consider its composition, diversity and how effectively members work together to achieve objectives. Individual evaluation should demonstrate whether each director continues to contribute effectively.

Board comment

The Society has a recruitment policy, agreed by the Board, which details the process by which new Directors are appointed. This process is led by the Nominations Committee. Generally, recruitment of Directors is carried out using professional search firms to identify and evaluate suitable candidates who match the forward needs of the Society, tests of probity and meet the requirements of our regulators. All appointments are made on merit, against objective criteria and with due regard for the benefits of diversity on the Board, including gender.

As part of its responsibility for its customers, the Board enlists the independent judgement of its Non-Executive Directors who have a wealth of relevant skills and experience, the majority within financial services, accounting or housing sectors, to ensure that regulatory and financial compliance is maintained at all times.

All Directors are subject to conduct rules laid down by the Society's regulators, the PRA and FCA, and must satisfy the fit and proper requirements and are also subject to all aspects of the Senior Managers Regime.

Each year all of the Directors are subject to a formal appraisal. The Chief Executive carries out an appraisal of the other Executive Directors based on a range of business and personal objectives agreed at the beginning of each year. The Chair carries out the Chief Executive's appraisal, with performance also being measured against a range of business and personal objectives. The Remuneration Committee then discuss these appraisals prior to the review of salary and benefits.

The Chair carries out an appraisal of the Non-Executive Directors, basing the 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 Chair's performance is assessed by the Non-Executive Directors, led by the Senior Independent Director and taking into account the views of Executive Directors. This assessment takes place without the Chair being present. The review pays special attention to the way in which the Chair 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, the comments of both Internal and External Audit and the results of any reviews or themed visits carried out by the regulators.

The Society's Rules provide that all new Directors are subject to election by the members at the Annual General Meeting held in the next financial year following the Director's appointment. The Rules also provide that all Directors must put themselves forward for re-election at least once every three years.

The Code recommends that independent Directors are subject to annual re-election. The Board has considered this guidance and is of the opinion that the current term of three years is appropriate, subject to continued satisfactory performance, to ensure continuity of experience on the Board. Independent Directors are not normally expected to serve more than three full three year terms. Any total term lasting for more than nine years will be approved only after careful consideration and then only on the basis of annual re-election.

Code section 4 – Audit, risk and internal control

Principle M – The board should establish formal and transparent policies and procedures to ensure the independence and effectiveness of internal and external audit functions and satisfy itself on the integrity of financial and narrative statements.

Principle N – The board should present a fair, balanced and understandable assessment of the company's position and prospects.

Principle O – The board should establish procedures to manage risk, oversee the internal control framework, and determine the nature and extent of the principal risks the company is willing to take in order to achieve its long term strategic objectives.

Board comment

The overall risk management of the Society is carried out through the Risk Committee, as described on page 11. The

Society's Assets and Liabilities Committee deals specifically with financial and treasury risks.

The Board has delegated the responsibility for managing the systems of internal control to senior management. The internal control systems cannot provide absolute assurance against material misstatement or loss. The Society's Internal Audit function is outsourced to RSM Risk Assurance Services LLP (RSM) who provide independent assurance to the Board regarding the effectiveness of internal controls through the Audit and Compliance Committee. The Board is satisfied that RSM had sufficient and appropriate resources to perform the Internal Audit function. Based upon the performance of Internal Audit procedures during 2020/21, RSM concur with the Board's assessment that the control framework applied within Loughborough Building Society is effective, and consistent with the Society's business model and risk profile.

The Board has ultimate responsibility for the effectiveness of the Society's risk management and internal control. The risk appetite and risk management framework are reviewed at least annually.

The Board considers that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and contains the information necessary for members to assess the Society's performance, business model and strategy.

The Society has an Audit and Compliance Committee which considers regulatory and compliance matters, the adequacy of internal controls, reviews both internal and external audit reports, assesses the effectiveness of the internal and external auditors and agrees the annual internal audit plan. Details of the Committee and the work it has carried out during the year are given in the Audit and Compliance Committee Report on pages 15 to 16.

Code section 5 – Remuneration

Principal P – Remuneration policies and practices should be designed to support strategy and promote long term sustainable success. Executive remuneration should be aligned to company purpose and values, and be clearly linked to the successful delivery of the company's long term strategy.

Principle Q – A formal and transparent procedure for developing policy on executive remuneration and determining director and senior management remuneration should be established. No director should be involved in deciding their own remuneration outcome.

Principle R – Directors should exercise independent judgement and discretion when authorising remuneration outcomes, taking account of company and individual performance, and wider circumstances.

The Directors' Remuneration Report on pages 17 to 19 explains how the Society complies with the provisions of the Code dealing with remuneration.

Helen Sachdev,
Chair of the Board
17 January 2022

Audit and Compliance Committee Report

The Audit and Compliance Committee acts with authority delegated to it by the Board to have oversight of the Society's regulatory and compliance matters, financial reporting, adequacy of internal controls and the effectiveness of both internal and external audit. This report gives details of the responsibilities of the Audit and Compliance Committee and the work performed over the year.

Committee responsibilities

The primary responsibilities of the Committee are as follows:

- Review the effectiveness of systems of internal control;
- Review of regulatory and compliance matters;
- Review, monitor and assess the integrity of the financial statements, including significant reporting issues and judgements and advise the Board as to whether the Annual Report and Accounts, taken as a whole, gives a fair, balanced and understandable assessment of the Society's position;
- Monitor and review the performance of the internal audit function;
- Oversee the relationship with the external auditor, review the independence of the external auditor and assess the effectiveness of the external audit process;
- Agree and approve the annual internal audit plan and external audit plans and remuneration;
- Monitor the provision of non-audit services by the external auditor; and
- Ensure that the Society has an effective whistle-blowing policy.
- Ensure this year that the continuing impacts of the Covid-19 pandemic on the business are adequately disclosed in the Accounts.

Membership and attendance

The Audit and Compliance Committee consists of three Non-Executive Directors. The following Non-Executive Directors served during the year: R.W. Barlow (Chair), R.L. Curtis-Bowen and C.J. Bradley. In addition, the Executive Directors, the Head of Risk and Compliance and representatives from the external auditor and the outsourced internal auditor attend by invitation.

Roger Barlow has recent relevant financial experience and the Audit and Compliance Committee as a whole has competence relevant to the sector.

The Committee meets at least quarterly, and at least once each year with the external auditor and the internal auditor without Executive Directors or senior management being present. Following each Committee meeting, the minutes of the meeting are distributed to the Board.

Estimation uncertainty in relation to the financial statements

The Committee examined and challenged the key assumptions and areas of estimation uncertainty made in the preparation of the financial statements. These were principally as follows:

- Loan loss provisioning: the Society calculates impairment provisions by use of the methodology and estimation uncertainty as noted in the Accounting Policies in Note 1 to the accounts. The Committee has challenged the accounting judgements taken by management and has monitored the quality of the Society's loan book and has reviewed the appropriateness of the overall level of impairment provision. This has taken account of the impact of the Covid-19 pandemic and its impact on forebearance, HPI. arrears and default as data has emerged. The Committee is satisfied with the provisioning methodology and the amounts provided.

- Effective Interest Rate (EIR) adjustments: interest income is recognised using a constant yield over the expected behavioural life of mortgage loans. The Committee reviewed the assumptions and methodology behind the models used to determine effective lives and EIR adjustments and concluded that these were satisfactory.

- Hedge accounting: the Society applies hedge accounting in accordance with IAS 39. The designated fair value macro hedges require matching, hedge documentation and effectiveness assessment and testing. The hedged instrument and the underlying hedged item are stated at fair value. The Committee has considered the appropriateness of the hedging arrangements in respect of hedging instruments and the underlying hedged items and has agreed that hedge accounting had been applied appropriately in accordance with IAS 39.

Internal Audit

The Committee monitors the activities and effectiveness of internal audit and agrees the annual internal audit plan and fee. At each meeting the internal auditor presents a summary audit status report and a report on the progress of each individual audit performed in the quarter. The Committee has regard to the level of internal audit resources applied, the implications of any internal audit recommendations and the tracking of outstanding actions.

During the year, the internal audit plan covered the following areas:

- ICAAP
- Recovery Plan
- Compliance Monitoring
- Product Lifecycle/Governance
- Key Financial Controls, Treasury & Payroll
- Regulatory Returns
- Mortgage Underwriting & Processing
- Broker Sales Process
- Branch Oversight

The Society has outsourced its internal audit function to RSM Risk Assurance Services LLP.

System of Internal Control

The Society has in place internal controls and a risk management framework to safeguard the Members' and the Society's assets. The Committee is responsible for reviewing the effectiveness and appropriateness of these processes. The following aspects of internal control were reviewed by the Committee during the year:

- The impact of the Covid-19 pandemic, in particular the appropriateness of the Society's internal control framework at a time when a significant proportion of work was being undertaken remotely.
- Regular compliance monitoring and evaluation of compliance risks
- Whistleblowing policy
- Anti-money laundering policy
- Fraud policy

The work of the Committee gave assurance to the Society's Board that there were no material breaches of control or regulatory standards during the year.

External Audit

The Committee evaluated and approved the scope and content of the external audit plan, and approved the level of fees. The Committee monitored the effectiveness of the external auditor and the progress of external audit work against plan, with regard to the resources, competency and independence of the audit team. This review concluded that the work performed by Deloitte LLP was independent, objective and effective.

Any proposal to employ external auditors to perform non-audit functions is reviewed by the Committee with regard to audit objectivity and independence. The external auditors currently provide one (2020: one) non-audit service, being the provision of an annual client money and custody assets (CASS) opinion.

The Committee meets privately with the external auditor at least once a year without the Executive being present. At this meeting the external auditor can openly discuss the perceived risks to the Society, the transparency, openness and proficiency of management, whether there has been any restriction of scope and confirm audit independence.

Audit Committee Effectiveness

The Committee conducts an annual review of its own effectiveness as noted in the Corporate Governance Report under Code Principle L. Accordingly, the Committee concluded that it operated effectively and in accordance with its terms of reference.

Roger Barlow
Chair of Audit and Compliance Committee
17 January 2022

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 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 Remuneration Committee reviews and recommends the policy and practice on the remuneration of Executive Directors and senior management group to the Board. The Committee takes into account relevant factors from the UK Corporate Governance Code and the Society complies with the relevant and applicable aspects of the FCA Remuneration Code.

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. These Executives are required to have 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 setting reward structures, the policy is to encourage continuous improved performance without undue risk taking.

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 members of the Remuneration Committee are noted in the table on page 11 of the Annual Report and Accounts. Meetings of the Committee are also attended by the Chief Executive, as appropriate. The Chief Executive withdraws from the meeting when his own remuneration and benefits are considered.

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

Executive Directors' Remuneration

Remuneration of the Society's Executive Directors can be comprised of a number of elements: basic salary, annual incentives, contributions to pension schemes and other benefits.

Where performance related pay is agreed, targets and measures are set at levels to incentivise exceeding the planned performance of the Society either in the short or medium term. Payments are therefore only made when the agreed measures have been at least met. All schemes have a maximum amount they could pay if the upper most measures were all met or exceeded. Failure to meet the performance measures set would usually result in no performance related payment being made.

Chair of the Board and Non-Executive Director fees

The remuneration of the Chair is set by the Board at a meeting where the Chair is not present. The remuneration of the remaining Non-Executive Directors is set by the Chief Executive and Chair of the Board. Such levels of remuneration are set having considered the level of time commitment and responsibilities required for Board, Board Committee and other duties. The Society uses external benchmarking data to ensure that the fees are proportionate to the duties and responsibilities carried out.

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 Performance Pay

In the prior years there has been an incentive scheme that provides non-pensionable rewards for the Executive Directors directly linked to the achievement of key performance targets in the year as determined by the Society's Board. Performance targets are reviewed and approved annually, by the Remuneration Committee, to ensure they are aligned to business priorities. The overall objective is to improve Society performance across a number of key financial indicators such as lending and mortgage asset growth as well as delivery of the strategic plan whilst maintaining the financial strength of the Society for the long-term benefit of its members. The Society has enjoyed considerable growth in previous years and in 2021 achieved its strategic objectives for the year. In recognising these strong results the Remuneration Committee has awarded the Executives 13.7% of base salary which was less than the scheme maximum set at the start of the year. During 2019 / 20 the scheme was withdrawn once the impact of the pandemic was understood and no bonus payments were made.

Medium Term Incentives

The Society does not currently operate a medium term incentive scheme.

During the year the Remuneration Committee concluded on a historic scheme established for Executive Directors in post at 1 November 2018. The objectives of that scheme were to achieve certain financial performance indicators and personal objectives. The performance metrics were based on net mortgage lending over a 3 year period to 31 October 2020.

The results of the Society were above the stretch targets set for years one and two. However, as a result of the pandemic it was agreed in the early part of that year, the measures in place for this scheme would be postponed. The results for year three (2020) even though impacted by the pandemic almost achieved the mortgage asset growth target for the scheme. The Remuneration Committee also noted that the Society had not made use of the government furlough scheme during the current year. The Remuneration Committee considered that the results of the scheme merited payment for the results but this was restricted to the achievements of years one and two only. Further downward adjustments were made to reflect the lower profits in the pandemic year and were awarded at 78% of the value set out within the scheme. The sums awarded for the results, which are not pensionable, were £35,000 to Mr Brebner and £24,000 to Mrs Joyce. This closed the historic scheme and there is no current medium term incentive plan.

Pension Benefits

The Society operates a contributory money purchase scheme and makes contributions for all qualifying staff, including the Executive Directors.

Following changes to the Corporate Governance Code the Society has adjusted how it makes contributions for Directors and Employees. From 1 November 2020 all Directors had the Society contributions or payments in lieu, aligned with those available to other employees. Directors can elect to take cash payments in lieu of pension contributions for the same value surrendered. The Society considers the level of pension contributions important as they form part of all employees post-retirement financial security.

Other Benefits

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

The Society also operates a death in service scheme for all employees. The scheme provides a lump sum of four times basic salary in the event of death in service.

Service Contracts

All Executive Directors are employed on service contracts, which, in the case of G. Brebner and C. Joyce, can be terminated by the Society following a maximum of 12 months' notice and by the individual Executive Directors on 12 months' notice and in the case of A. Payton, can be terminated by the Society following a maximum of 6 months' notice and by the Executive Director on 6 months' notice.

Directors' Remuneration

Executive Directors (audited information)

2021	**Salary**	**Annual Performance Pay**	**Pension Contributions**	**Benefits**	**TOTAL**
	£000	**£000**	**£000**	**£000**	**£000**
G. Brebner	**172**	**24**	**21**	**11**	**228**
C. Joyce	**108**	**15**	**13**	**15**	**151**
A. Payton	**131**	**18**	**16**	**7**	**172**
TOTALS	**411**	**57**	**50**	**33**	**551**

2020	Salary	Annual Performance Pay	Pension Contributions	Benefits	TOTAL
	£000	£000	£000	£000	£000
G. Brebner[2]	153	-	18	11	182
C. Joyce	103	-	14	15	132
A. Payton[1]	54	-	5	4	63
TOTALS	310	-	37	30	377

[1] Mr Payton joined the Society on 01 June 2020

[2] Mr Brebner voluntarily reduced his pension contribution payments by 25% in recognition of the impact of Covid19 on the Society

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, 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. Secondly fees are set to ensure the Society can continue to attract new Non-Executive Directors with suitable expertise to serve on the Board and its Committees.

Non-Executive Directors (audited information)

	At 31 October 2021	At 31 October 2020	**2021 Fees £000**	2020 Fees £000
H.E. Sachdev[1]	**Chair of the Board**	Chair of the Board	**44**	40
D.T. Bowyer[2]	**-**	-	**-**	15
D.C. Huntley[3]	**-**	-	**-**	18
J.E. Pilcher	**Chair of Risk Committee**	Chair of Risk Committee	**32**	32
R.L. Curtis-Bowen[4]	**Chair of Remuneration Committee**	Chair of Remuneration Committee	**27**	26
R.W. Barlow[5]	**Chair of Audit and Compliance Committee and Senior Independent Director**	Chair of Audit and Compliance Committee and Senior Independent Director	**37**	34
C.J. Bradley[6]	**-**	-	**25**	17
S.M.S. Choudhry[7]	**-**	-	**25**	8
TOTALS			**190**	190

[1] H.E. Sachdev became Chair of the Board on 24 February 2020
[2] D.T. Bowyer retired from the Board on 24 February 2020
[3] D.C. Huntley retired from the Board on 24 June 2020
[4] R.L. Curtis-Bowen became Chair of the Remuneration Committee on 24 June 2020
[5] R.W. Barlow became Senior Independent Director and Chair for the Audit and Compliance Committee on 24 February 2020
[6] C.J. Bradley was appointed to the Board on 01 March 2020
[7] S.M.S. Choudhry was appointed to the Board on 01 July 2020

Rachel Curtis-Bowen
Chair of Remuneration Committee
17 January 2022

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 1986 ("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), including FRS 102 the Financial Reporting Standard applicable in the UK and Republic of Ireland.

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 these annual accounts, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the annual accounts; and
- 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; and

- 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 Conduct Authority and Prudential Regulation 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 annual accounts may differ from legislation in other jurisdictions.

Helen Sachdev,
Chair of the Board
17 January 2022

Independent Auditor's Report to the Members of Loughborough Building Society

Report on the audit of the financial statements

1. Opinion

In our opinion the financial statements of Loughborough Building Society (the 'Society'):
- **give a true and fair view of the state of the Society's affairs as at 31 October 2021 and of the Society's income and expenditure for the year then ended;**
- **have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and**
- **have been prepared in accordance with the requirements of the Building Societies Act 1986.**

We have audited the financial statements which comprise:
- the income statement;
- the statement of financial position;
- the statement of changes in members' interests;
- the cash flow statement; and
- the related notes 1 to 29.

The financial reporting framework that has been applied in their preparation is applicable law and the United Kingdom Accounting Standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

2. Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Society in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services provided to the Society for the year are disclosed in note 5 to the financial statements. We confirm that we have not provided any non-audit services prohibited by the FRC's Ethical Standard to the Society.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

3. 3. Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: • Revenue recognition of interest receivable and similar income; and • Loan loss provisioning Within this report, key audit matters are identified as follows: Newly identified Increased level of risk Similar level of risk Decreased level of risk
Materiality	The materiality that we used for the financial statements was £118,300, which was determined on the basis of 0.5% of net assets.
Scoping	Audit work to respond to risks of material misstatement was performed directly by the audit engagement team.
Significant changes in our approach	There have been no significant changes in our audit approach compared with the prior year.

4. Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the directors' assessment of the Society's ability to continue to adopt the going concern basis of accounting included:

- Evaluating the forecast projections;
- Assessing management's three-year corporate plan and all regulatory correspondence;
- Assessing previous forecasting accuracy by comparing the actual performance in the current and prior year;
- Engaging a prudential regulation specialist to assess the ICAAP and ILAAP; and
- Assessing the disclosures in the financial statements surrounding going concern and the principal risks and uncertainties that the Society is facing.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Society's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

5. Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

5.1. Revenue recognition of interest receivable and similar income

Key audit matter description

The main revenue stream within the Society is interest receivable and similar income primarily derived from loans and advances to customers. The interest receivable and similar income recognised during the year was £8.7m (2020: £7.6m).

The directors elect to apply the recognition and measurement criteria in line with IAS 39 as part of their adoption of FRS 102 to recognise interest income using the Effective Interest Rate ('EIR') method for loans and advances to customers. The EIR method requires the modelling of all cash flows, including directly attributable fees and costs, over the shorter of the behavioural and contractual life.

The key assumption in the EIR model is the estimation of redemption rates used in the calculation of the behavioural lives of the mortgages and thus timing of the expected future cash flows. There is therefore judgement involved in the determination of interest receivable and similar income using the EIR method.

We identified a key audit matter that the interest income may be inappropriately recognised whether due to fraud or error.

Management's accounting policies are detailed in note 1.3 and 1.4 to the financial statements while the significant accounting estimations involved in the revenue recognition process are outlined in note 1.15, with note 2 quantifying the interest receivable and similar income recognised during the year. The area of significant judgement is discussed by the Audit and Compliance Committee as detailed in the Committee's report from pages 9 to 11.

How the scope of our audit responded to the key audit matter

We obtained an understanding of relevant controls that the Society has in place to manage the risk of inappropriate behavioural life assumptions being used within the EIR model.

In conjunction with our internal IT specialists we tested the general IT controls over the loan administration systems and evaluated the manner in which data is extracted from these systems to determine the EIR balance.

We challenged the appropriateness of the behavioural lives adopted by management including the amendments made to the behavioural lives by reference to historical customer redemptions and the recent customer redemption activities, over which we performed accuracy and completeness testing over the underlying data on a sample basis.

As part of our wider assessment of the key audit matter we independently recalculated the EIRs and tested the adjustment posted to recognise revenue over the behavioural life on a sample of loans. We also reviewed and challenged the treatment of fees and charges arising on loans and advances to customers and the appropriateness of their inclusion or exclusion in the Society's EIR models.

We verified the inputs which are used to determine revenue by agreeing a sample of customer loans back to underlying source data.

Key observations

We concluded that the behavioural lives used within management's revenue recognition process were reasonable and the models to be working as intended.

As part of our review and challenge of the EIR methodology we have made recommendations to management on how the Society should improve its methodology on the calculation and recognition of early redemption charges. We have however determined the accounting for revenue to be acceptable and materially in line with the requirements of IAS 39.

5.2. Loan loss provisioning

Key audit matter description

Under IAS 39, the directors are required to assess whether there is objective evidence of impairment of any financial assets that are measured at cost or amortised cost. If there is objective evidence of impairment, management should recognise an impairment loss within the income statement immediately.

The Society holds £332.9m (2020: £274.4m) of loans and advances to customers on which a loan loss provision of £0.5m (2020: £0.6m) has been provided for at year end. The provision comprises a collective provision for losses incurred but not reported and a specific provision for loans where there has been an observable impairment trigger.

Key assumptions in determining the collective provision include the use of probability of default ("PD"), forced sale discount ("FSD") and collateral valuation assumptions due to the limited historical customer default data used in determining the collective provision.

Given the high level of management judgement required we identified our key audit matter in relation to these estimates, including the possibility of management bias, on the basis that amendments to these assumptions could give rise to a material misstatement due to fraud or error.

Management's accounting policies are detailed in note 1.7 to the financial statements while the significant accounting estimates involved in loan loss provisioning are outlined in note 1.15, with note 15 quantifying the loan loss provision at year end. The area of significant judgement is discussed by the Audit and Compliance Committee as detailed in the Committee's report on pages 15 and 16.

How the scope of our audit responded to the key audit matter

We obtained an understanding of relevant controls that the Society has in place to manage the risk of inappropriate assumptions being used in the loan loss provisioning model.

In conjunction with our internal IT specialists we tested the general IT controls over the loan administration systems and evaluated the manner in which data is extracted from these systems to determine the provision.

We challenged the appropriateness of the key assumptions used within the collective provision, in particular the PD and FSD by reference to the Society's historical loss rate data and benchmarking to a range of peer groups. Additionally, we determined whether the provision held is commensurate with the loan book size and inherent risk using coverage ratios obtained from peer group benchmarking.

We have assessed wider industry expectations for future house price indexation forecasts to determine the potential impact of adverse collateral valuation movements on expected future cash flows.

As part of our wider assessment of the key audit matter we recalculated the loan loss provision for both the collective and specific provision on a sample of loans and compared the output to the amount provided by management.

We also tested the accuracy and completeness of the inputs which were used to determine the loan loss provision back to underlying source data.

We performed testing on a sample of loans where an impairment trigger had not been identified to determine if the customers were in financial distress.

We challenged the appropriateness of other assumptions used within the loan loss provisioning such as impairment triggers, expected future cash flows, time horizons to sale, expected costs to sell and house price indexation. Procedures performed included benchmarking to peers and performing independent recalculations.

Key observations

As part of our review and challenge of the loan loss provisioning methodology we have recommended that management update collateral valuations used in the determination of loan loss provisioning to reflect more recent house price inflation data. We have however determined the accounting for loan loss provisioning to be acceptable and materially in line with the requirements of IAS 39.

6. Our application of materiality

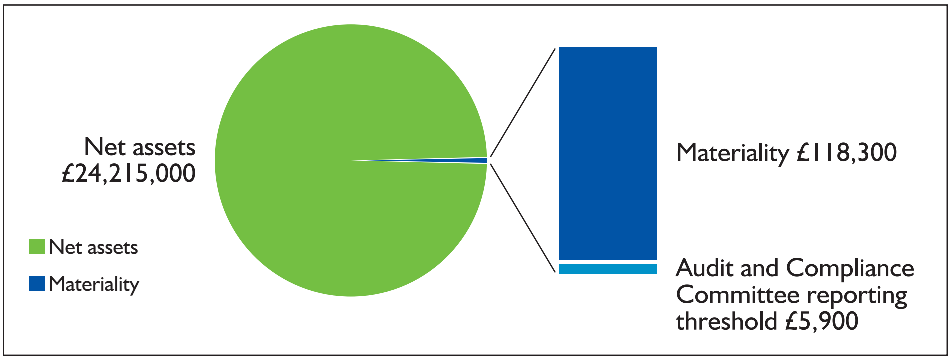
6.1. Materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Society financial statements
Materiality	£118,300 (2019: £116,000)
Basis for determining materiality	0.5% of net assets, this is consistent with our 2020 audit.
Rationale for the benchmark applied	The overall capital base is a key focus for the Society's members and regulators and the Society's strategy is centred around maintaining a stable capital base rather than driving profitability. Therefore, net assets is considered a more appropriate and stable base on which to determine materiality and is consistent with other Societies of a similar size and nature as Loughborough Building Society.

6.2. Performance materiality



We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Performance materiality was set at 70% of materiality for the 2021 audit (2020: 70%). In determining performance materiality we considered the following factors:
- The quality of the control environment; and
- The nature, volume and size of uncorrected misstatements in the previous year.

6.3. Error reporting threshold

We agreed with the Audit and Compliance Committee that we would report to the Committee all audit differences in excess of £5,900 (2020: £5,800), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit and Compliance Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

7. An overview of the scope of our audit

7.1. Scoping

Our audit was scoped by obtaining an understanding of the entity and its environment, including internal control, and assessing the risks of material misstatement. Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.

7.2. Our consideration of the control environment

We identified key IT systems for the Society in respect of the financial reporting system and lending and deposits business processes. We performed testing of the general IT controls ('GITCs') associated with these systems and relied upon IT controls across the systems identified.

We planned to adopt a controls reliance approach in relation to the lending and deposits business cycles, with relevant automated and manual controls being tested across these cycles. Based on the procedures performed over the automated and manual controls, we were able to adopt a controls reliance approach across the lending and deposits cycles when performing our substantive audit procedures.

As explained in key observations for the revenue recognition and loan loss provisioning key audit matters, whilst we concluded that these are materially in line with the requirements of IAS 39, we made recommendations to management in relation to the methodology and the controls relevant to those processes.

8. Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

9. Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Society's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Society or to cease operations, or have no realistic alternative but to do so.

10. Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

11. Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

11.1.1. Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the Society's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- results of our enquiries of management and the Audit and Compliance Committee about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the Society's documentation of their policies and procedures relating to:
  - o identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - o detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud; and
  - o the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations;
- the matters discussed among the audit engagement team and relevant internal specialists, including tax, financial instruments, information technology, real estate and prudential regulation specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the areas of revenue recognition and loan loss provisioning. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory framework that the Society operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. These included legislations imposed by the Building Societies Act 1986 and tax legislations.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the Society's ability to operate or to avoid a material penalty. These included legislation imposed by the Financial Conduct Authority ("FCA"), Prudential Regulation Authority ("PRA"), Anti-Money Laundering Regulations, the Consumer Credit Act 2006 and General Data Protection Regulations.

11.2. Audit response to risks identified

As a result of performing the above, we identified revenue recognition of other interest receivable and similar income and loan loss provisioning as key audit matters related to the potential risk of fraud. The key audit matters section of our report explains the matters in more detail and also describes the specific procedures we performed in response to those key audit matters.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management, the Audit and Compliance Committee concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with HMRC, the FCA and PRA; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Report on other legal and regulatory requirements

12. Opinions on other matters prescribed by the Building Societies Act 1986

In our opinion, based on the work undertaken in the course of the audit:

- the annual business statement and the directors' report have been prepared in accordance with the requirements of the Building Societies Act 1986;
- the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and

- 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.

In the light of the knowledge and understanding of the Society and its environment obtained in the course of the audit, we have not identified any material misstatements in the directors' report.

13. Opinion on other matter prescribed by the Capital Requirements (Country-by-Country Reporting) Regulations 2013

In our opinion the information given in note 28 to the financial statements for the financial year ended 31 October 2021 has been properly prepared, in all material respects, in accordance with the Capital Requirements (Country-by Country Reporting) Regulations 2013.

14. Matters on which we are required to report by exception

14.1. Adequacy of explanations received and accounting records

Under the Building Societies Act 1986 we are required to report to you if, in our opinion:
- adequate accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records and returns; or
- we have not received all the information and explanations and access to documents we require for our audit.

We have nothing to report in respect of these matters.

15. Other matters which we are required to address

15.1. Auditor tenure

Following the recommendation of the Audit and Compliance Committee, we were appointed by the Board of Directors on 26 February 2018 to audit the financial statements for the year ending 31 October 2018 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 4 years, covering the years ending 31 October 2018 to 31 October 2021.

15.2. Consistency of the audit report with the additional report to the audit committee

Our audit opinion is consistent with the additional report to the Audit and Compliance Committee we are required to provide in accordance with ISAs (UK).

16. Use of our 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 auditor's 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.

Matthew Perkins FCA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Birmingham
17 January 2022

Income Statement

for the year ended 31 October 2021

	Notes	2021 £000	2020 £000
Interest receivable and similar income	2	**8,671**	7,604
Interest payable and similar charges	3	**(2,133)**	(2,192)
Net interest income		**6,538**	5,412
Fees and commissions receivable		**19**	20
Fees and commissions payable		**(65)**	(61)
Other operating income net of charges		**(9)**	-
Net gain / (loss) from derivative financial instruments	4	**271**	(62)
Total net income		**6,754**	5,309
Administrative expenses	5	**(5,051)**	(4,797)
Depreciation and amortisation	16,17	**(571)**	(421)
Operating profit before impairment losses and provisions		**1,132**	91
Impairment	15,18	**(65)**	(55)
Provisions for liabilities – FSCS	25	**-**	(1)
Profit before tax		**1,067**	35
Tax expense	9	**(196)**	(23)
Profit for the financial year		**871**	12

Other comprehensive income / (loss)
for the year ended 31 October 2021

	2021 £000	2020 £000
Profit for the financial year	**871**	12
Other comprehensive income / (loss)		
Changes in fair value of debt securities taken to available-for-sale reserve	**-**	(18)
Tax credit on other comprehensive income	**-**	3
Total comprehensive income / (loss) for the year	**871**	(3)

Profit for the financial year arises from continuing operations. Both the profit for the financial year and total comprehensive loss for the year are attributable to the members of the Society.

The notes on pages 32 to 60 form an integral part of these financial statements.

Statement of Financial Position

at 31 October 2021

	Notes	2021 £000	2020 £000
Assets			
Liquid assets			
Cash in hand and balances with the Bank of England	10	**52,187**	31,608
Loans and advances to credit institutions	11	**9,008**	19,036
Debt securities	12	**4,004**	2,007
Derivative financial instrument assets	13	**1,856**	6
Loans and advances to customers	14	**332,919**	274,446
Tangible fixed assets	16	**1,539**	1,506
Intangible assets	17	**421**	821
Stock	18	**-**	245
Other debtors	19	**207**	185
Total assets		**402,141**	329,860
Liabilities			
Shares	20	**326,952**	262,874
Amounts owed to credit institutions	21	**22,306**	23,806
Amounts owed to other customers	22	**27,312**	17,317
Derivative financial instrument liabilities	13	**159**	1,535
Other liabilities	23	**1,122**	850
Deferred tax liability	24	**68**	124
Provisions for liabilities	25	**7**	10
Total liabilities		**377,926**	306,516
Reserves			
General reserve		**24,214**	23,343
Available-for-sale reserve		**1**	1
Total reserves attributable to members of the Society		**24,215**	23,344
Total reserves and liabilities		**402,141**	329,860

The notes on pages 32 to 60 form an integral part of these financial statements.

These accounts were approved by the Board of Directors on 17 January 2022 and signed on its behalf:

Helen Sachdev
Chair of the Board

Roger Barlow
Chair of Audit and Compliance Committee

Gary Brebner
Chief Executive

Statement of Changes in Members' Interests

for the year ended 31 October 2021

	General reserve 2021 £000	Available-for-sale reserve 2021 £000	Total 2021 £000	General reserve 2020 £000	Available-for-sale reserve 2020 £000	Total 2020 £000
Balance at 01 November	**23,343**	**1**	**23,344**	23,331	16	23,347
Total comprehensive income for the year						
Profit for the financial year	**871**	**-**	**871**	12	-	12
Other comprehensive income:						
Changes in fair value of debt securities taken to available-for-sale reserve	**-**	**-**	**-**	-	(18)	(18)
Tax credit on other comprehensive income	**-**	**-**	**-**	-	3	3
Total comprehensive income / (expense) for the year	**871**	**-**	**871**	12	1	(3)
Balance at 31 October	**24,214**	**1**	**24,215**	23,343	1	23,344

Movements in the available-for-sale reserve relate to changes in the fair values of debt securities.

Cash Flow Statement

for the year ended 31 October 2021

	Notes	2021 £000	2020 £000
Cash flows from operating activities			
Profit before tax		**1,067**	35
Adjustments for			
Depreciation and amortisation		**571**	421
(Decrease) in impairment on loans and advances		**(82)**	(582)
Total		**1,556**	(126)
Changes in operating assets and liabilities			
Decrease in stock		**245**	115
Increase in prepayments, accrued income and other assets		**22**	315
Increase / (Decrease) in accruals, deferred income and other liabilities		**268**	(278)
(Decrease) in loans and advances to customers		**(58,393)**	(18,400)
Increase in shares		**63,884**	14,695
Increase / (Decrease) in amounts owed to other credit institutions and other customers		**8,451**	(3,028)
Increase in loans and advances to credit institutions		**9,174**	2,068
Movement in derivative financial instruments		**(3,226)**	741
Change in debt securities		**1**	-
Taxation paid		**(12)**	(101)
Net cash generated from / (used in) by operating activities		**21,970**	(3,999)
Cash flows from investing activities			
Purchase of debt securities	12	**(4,000)**	(2,000)
Disposal of debt securities	12	**2,000**	3,000
Purchase of tangible fixed assets	16	**(150)**	(54)
Purchase of intangible assets	17	**(51)**	(203)
Net cash (used in) / generated from investing activities		**(2,201)**	743
Net increase / (decrease) in cash and cash equivalents		**19,769**	(3,256)
Cash and cash equivalents at 01 November		**37,283**	40,539
Cash and cash equivalents at 31 October		**57,052**	37,283
Cash and cash equivalents comprise:			
Cash in hand and balances at the Bank of England	10	**52,182**	31,604
Loans and advances to credit institutions repayable on demand	11	**4,870**	5,679
		57,052	37,283

1 Accounting policies

1.1 General information and basis of preparation

Loughborough Building Society (the "Society") is a building society incorporated in the United Kingdom. The address of the registered office is given on the back cover of this report. The Society has no ultimate controlling party or parent.

Loughborough Building Society has prepared these annual accounts in accordance with the Building Societies Act 1986, the Building Societies (Accounts and Related Provisions) Regulations 1998 and Financial Reporting Standard 102 the Financial Reporting Standard applicable in the UK and Republic of Ireland ("FRS 102"). The Society has also chosen to apply the recognition and measurement provisions of IAS 39 Financial Instruments: Recognition and Measurement (as adopted for use in the UK). In December 2019, the FRC issued Amendments to FRS 102 – Interest Rate Benchmark. The Society has chosen to early-apply the amendments for the reporting period ending 31 October 2019, which are effective for annual reporting periods beginning on or after 01 January 2020. Adopting these amendments allows the Society to continue hedge accounting during the period of uncertainty arising from interest rate benchmark reforms. The Society is exposed to the SONIA benchmark within its hedge accounting relationships, which is subject to interest rate benchmark reform.

The presentation currency of these annual accounts is sterling. All amounts in the annual accounts have been rounded to the nearest £1,000.

The accounts have been prepared on a going concern basis as outlined in the Directors' report on page 7.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these annual accounts.

Judgements made by the Directors, in the application of these accounting policies that have a significant effect on the annual accounts and estimates with a significant risk of material adjustment in the next year are discussed in section 1.15 below.

1.2 Measurement convention

The annual accounts are prepared on the historical cost basis except for the following: derivative financial instruments and financial instruments classified as available-for-sale are stated at fair value; land and buildings are stated at deemed cost.

1.3 Interest receivable and similar income and interest payable and similar charges

Interest income and expense are recognised in profit or loss using the effective interest method. The 'effective interest rate' is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or financial liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Society estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

The calculation of the effective interest rate includes transaction costs and fees paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

Interest income and expense presented in the income statement and other comprehensive income include:

- Interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest basis; and

- Interest on available-for-sale investment securities calculated on an effective interest basis.

Fair value changes on derivatives held for risk management purposes are presented in net gains or losses from derivative financial instruments in the income statement.

1.4 Fees and commission

Fees and commission income and expense that are integral to the effective interest rate on a financial asset or financial liability are included in the measurement of the effective interest rate (see 1.3).

Other fees and commissions are recognised as the related services are performed.

1.5 Expenses

Operating leases

Payments made under operating leases are recognised in the profit and loss account on a straight-line basis over the term of the lease.

1.6 Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in other comprehensive income, in which case it is recognised directly in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on timing differences which arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the annual accounts. Deferred tax is not recognised on permanent differences arising because certain types of income or expense are non-taxable or are disallowable for tax or because certain tax charges or allowances are greater or smaller than the corresponding income or expense. Deferred tax assets are recognised where it is probable that future taxable profits will be available against which the timing differences can be utilised.

Deferred tax is measured at the tax rate that is expected to apply to the reversal of the related difference, using tax rates enacted or substantively enacted at the reporting date. Deferred tax balances are not discounted.

1.7 Financial instruments

Recognition

The Society initially recognises loans and advances, deposits and debt securities issued on the date on which they are originated. All other financial instruments are recognised on the trade date, which is the date on which the Society becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

Classification

Financial assets

The Society classifies its financial assets into one of the following categories:

- *Loans and receivables*
  'Loans and advances' are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Society does not intend to sell immediately or in the near term.

  Loans and advances are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method.

- *Available-for-sale*
  Available-for-sale investments are non-derivative investments that are designated as available-for-sale or are not classified as another category of financial assets. Available-for-sale investments comprise debt securities.

  Interest income is recognised in profit or loss using the effective interest method (see 1.3). Impairment losses are recognised in profit or loss.

  Fair value changes, other than impairment losses, are recognised in other comprehensive income and presented in the available-for-sale reserve within capital reserves. When the investment is sold, the gain or loss accumulated in the available-for-sale reserve is reclassified to profit or loss.

- *At fair value through profit and loss*
  Derivative financial instruments are recognised at fair value. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged.

  On initial designation of the hedge, the Society formally documents the relationship between the hedging instruments and hedged items, including the risk management objective and strategy in undertaking the hedge, together with the method that will be used to assess the effectiveness of the hedging relationship. The Society makes an assessment, both at inception of the hedge relationship and on an ongoing basis, of whether the hedging instruments are expected to be highly effective in offsetting the changes in the fair value of the respective hedged items during the period for which the hedge is designated.

These hedging relationships are discussed below.

Fair value hedges

Where a derivative financial instrument is designated as a hedge of the variability in fair value of a recognised asset or liability or an unrecognised firm commitment, all changes in the fair value of the derivative are recognised immediately in profit or loss. The carrying value of the hedged item is adjusted by the change in fair value that is attributable to the risk being hedged (even if it is normally carried at cost or amortised cost) and any gains or losses on remeasurement are recognised immediately in the income statement. If hedge accounting is discontinued and the hedged financial asset or liability has not been derecognised, any adjustments to the carrying amount of the hedged item are amortised into profit or loss using the effective interest method over the remaining life of the hedged item.

Financial liabilities

The Society classifies its financial liabilities, other than derivatives, as measured at amortised cost. Derivatives are measured at fair value through profit or loss.

Derecognition

The Society derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Society neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

The Society derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

Measurement

Amortised cost measurement

The 'amortised cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

Fair value measurement

'Fair value' is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

When available, the Society measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Society uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Society determines that the fair value at initial recognition differs from the transaction price, then the financial instrument is initially measured at fair value. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

Identification and measurement of impairment
At each reporting date, the Society assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. A financial asset or a group of financial assets is 'impaired' when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset(s) and that the loss event has an impact on the future cash flows of the asset(s) that can be estimated reliably.

Objective evidence that financial assets are impaired includes:

- significant financial difficulty of the borrower or issuer;
- default or delinquency by a borrower;
- the restructuring of a loan or advance by the Society on terms that the Society would not consider otherwise;
- indications that a borrower or issuer will enter bankruptcy; and
- observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group.

The Society considers evidence of impairment for loans and advances at both an individual asset and a collective level. All loans and advances are assessed for individual impairment based on their arrears position. Those found not to be individually impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and advances that are not individually significant are collectively assessed for impairment by grouping together loans and advances with similar risk characteristics.

In assessing collective impairment, the Society uses statistical modelling of historical trends of the probability of default, the timing of recoveries and the amount of loss incurred, and makes an adjustment if current economic and credit conditions are such that the actual losses are likely to be greater or less than is suggested by historical trends. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

Impairment losses on assets measured at amortised cost are calculated as the difference between the carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate.

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised.

A range of forbearance options is available to support customers who are in financial difficulty and are in arrears or who are pre-delinquency or anticipate that they may enter into arrears. The purpose of forbearance is to support customers who have temporary financial difficulties and help them get back on track. The main options offered by the Society include:

- Change to payment date and / or frequency;
- Reduced monthly repayment;
- An arrangement to clear outstanding arrears;
- Capitalisation of arrears;
- Change of repayment type; and
- Extension of mortgage term.
- During 2020 the Society offered payment holidays to customers who requested them in line with FCA guidance. A description of this scheme is provided on page 5. At 31 October 2021, the value of individual impairment allowance against these customers was nil (2020: £6,000).

Customers requesting a forbearance option (other than in relation to the Covid-19 payment holiday scheme) will need to provide information to support the request which will include an affordability assessment, bank statements, proof of income, e.g. payslips, accounts, benefit statements etc. in order that the request can be properly assessed. Where consent is obtained, a credit search will also be carried out. If the forbearance request is granted the account is monitored in accordance with the Society's Forbearance and Impairment Policy. At the appropriate time the forbearance option that has been implemented is cancelled, with the exception of capitalisation of arrears, and the customer's normal contractual payment is restored.

Impairment losses are recognised in the income statement and reflected in an allowance account against loans and receivables. Interest on the impaired assets continues to be recognised through the unwinding of the discount. If an event occurring after the impairment was recognised causes the amount of impairment loss to decrease, then the decrease in impairment loss is reversed through the income statement.

Impairment losses on available-for-sale investment securities are recognised by reclassifying the losses accumulated in the available-for-sale reserve. The cumulative loss that is reclassified from the reserve to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment attributable to application of the effective interest method are reflected as a component of interest income.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognised, then the impairment loss is reversed through profit or loss; otherwise, any increase in fair value is recognised through other comprehensive income.

1.8 Cash and cash equivalents

For the purposes of the Cash Flow Statement, cash comprises cash in hand and unrestricted loans and advances to credit institutions repayable on demand. Cash equivalents comprise highly liquid unrestricted investments that are readily convertible into cash with an insignificant risk of changes in value with original maturities of less than three months.

1.9 Tangible fixed assets

Tangible fixed assets are stated at historical cost less accumulated depreciation with the exception of freehold buildings which are stated at deemed cost.

Where parts of an item of tangible fixed assets have different useful lives, they are accounted for as separate items of tangible fixed assets, for example land is treated separately from buildings and is not depreciated.

The Society assesses at each reporting date whether tangible fixed assets are impaired.

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives as follows:

Freehold Land and Buildings:

- Freehold buildings 50 years

Equipment, Fixtures, Fittings and Vehicles:

- Freehold refurbishment 8 years
- Computer hardware 3 to 7 years
- Motor vehicles 4 years
- Office equipment, fixtures and fittings 3 to 5 years

Depreciation methods, useful lives and residual values are reviewed if there is an indication of a significant change since the last annual reporting date in the pattern by which the Society expects to consume an asset's future economic benefits.

1.10 Intangible assets

Purchased software and costs directly associated with the development of computer software are capitalised as intangible assets which will generate future economic benefits and where costs can reliably be measured. Intangible assets that are acquired by the Society are stated at cost less accumulated amortisation and less accumulated impairment losses.

Amortisation

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets. Intangible assets are amortised from the date they are available for use. The estimated useful lives are as follows:

- Software 7 to 10 years

The Society reviews the amortisation period and method when events and circumstances indicate that the useful life may have changed since the last reporting date.

1.11 Stocks

The Society's Stocks comprised a property asset acquired with a view to sale in the ordinary course of business. This asset was stated at the lower of cost and estimated selling price less costs to sell, which was equivalent to the net realisable value. Cost includes all costs of purchase and other costs incurred in bringing the property asset to its condition at the balance sheet date. Impairment is assessed in accordance with the policy set out in 1.12 below.

1.12 Impairment excluding financial assets and deferred tax assets

The carrying amounts of the Society's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is recognised if the carrying amount of an asset exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss.

An impairment loss is reversed if and only if the reasons for the impairment have ceased to apply.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

1.13 Employee benefits

The Society operates a defined contribution pension scheme. The Society makes a contribution of between 7.0% and 12% (2020: 7.0% and 18.5%) of individuals' basic gross pay into employees' Personal Pension schemes. Contributions to the scheme are charged to the income statement in the year in which they are payable. There were no outstanding or prepaid contributions at either the beginning or end of the financial year.

1.14 Provisions for liabilities and charges

A provision is recognised in the statement of financial position when the Society has a present legal or constructive obligation as a result of a past event, that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are recognised at the best estimate of the amount required to settle the obligation at the reporting date.

1.15 Accounting estimates and judgements

The preparation of the financial statements requires certain judgements, assumptions and estimates that affect the reported amounts of assets and liabilities. These are regularly evaluated and are based on historical experience, expectations of future events and other factors. No significant judgements were made in the year. The following accounting estimates have a higher level of estimation uncertainty.

- Effective interest rate

The effective interest rate applied to the mortgage book affects the carrying value of those assets. One of the key components of the Effective Interest Rate is the expected mortgage life and in particular, the expected life relative to the term of the initial scheme the customer takes on inception of the mortgage, as this determines how long the customer is likely to spend paying standard variable rate. Expected lives relative to initial scheme life have been assessed as being between -1 and +9 months. In determining the expected life of mortgage assets, the Society uses historical redemption data as well as management judgement. The expected life of mortgage assets is reassessed annually. A one month change in the life profile of mortgage assets would result in a change to the value of loans on the Statement of Financial Position of approximately £262,000 (2020: £226,000).

- Impairment losses on loans and advances to customers

The Society reviews the mortgage book quarterly to assess impairment. In determining whether an impairment loss should be recorded, the Society has to use its judgement. Impairment provisions are calculated using historical arrears experience, modelled credit risk characteristics and expected cash flows. Estimates are applied to determine prevailing market conditions (e.g. interest rates and house prices), customer behaviour (e.g. default rates) and the length of time to complete the sale of properties in possession and the expected sale proceeds. The accuracy of the impairment provision would therefore be affected by unexpected changes to these assumptions, as follows:

- The propensity to default used in the assessment for impairment is between 2.0% and 20.0%, depending on the nature of the loan. If the propensity to default increased by 25% (ie to between 2.5% and 25%), the collective provision would increase by £109,000 (2020: £75,000).

- If the sales discount applied in our provisioning model increased by 5% the overall provision level would increase by £200,000 (2020: £170,000).

2 Interest receivable and similar income

	2021 £000	2020 £000
On loans fully secured on residential property	**9,070**	7,534
On other loans	**262**	281
On debt securities	**(35)**	10
On liquid assets	**122**	270
Net interest expense on derivatives	**(748)**	(491)
	8,671	7,604

Included within interest receivable and similar income on debt securities is income from fixed income securities of £9,000 (2020: £10,000).

3 Interest payable and similar charges

	2021 £000	2020 £000
On shares held by individuals	**1,930**	1,935
On amounts owed to credit institutions and other customers	**203**	257
	2,133	2,192

4 Net gains / (losses) from other financial instruments at fair value through profit and loss

	2021 £000	2020 £000
Derivatives in designated fair value hedge relationships	**271**	(62)

5 Administrative expenses

	2021 £000	2020 £000
Wages and salaries	**2,326**	2,092
Social security costs	**247**	205
Contributions to defined contribution plans	**202**	184
	2,775	2,481
Other administrative expenses	**2,276**	2,316
	5,051	4,797

Fees payable to the Society's auditors and its associates for the audit of the Society's annual accounts (excluding VAT):

	2021 £000	2020 £000
Total audit fees	**129**	120
Total non-audit fees	**6**	6
	135	126

The audit charges relate to Deloitte LLP and includes other assurance services of £6,000 (2020: £6,300).

6 Employee numbers

The average number of persons employed by the Society (including Executive Directors) during the year, analysed by category, was as follows:

	2021	2020
Head Office		
Full time	**45**	39
Part time	**11**	8
	56	47
Branch Offices		
Full time	**6**	9
Part time	**9**	7
	15	16

7 Directors' remuneration

Directors' emoluments are set out within the Directors' Remuneration Report. The Board has identified that those staff whose professional activities have a material impact on the Society's risk profile are the three Executive Directors: the Chief Executive Officer, Customer Service Director and Finance Director.

Total Directors' emoluments for the year amounted to £741,000 (2020: £567,000).

8 Directors' loans and transactions

i) Loans to Directors
At 31 October 2021 there was one (2020: one) outstanding mortgage loan granted in the ordinary course of business to one (2020: one) Director and connected persons, amounting in aggregate to £115,000 (2020: £147,000). This loan has been advanced on a standard society product in accordance with the society's criteria. There were no arrears on this loan.

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 2021, 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.

ii) Other Directors' transactions
Directors are required to hold share accounts with the Society. All accounts have the same terms and conditions as available to customers of the Society. The savings balances are not detailed in the register unlike loans and transactions above, due to their sensitive nature. The aggregate amount of all savings balances at 31 October 2021 was £12,000 (2020: £10,000).

iii) Related party transactions
There were no related party transactions during the year.

9 Taxation

	2021 £000	2020 £000
Current tax		
Current tax on income for the period	**252**	13
Total current tax	**252**	13
Deferred tax (see note 24)		
Origination and reversal of timing differences	**(56)**	10
Total deferred tax	**(56)**	10
Total tax	**196**	23

	2021 Current tax £000	**2021** Deferred tax £000	**2021** Total tax £000	2020 Current tax £000	2020 Deferred tax £000	2020 Total tax £000
Recognised in the income statement	**252**	**(56)**	**196**	13	10	23
Recognised in other comprehensive income	**-**	**-**	**-**	-	(3)	(3)
Total tax	**252**	**(56)**	**196**	13	7	20

The standard rate of corporation tax in the UK was 19% (2020: 19%).

Reconciliation of effective tax rate

	2021 £000	2020 £000
Profit for the year	**1,067**	35
Tax using the UK corporation tax rate of 19% (2020: 19%)	**202**	7
Expenses not deductible	**(6)**	16
Total tax expense in income statement	**196**	23

The standard rate of tax applied to reported profit is 19% (2020: 19% per cent). The applicable tax rate has changed following the substantive enactment of the Finance Act 2021. During the year beginning 1 November 2020, the net reversal of deferred tax assets and liabilities is expected to increase/(decrease) the corporation tax charge for the year by £(65,000). This is due to the depreciation charge for the year being greater than the Capital allowances claimed.

10 Cash in hand and balances with the Bank of England

	2021 £000	2020 £000
Cash in hand	**119**	92
Balances with the Bank of England	**52,063**	31,512
Total included in "Cash and cash equivalents" per cash flow statement	**52,182**	31,604
Accrued interest	**5**	4
	52,187	31,608

11 Loans and advances to credit institutions

	2021 £000	2020 £000
Repayable on demand	**4,870**	5,679
In not more than three months	**1,506**	4,033
In more than three months but not more than one year	**2,632**	9,324
Total loans and advances to credit institutions	**9,008**	19,036
Total included within cash and cash equivalents	**4,870**	5,679

The above figures include accrued interest of £7,000 (2020: £51,000).

12 Debt securities

	2021 £000	2020 £000
Certificates of deposit (fixed income debt securities)	**3,999**	2,001
Accrued interest	**5**	6
	4,004	2,007
Debt securities have remaining maturities as follows:		
In no more than one year	**4,004**	2,007
Transferable debt securities comprise:		
Unlisted	**4,004**	2,007
	4,004	2,007

Movements in debt securities during the year are summarised as follows:

	2021 £000	2020 £000
At 01 November	**2,007**	3,038
Additions	**4,000**	2,000
Disposal and maturities	**(2,000)**	(3,000)
Net changes in accruals and amortisation	**(2)**	(13)
Net losses from changes in fair value recognised in other comprehensive income	**(1)**	(18)
At 31 October	**4,004**	2,007

13 Derivative financial instruments

	2021 Notional principal amount £000	2021 Positive market value £000	2021 Negative market value £000	2020 Notional principal amount £000	2020 Positive market value £000	2020 Negative market value £000
Derivatives designated as fair value hedges:						
Interest rate swaps	**124,900**	**1,856**	**159**	99,650	6	1,535
	124,900	**1,856**	**159**	99,650	6	1,535

The replacement cost for derivative financial instruments is the same as the positive market value.

14 Loans and advances to customers

	2021 £000	2020 £000
Loans fully secured on residential property	**330,294**	268,709
Loans fully secured on land	**4,662**	4,898
Provision for impairment losses	**(474)**	(556)
Fair value adjustment for hedged risk	**(1,563)**	1,395
	332,919	274,446
The remaining maturity of loans and advances to customers from the reporting date is as follows:		
On call and at short notice	**413**	62
In not more than three months	**458**	966
In more than three months but not more than one year	**1,525**	768
In more than one year but not more than five years	**20,202**	19,360
in more than five years	**310,795**	253,846
	333,393	275,002
Less: allowance for impairment (note 15)	**(474)**	(556)
	332,919	274,446

The maturity analysis above is based on contractual maturity not expected redemption levels.

At 31 October 2021, the Society had pledged £54,909,000 (2020: £33,291,000) of mortgage assets to the Bank of England as collateral under the Term Funding Scheme.

15 Allowance for impairment

	Loans fully secured on residential property £000	Loans fully secured on land £000	Total £000
At 01 November 2020			
Individual impairment	247	6	253
Collective impairment	132	171	303
	379	177	556
Income statement			
Impairment loss / (credit) on loans and advances			
Individual impairment	4	19	23
Collective impairment	134	-	134
	138	19	157
Amounts utilised during the year	(220)	(19)	(239)
	(82)	-	(82)
At 31 October 2021			
Individual impairment	31	6	37
Collective impairment	266	171	437
	297	177	474

	Loans fully secured on residential property £000	Loans fully secured on land £000	Total £000
At 01 November 2019			
Individual impairment	588	202	790
Collective impairment	176	172	348
	764	374	1,138
Income statement			
Impairment loss / (credit) on loans and advances			
Individual impairment	131	(146)	(15)
Collective impairment	(44)	(1)	(45)
	87	(147)	(60)
Amounts utilised during the year	(472)	(50)	(522)
	(385)	(197)	(582)
At 31 October 2020			
Individual impairment	247	6	253
Collective impairment	132	171	303
	379	177	556

16 Tangible fixed assets

	Freehold Land and Buildings £000	Equipment, Fixtures Fittings and Vehicles £000	Total £000
Cost			
Balance at 01 November 2020	1,329	1,573	2,902
Additions	-	153	153
Adjustment for items fully written down	-	(952)	(952)
Balance at 31 October 2021	1,329	774	2,103
Depreciation and impairment			
Balance at 01 November 2020	104	1,293	1,397
Depreciation charge for the year	22	97	119
Adjustment for items fully written down	-	(952)	(952)
Balance at 31 October 2021	126	438	564
Net book value			
At 01 November 2020	1,225	281	1,506
At 31 October 2021	1,203	336	1,539

The net book value of land and buildings occupied by the Society for its own activities is £1,075,000 (2020: £1,100,000).

17 Intangible fixed assets

	Software £000
Cost	
Balance at 01 November 2020	2,211
Additions	52
Balance at 31 October 2021	2,263
Amortisation and impairment	
Balance at 01 November 2020	1,390
Amortisation for the year	452
Balance at 31 October 2021	1,842
Net book value	
At 01 November 2020	821
At 31 October 2021	421

Intangible fixed assets represent software costs incurred in developing the Society's core operating system. Until the current year, these costs were being amortised over a ten year period. During the year, the Board determined it was likely that the system would be replaced ahead of its previously assumed end of life and amortisation was accelerated in order to fully write down the costs by 31 October 2022, approximately two years earlier than previously envisaged.

18 Stock

	2021 £000	2020 £000
Property held for resale	-	245

During the year the property held for resale was sold, resulting in a gain of £93,000. In 2020 the property held for resale had been written down by £115,000.

19 Other Debtors

	2021 £000	2020 £000
Prepayments and accrued income	207	185

20 Shares

	2021 £000	2020 £000
Held by individuals	326,952	262,874

Shares are repayable with remaining maturities from the balance sheet date as follows:	2021 £000	2020 £000
Accrued interest	923	729
On demand	131,245	145,500
In not more than three months	129,780	88,874
In more than three months but not more than six months	37,680	5,330
In more than six months but not more than one year	6,764	1,780
In more than one year but not more than five years	20,560	20,661
	326,952	262,874

21 Amounts owed to credit institutions

	2021 £000	2020 £000
Accrued interest	6	6
With agreed maturity dates or periods of notice		
In not more than three months	1,500	5,500
In more than three months but not more than one year	20,800	7,000
In more than one year but not more than five years	0	11,300
	22,306	23,806

22 Amounts owed to other customers

	2021 £000	2020 £000
Accrued interest	98	53
Repayable on demand	19,595	13,495
With agreed maturity dates or periods of notice		
In not more than three months	-	1,500
In more than three months but not more than one year	7,619	2,269
	27,312	17,317

23 Other liabilities

	2021 £000	2020 £000
Corporation tax	**269**	30
Taxation and social security	**9**	62
Other creditors	**844**	758
	1,122	850

24 Deferred tax and liabilities

The elements of deferred taxation are as follows:

	2021 £000	2020 £000
Difference between accumulated depreciation and capital allowances	**50**	115
Short term timing differences	**(17)**	(26)
Capital gains	**35**	35
Net deferred tax liability	**68**	124

The deferred tax liability has been provided at a rate of 25% (2020: 19%) which is the rate applicable when the deferred tax liability is expected to crystallise.

25 Provisions for liabilities

	FSCS levy £000
Balance at 01 November 2020	**10**
Amount charged during the year	**-**
Amount paid during the year	**(3)**
Balance at 31 October 2021	**7**

In common with all regulated UK deposit takers, the Society 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. During 2008 and 2009 claims were triggered against the FSCS in relation to Bradford and Bingley plc, Kaupthing Singer and Friedlander, Heritable Bank plc, Landsbanki Islands hf, London Scottish Bank plc and Dunfermline Building Society.

The FSCS meets these current claims by way of loans received from HM Treasury. The terms of these loans were interest only for the first three years and the FSCS seeks to recover the interest cost, together with ongoing management expenses, by way of annual management levies on members, including Loughborough Building Society.

The provision at 31 October 2021 includes an estimate of the management levy for the scheme year 2020/21. No further provision has been made for any levies relating to 2021/22 and subsequent scheme years.

26 Financial instruments

A financial instrument is a contract which 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 funding and to manage the risks arising from its operations.

The Society uses derivatives in the form of interest rate swaps to hedge balance sheet exposures arising from fixed rate mortgage lending and savings products. The Society does not run a trading book.

Categories of financial assets and liabilities

Financial assets and liabilities are measured on an on-going basis either at fair value or at amortised cost. Note 1.7 'Financial instruments' describes how the classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The tables below analyse the Society's assets and liabilities by financial classification:

Carrying values by category

31 October 2021	Held at amortised cost			Held at fair value		Total
	Loans and receivables £000	Financial assets and liabilities at amortised cost £000	Available-for-sale £000	Derivatives designated as fair value hedges £000	Unmatched derivatives £000	£000
Financial assets						
Cash in hand and balances with Bank of England	-	52,187	-	-	-	52,187
Loans and advances to credit institutions	9,008	-	-	-	-	9,008
Debt securities	-	-	4,004	-	-	4,004
Derivative financial instruments	-	-	-	1,856	-	1,856
Loans and advances to customers	332,919	-	-	-	-	332,919
Total financial assets	341,927	52,187	4,004	1,856	-	399,974
Non-financial assets	-	2,167	-	-	-	2,167
Total assets	341,927	54,354	4,004	1,856	-	402,141
Financial liabilities						
Shares	-	326,952	-	-	-	326,952
Amounts owed to credit institutions	-	22,306	-	-	-	22,306
Amounts owed to other customers	-	27,312	-	-	-	27,312
Derivative financial instruments	-	-	-	159	-	159
Total financial liabilities	-	376,570	-	159	-	376,729
Non-financial liabilities	-	1,197	-	-	-	1,197
Total liabilities	-	377,767	-	159	-	377,926

Carrying values by category

31 October 2020	Held at amortised cost			Held at fair value		Total
	Loans and receivables £000	Financial assets and liabilities at amortised cost £000	Available-for-sale £000	Derivatives designated as fair value hedges £000	Unmatched derivatives £000	£000
Financial assets						
Cash in hand and balances with Bank of England	-	31,608	-	-	-	31,608
Loans and advances to credit institutions	19,036	-	-	-	-	19,036
Debt securities	-	-	2,007	-	-	2,007
Derivative financial instruments	-	-	-	6	-	6
Loans and advances to customers	274,446	-	-	-	-	274,446
Total financial assets	293,482	31,608	2,007	6	-	327,103
Non-financial assets	-	2,757	-	-	-	2,757
Total assets	293,482	34,365	2,007	6	-	329,860
Financial liabilities						
Shares	-	26,874	-	-	-	262,874
Amounts owed to credit institutions	-	23,806	-	-	-	23,806
Amounts owed to other customers	-	17,317	-	-	-	17,317
Derivative financial instruments	-	-	-	1,535	-	1,535
Total financial liabilities	-	303,997	-	1,535	-	305,532
Non-financial liabilities	-	984	-	-	-	984
Total liabilities	-	304,981	-	1,535	-	306,516

At the year end, the Society has loan commitments of £40.4m (2020: £33.7m) measured at cost.

Valuation of financial instruments carried at fair value

The Society holds certain financial assets and liabilities at fair value, grouped into Levels 1 to 3 of the fair value hierarchy (see below). Fair values are determined using the following fair value hierarchy that reflects the significance of the inputs in measuring fair value:

Level 1

The most reliable fair values of financial instruments are quoted market prices in an actively traded market. The Society's Level 1 portfolio mainly comprises debt securities for which traded prices are readily available.

Level 2

These are valuation techniques for which all significant inputs are taken from observable market data. These include valuation models used to calculate the present value of expected future cash flows and may be employed when no active market exists and quoted prices are available for similar instruments in active markets. The Society's Level 2 portfolio comprises interest rate swaps for which traded prices are readily available and there are no other assumptions.

Level 3

These are valuation techniques for which one or more significant inputs are not based on observable market data. Valuation techniques include net present value by way of discounted cash flow models. The Society does not have any Level 3 type assets or liabilities.

The table below summarises the fair values of the Society's financial assets and liabilities that are accounted for at fair value, analysed by the valuation methodology used by the Society to derive the financial instruments fair value:

31 October 2021	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Financial assets				
Available-for-sale				
Debt securities	**4,004**	**-**	**-**	**4,004**
Fair value through profit and loss	**-**	**1,856**	**-**	**1,856**
Interest rate swaps	**-**	**-**	**-**	**-**
	4,004	**1,856**	**-**	**5,860**
Financial liabilities				
Fair value through profit and loss				
Interest rate swaps	**-**	**159**	**-**	**159**
	-	**159**	**-**	**159**
31 October 2020				
Financial assets				
Available-for-sale				
Debt securities	2,007	-	-	2,007
Fair value through profit and loss	-	6	-	6
Interest rate swaps	-	-	-	-
	2,007	6	-	2,013
Financial liabilities				
Fair value through profit and loss				
Interest rate swaps	-	1,535	-	1,535
	-	1,535	-	1,535

Financial assets pledged as collateral

The Society's financial assets pledged as collateral for liabilities are detailed in the table below:

	2021 **£000**	2020 £000
Loans and advances to customers	**54,909**	33,291

The mortgage loans are pledged as collateral against the loans received from the Bank of England under the Term Funding Scheme. The mortgage loans will remain encumbered until the loans are repaid.

26 Financial instruments (continued)

Credit risk

Credit risk is the risk that a borrower or counterparty of the Society will cause a financial loss for the Society by failing to discharge an obligation.

The Society observes a Credit Policy in respect of all mortgage loan applications. Liquid asset exposures are managed according to the counterparty limits in the Society's Liquidity Policy. The policies are reviewed regularly and are approved by the Board.

The Society's maximum credit risk exposure is detailed in the table below:

	2021	2020
	£000	£000
Cash in hand and balances at the Bank of England	**52,187**	31,608
Loans and advances to credit institutions	**9,008**	19,036
Debt securities	**4,004**	2,007
Derivative financial instruments	**1,856**	6
Loans and advances to customers	**332,919**	274,446
Total statement of financial position exposure	**399,974**	327,103
Off balance sheet exposure – mortgage commitments	**40,385**	33,744
	440,359	360,847

Concentration risk

The tables below give an analysis of the Society's treasury asset concentration:

Concentration by Fitch credit rating	**2021**	2020
	£000	£000
AA+ to AA-	**52,108**	31,546
A+ to A-	**7,838**	8,657
Below A- and unrated Building Societies	**5,253**	12,448
	65,199	52,651

Concentration by Industry sector	**2021**	2020
	£000	£000
Banks	**9,124**	9,584
Building Societies	**4,007**	11,551
Central Bank	**52,068**	31,516
	65,199	52,651

The above treasury assets equal the total of liquid assets shown within the Statement of Financial Position.

Credit quality analysis of loans and advances to customers

The tables below set out information about the credit quality of financial assets and the allowance for impairment / loss held by the Society against those assets.

	2021		2020	
	Loans fully secured on residential property	**Loans fully secured on land**	Loans fully secured on residential property	Loans fully secured on land
	£000	**£000**	£000	£000
Neither past due nor impaired	**325,206**	**4,564**	264,038	4,800
Past due but not impaired				
Up to 3 months	**1,807**	**-**	2,433	-
Over 3 months	**1,518**	**-**	1,488	-
	328,531	**4,564**	267,959	4,800
Individually impaired				
Not past due	**91**	**-**	311	-
Up to 3 months	**27**	**-**	1,150	98
Over 3 months	**180**	**-**	684	-
Total balances gross of provisions	**328,829**	**4,564**	270,104	4,898
Allowance for impairment				
Individual	**31**	**6**	247	6
Collective	**267**	**171**	132	171
Total allowance for impairment	**297**	**177**	379	177
Total balances net of provisions	**328,532**	**4,387**	269,725	4,721

Individual assessments are made of all mortgage loans where objective evidence indicates that losses are likely (for example when loans are past due) or the property is in possession, or where fraud or negligence has been identified. The status "past due but not impaired" includes any asset where a payment due is received late or missed but no individual provision has been made against that asset because of no calculated loss in the event of default. Further information is given in accounting policy note 1.7 to the accounts.

Assets obtained by taking possession of collateral

There were nil (2020: 2) cases of a financial asset being obtained during the year by taking possession of collateral held as security against loans and advances.

Collateral held and other credit enhancements

The Society holds collateral and other credit enhancements against certain of its credit exposures. The table below sets out the principal types of collateral held against different types of financial assets.

	Percentage of exposure that is subject to collateral requirements		
	2021	**2020**	Principal type of
	%	**%**	collateral held
Loans and advances to customers	**100**	**100**	Property

The table below shows the gross loans and advances to customers by geographical concentration.

	2021 £000	2021 %	2020 £000	2020 %
East Anglia	**28,586**	**9**	21,436	8
East Midlands	**117,144**	**35**	110,524	40
Greater London	**13,542**	**4**	10,712	4
North	**6,855**	**2**	5,747	2
North West	**35,822**	**11**	23,462	9
Outer South East	**35,843**	**11**	25,718	9
South West	**24,582**	**7**	20,285	7
Wales	**10,206**	**3**	7,969	3
West Midlands	**33,299**	**10**	25,512	9
Yorkshire and Humberside	**27,514**	**8**	23,633	9
	333,393	**100**	275,002	100

The tables below stratify credit exposures from gross residential mortgage loans and advances to retail customers by ranges of loan-to-value (LTV) ratio. LTV is calculated as the ratio of the loan balance to the value of the collateral. The valuation of the collateral excludes any adjustments for obtaining and selling the collateral. The value of the collateral for residential mortgage loans is based on the collateral value at origination updated based on changes in house price indices by reference to the Lloyds / Halifax Regional House Price Index.

	2021 £000	2020 £000
Loans fully secured on residential property – LTV ratio		
Up to 50%	**130,956**	96,295
>50 – 70%	**107,844**	90,909
>70 – 90%	**85,299**	75,146
>90 – 100%	**4,632**	7,754
	328,731	270,104
Loans fully secured on land	**4,662**	4,898
	333,393	275,002

Forbearance

Borrowers who experience payment difficulties are offered a forbearance strategy dependent on their particular circumstances. Discussions take place with the customer as to forbearance strategies as appropriate. The options available are: temporary concession – a temporary reduction in payment or a temporary transfer to interest-only; arrangements – an agreed formal repayment plan to clear arrears; and re-structuring of the loan – including extending the term of the loan and capitalisation of arrears.

During 2020 the Society offered payment holidays to customers whose financial circumstances had been adversely affected by the Covid-19 pandemic. Details of customers prevously granted a payment holiday are shown below.

The table below analyses residential mortgage borrowers with renegotiated terms at the year end date:

	2021 Number	2020 Number
Temporary concession	**1**	1
Loan re-structuring	**7**	10
	8	11

	2021	2020
Customers previously granted a Covid-19 payment holiday during the year	**-**	273
Payment holidays active at year end	**-**	16
Customers previously granted a payment holiday not making full payments a year end	**19**	-

In total £551,000 (2020: £910,000) of mortgage loans are subject to forbearance other than Covid-19 payment holidays. Individual impairment provisions of £nil (2020: £nil) are held in respect of these mortgages. Individual impairment provisions of £nil (2020: £6,000) are held in respect of mortgages taking Covid-19 payment holidays.

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.

Monitoring of liquidity is performed daily. Compliance with Liquidity Policy is reported to ALCO and to the Board. A series of stress tests is conducted on a monthly basis and reported quarterly to ALCO. These include a firm-specific, market-wide and combined stress in accordance with the PRA's requirements. The approach to liquidity is set out in the Society's Individual Liquidity Adequacy Assessment Process (ILAAP) as approved by the Board.

The Society's liquid resources comprise call accounts, high quality liquid asset balances at the Bank of England, certificates of deposit and time deposits. At the end of the year the ratio of liquid assets to shares and deposits was 17.3% (2020: 18.9%).

Maturity analysis for financial assets and financial liabilities

The tables below set out the remaining contractual maturities of the Society's financial liabilities and financial assets. In practice, contractual maturities are not always reflected in actual experience. For example loans and advances to customers tend to repay ahead of contractual maturity and customer deposits (for example shares) are likely to be repaid later than on the earliest date on which repayment can be required.

31 October 2021	On demand	Not more than three months	More than three months but not more than one year	More than one year but not more than five years	More than five years	No specific maturity and loss provision	Total
	£000	£000	£000	£000	£000	£000	£000
Financial assets							
Cash in hand and balances with the Bank of England	52,187	-	-	-	-	-	52,187
Loans and advances to credit institutions	4,870	1,506	2,632	-	-	-	9,008
Debt securities	-	-	4,004	-	-	-	4,004
Derivative financial instruments	-	-	23	1,833	-	-	1,856
Loans and advances to customers	414	458	1,525	20,201	310,795	(474)	332,919
Tangible and intangible assets and other assets	-	-	-	-	-	2,167	2,167
Total financial assets	57,471	1,964	8,184	22,034	310,795	1,693	402,141
Financial liabilities							
Shares	131,774	129,885	44,616	20,677	-	-	326,952
Amounts owed to credit institutions	-	1,502	20,804	-	-	-	22,306
Amounts owed to other customers	19,679	4	10	7,619	-	-	27,312
Derivative financial instruments	-	16	37	106	-	-	159
	151,453	131,407	65,467	28,402	-	-	376,729
Other liabilities	-	-	-	-	-	1,197	1,197
Reserves	-	-	-	-	-	24,215	24,215
Total financial liabilities	151,453	131,407	65,467	28,402	-	25,412	402,141
Net liquidity gap	(93,982)	(129,443)	(57,283)	(6,368)	310,795	(23,719)	-

31 October 2020	On demand	Not more than three months	More than three months but not more than one year	More than one year but not more than five years	More than five years	No specific maturity and loss provision	Total
	£000	£000	£000	£000	£000	£000	£000
Financial assets							
Cash in hand and balances with the Bank of England	31,608	-	-	-	-	-	31,608
Loans and advances to credit institutions	5,679	4,033	9,324	-	-	-	19,036
Debt securities	-	-	2,007	-	-	-	2,007
Derivative financial instruments	-	-	-	6	-	-	6
Loans and advances to customers	62	966	768	19,360	253,846	(556)	274,446
Tangible and intangible assets and other assets	-	-	-	-	-	2,757	2,757
Total financial assets	37,349	4,999	12,099	19,366	253,846	2,201	329,860
Financial liabilities							
Shares	146,045	88,903	7,135	20,791	-	-	262,874
Amounts owed to credit institutions	-	5,505	7,001	11,300	-	-	23,806
Amounts owed to other customers	13,529	1,510	8	2,269	-	-	17,316
Derivative financial instruments	-	25	140	1,370	-	-	1,535
	159,575	95,943	14,284	35,730	-	-	305,532
Other liabilities	-	-	-	-	-	984	984
Reserves	-	-	-	-	-	23,344	23,344
Total financial liabilities	159,575	95,943	14,284	35,730	-	24,328	329,860
Net liquidity gap	(122,227)	(90,944)	(2,185)	(16,364)	253,846	(22,127)	-

The tables below set out maturity analysis for financial liabilities that show the remaining contractual maturities at undiscounted amounts. The analysis of gross contractual cash flows differs from the analysis of residual maturity due to the inclusion of interest calculated at current rates, for the average period until maturity on the amounts outstanding at the statement of financial position date.

31 October 2021

	On demand	Not more than three months	More than three months but not more than one year	More than one year but not more than five years	More than five years	Total
		£000	£000	£000	£000	£000
Financial liabilities						
Shares	**131,774**	**129,946**	**44,774**	**20,924**	**-**	**327,418**
Amounts owed to credit institutions	**-**	**1,506**	**20,826**	**-**	**-**	**22,332**
Amounts owed to other customers	**19,679**	**6**	**7,631**	**-**	**-**	**27,316**
Derivative financial instruments	**-**	**16**	**37**	**106**	**-**	**159**
	151,453	**131,474**	**73,268**	**21,030**	**-**	**377,225**

31 October 2020

	On demand	Not more than three months	More than three months but not more than one year	More than one year but not more than five years	More than five years	Total
		£000	£000	£000	£000	£000
Financial liabilities						
Shares	146,046	88,942	7,192	21,218	-	263,398
Amounts owed to credit institutions	-	5,507	7,014	11,330	-	23,851
Amounts owed to other customers	13,529	1,515	2,278	-	-	17,322
Derivative financial instruments	-	25	140	1,370	-	1,535
	159,575	95,989	16,624	33,918	-	306,106

Note: derivative financial instruments represent forward interest payable to maturity on swap contracts.

26 Financial instruments (continued)

Market risk

'Market risk' is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices comprise three types of risk; currency risk, interest rate risk and other price risk. As a retailer of financial instruments in the form of mortgage and savings products, the principal element of market risk affecting the Society is interest rate risk. This risk arises due to actual, or potential, changes in the general level of interest rates, changes in the relationship between short-term and long-term interest rates and divergence of rates on different bases across different balance sheet items (basis risk). The Society only deals with products in sterling so is not directly affected by currency risk. The Society's products are also only interest orientated products so are not exposed to other pricing risks.

The management of interest rate risk is based on a full statement of financial position gap analysis, which is prepared on a monthly basis, including a forecast for the month ahead, and presented quarterly to ALCO. The gap analysis is subject to a stress test of 2% shift in interest rates and the results measured against the risk appetite for market risk which is currently set at 3% of general reserves. Basis risk is also monitored in line with a Board approved risk appetite.

The following is an analysis of the Society's sensitivity to a +2% parallel shift in market interest rates, i.e. assuming no asymmetrical movement in yield curves and a constant financial position.

	2021	2020
	£000	£000
Sensitivity of projected net interest income to a +2% parallel shift		
At 31 October	**969**	22
Average for the period	**346**	143
Maximum for the period	**969**	358
Minimum for the period	**51**	13

Derivatives held for risk management

The Society uses derivatives to assist in the management of certain risks it faces.

Fair value hedges of interest rate risk

The Society uses interest rate swaps to hedge its exposure to changes in the fair values of its exposure to market interest rates on fixed rate funding and loans and advances.

The fair values of derivatives designated as fair value hedges are as follows:

	2021		2020	
	Assets	**Liabilities**	Assets	Liabilities
	£000	**£000**	£000	£000
Instrument type:				
Interest rate swap	**1,856**	**159**	6	1,535

Capital

The Society's policy is to hold a strong capital base to maintain member, creditor and market confidence and to support future development and growth. The principal component of capital is the retained earnings in General Reserve and it is important for the Society to sustain adequate levels of profitability in order to safeguard the capital base. Capital adequacy is measured under the Internal Capital Adequacy Assessment Process (ICAAP). The Prudential Regulatory Authority (PRA) sets a minimum Internal Capital Guidance (ICG) and the Society aims to maintain capital in excess of this level. During the year, the Society has compiled with its capital requirements at all times.

27 Operating leases

There are no leasehold commitments at 31 October 2021 (2020: nil).

28 Country-by-country reporting

Financial institutions that are within the scope of CRD IV are required under Article 89 to disclose information on the source of the firm's income and the location of its operations. The annual reporting requirements for the Society as at 31 October 2021 are as follows:

Name	Loughborough Building Society
Nature of activities	Mortgage lender, deposit taker and provider of savings accounts
Geographical location	The Society is registered and trades solely within the United Kingdom
Turnover	Turnover, represented by total net income, was £8.9m
Average number of employees on a full-time equivalent basis	48
Profit before tax	£1,067,000
UK corporation tax paid in the year	£196,000
Public subsidies received	None

29 Post Balance Sheet Event

After 31 October 2021, the Society purchased a freehold property on the outskirts of Leicester. The Society plans to use the property as an additional branch.

Annual Business Statement

1 Statutory Percentages

	2021	2020	Statutory Limit
	%	%	%
Lending limit	**1.46**	1.93	25.00
Funding limit	**13.18**	13.53	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 Statement of Financial Position plus impairment provisions, less tangible and intangible fixed assets, derivatives and liquid assets. Loans fully secured on residential property are the amount of principal owing by borrowers and interest accrued on derivatives not yet payable, plus FRS 102 adjustments. This is the amount as shown in the Statement of Financial Position plus impairment provisions.

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

	2021	2020
	%	%
As a percentage of shares and borrowings:		
Gross capital	**6.43**	7.68
Free capital	**6.03**	7.01
Liquid assets	**17.31**	17.32
As a percentage of mean total assets:		
Profit the financial year	**0.24**	0.00
Management expenses	**1.54**	1.61

The above percentages have been prepared from the Society's accounts and are unaudited 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 reserves as shown in the Statement of Financial Position.

'Free capital' represents the aggregate of gross capital and collective impairment provision, less tangible and intangible fixed assets.

'Mean total assets' represents the average of total assets at the beginning and end of the year.

'Liquid assets' represents the total of cash in hand, balances with the Bank of England, loans and advances to credit institutions and debt securities.

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

3 Calculation of the Society's key performance indicators

TOTAL ASSETS

This shows the growth in total assets of the Society as reported on the Statement of Financial Position on page 29.

MORTGAGE ASSETS

This shows the net change in the Society lending book after impairment provisions and after fair value adjustments. This figure is reported on the Statement of Financial Position as loans and Advances to Customers.

LIQUID ASSETS

Liquid assets is the total of cash in hand and balances with the Bank of England, loans and advances to credit institutions and debt securities, as disclosed on the Statement of Financial Position.

GROSS LENDING

This figure shows the total amount of mortgage lending each year prior to repayments, redemptions and other movements.

SHARE BALANCES

This represents the total deposited by individuals with the Society at the end of each financial year. It is reported on the Statement of Financial Position as Shares.

TOTAL CAPITAL

Capital is a measure of financial strength, of an entity's ability to absorb future operational losses if and when they arise, and of its ability to support future growth. This is represented on the Statement of Financial Position by the General reserve and the Available-for-sale reserve and primarily comprises capital from retained profits.

PROFIT BEFORE TAX

Profit after tax is the net amount earned after taking into account all expenses but before tax charges.

NET INTEREST MARGIN

This ratio expresses the interest received from loans and liquid assets, minus the interest paid on financial liabilities (principally share accounts, but also deposits by market counterparties) as a percentage of average financial assets.

MANAGEMENT EXPENSES %

This ratio is the total of administrative expenses, depreciation and amortisation, expressed as a percentage of the simple average of total assets at the beginning and end of the financial year. It assists the Board in understanding the relationship between profitability and the size of the balance sheet.

3 Information relating to the Directors at 31 October 2021

Name	Date of appointment	Business occupation	Other Directorships
H.E. Sachdev Chair of the Board	01.03.17	Non-Executive Director	WOMBA Limited The Inclusion Partnership Limited McKay Securities plc Wilmington plc
G Brebner	13.07.09	Building Society Chief Executive	None
R.W. Barlow	01.03.19	Non-Executive Director	Anexo plc Bank & Clients plc Sapien Partnership Limited
A. Payton	01.06.20	Building Society Finance Director	None
C. Joyce	10.11.03	Customer Service Director	None
J.E. Pilcher	01.05.16	Group Treasurer	Anglian Water Services Financing plc Anglian Water Services Holdings Limited Morhomes plc Anglian Water Services UK Parent Co Limited
R.L. Curtis-Bowen	01.12.18	Chief Executive Officer	RCB Property Limited RD Bowen Property Limited Coaching & Consultancy Limited Inicio AI Limited
C. J. Bradley	01.03.20	Non-Executive Director	Al Rayan Bank plc
S.M.S. Choudhry	01.07.20	Banker	Recognise Bank Limited Wandle Housing Association Hampshire Community Bank City of London Group plc

Documents may be served on the above named Directors c/o Deloitte LLP at the following address: Four Brindley Place, Birmingham, B1 2HZ.

All Executive Directors are employed on service contracts, which, in the case of G. Brebner and C. Joyce, can be terminated by the Society following a maximum of 12 months' notice and by the individual Executive Directors on 12 months' notice and in the case of A. Payton, can be terminated by the Society following a maximum of 6 months' notice and by the Executive Director on 6 months' notice.

The Loughborough Building Society

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