The Loughborough Building Society

Annual Report and Accounts 2019

Contents

Key Performance Indicators

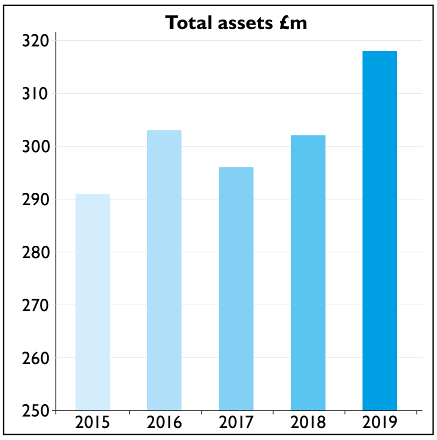
Founded in 1867, Loughborough Building Society remains true to the ideals of the group of local businessmen who got together to provide the people of Loughborough and District with opportunities to save and borrow money.

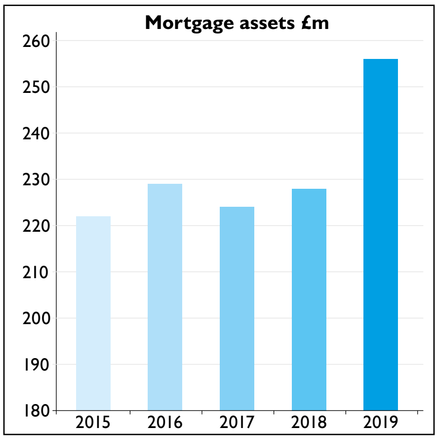
For over 150 years the Society has been helping people to buy their homes and save for their future and is proud to have remained an independent, mutual provider of mortgages and savings.

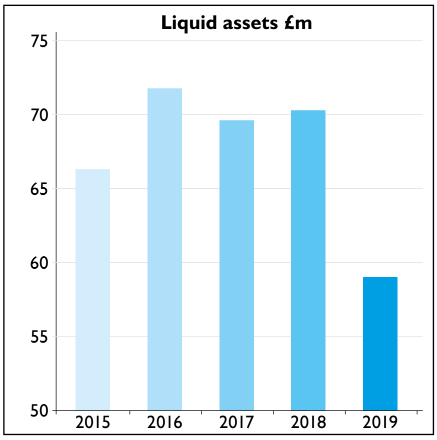
As a mutual building society we're owned by our customers – our savers and borrowers. To us you're more than a customer; you're a member and an individual.

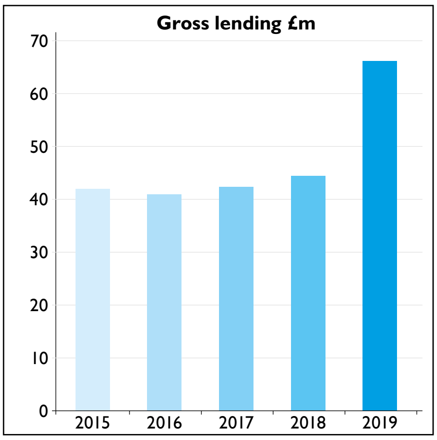
Unlike banks, being a mutual business means we don't have shareholders or dividends to pay. The low interest rate economic environment continues to make it difficult for the Society to grow its profits whilst recognising the needs of savers who have had low market rates for many years. The Society strives to strike a balance between these competing demands in order to enable future investment in new services and expertise.

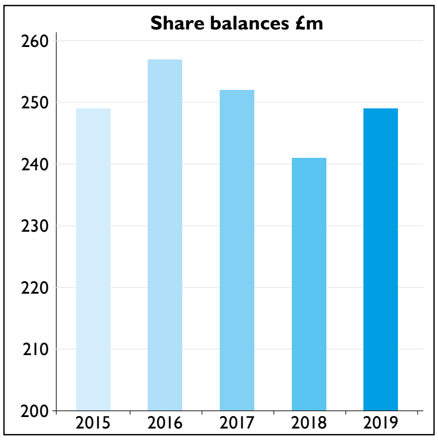
The Board manages the Society and oversees the agreed strategy using a variety of performance and control reports, including the use of key performance indicators. The graphs below show progress over the last five years across a number of key indicators. The calculation of each of the key performance indicators is explained on page 58.

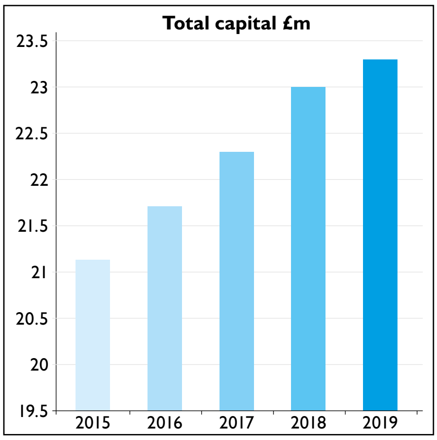


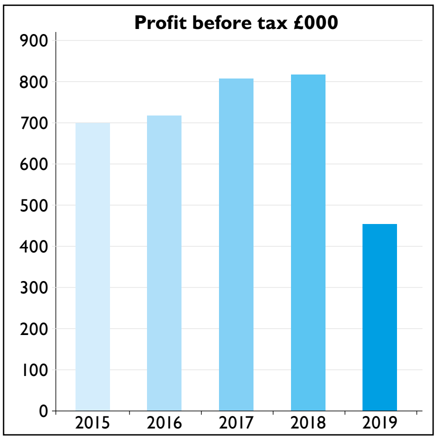


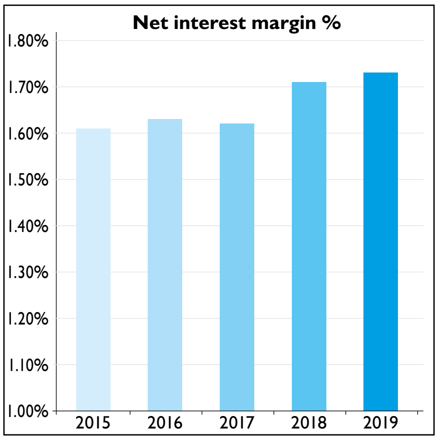


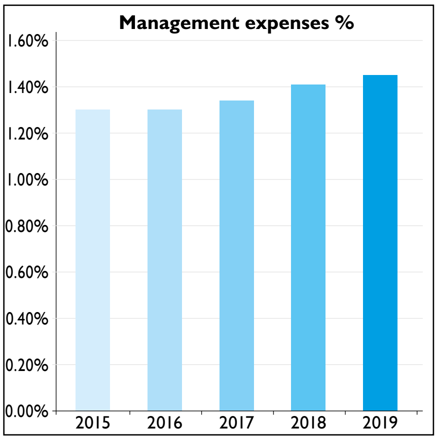












Directors' Report

The Directors are pleased to present their 152nd Annual Report, together with the Annual Accounts and Annual Business Statement of Loughborough Building Society for the year ended 31 October 2019.

Business Objectives and Activities

The principal business activity of the Society is the provision of long term residential mortgages to borrowers, financed by personal savings from members, in keeping with traditional building society principles and values.

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

Business Review

The Society has delivered strong mortgage asset growth in the face of another year of intense competition. The prolonged uncertainty over how the UK will exit the EU has created volatility in the financial markets. Monetary policy has also played its part both in lending and savers markets with protracted periods of low interest rates and Central Bank funding schemes continuing through the year. Government policy too has impacted UK lending markets; the changes to Buy to Let regulations have clearly cooled that market for mortgaged properties and Help to Buy has skewed pricing for new properties aimed at First Time Buyers.

Economic forecasting has become extremely uncertain as it is difficult to predict how the UK economy will perform given the number of possible exit scenarios. The reduction in base rates in August 2016 led to a compression of mortgage prices from which they have not recovered. Lending markets are further under stress from low transaction volumes. LIBOR volumes are low and consequently have suppressed swap contracts meaning that five year and longer fixed offers have become cheaper.

In spite of the economic uncertainty, and of strong competition within the lending market, the Society saw an excellent outcome in its lending business, with gross lending in the year increasing by 49% to £66.2m (2018: £44.5m); and the mortgage book grew by 12% in the year to £255m. As a result of this growth, mortgage interest also increased by 7% in the year.

This strong performance has built on the groundwork of 2018 when the Society re-entered the broker market, with around half of the new business generated in the year being sourced through that channel. This is also the result of the Society focus on delivering good quality mortgage products with high standards of underwriting. Mortgage products and pricing are reviewed regularly in the light of customer response and market conditions.

On the other side of the balance sheet, many lenders including the Society have benefited from low cost funding from the Bank of England. As this period comes to an end the Society has seen its funding cost starting to increase, with total interest payable being 12.5% higher than in the previous year.

Part of this cost represents the interest received by our savers, which is also affected by the low rates available in the market. As a mutual society, we seek to provide a competitive range of savings products and a secure home for savers' funds; however the Society cannot disregard market conditions and is very much aware of the impact that the prolonged period of low interest rates has had upon our saving members.

Profit before tax of £454,000 is down by £363,000 on the previous year. There are two significant factors impacting the profit reduction. Immediately prior to finalising the financial statements, the Society became aware of an administrative error relating to the legal charge on one of its residential mortgage loans in the amount of £193,000. The resolution of this matter is likely to take several months and, as the property concerned was in possession, the Society has therefore taken the prudent approach of providing for the position in full in these accounts. The other matter relates to movements in the valuations of derivative financial instruments held by the Society for risk management purposes. The Society uses these instruments to manage its exposure to changes in interest rates arising from fixed rate mortgage lending and fixed rate retail savings products. Accounting standards require the Society to report these instruments at 'fair value' at the year end.

Fair values are driven by market expectations, and can and do vary over time. As a result of the Brexit uncertainty volatility in the financial markets has been pronounced, and 2019 has given a loss of £80,000 while 2018 reported a gain of £56,000 - a swing in fair values of £136,000. These gains and losses would only be realised if the Society chose to close out the derivatives before they reach maturity; otherwise the movements will reverse over the derivatives' remaining lives, giving no impact on profit over time. It is the Society's policy to hold these instruments to maturity.

The Society's most significant costs are for staff resources, which comprise 54% of administrative expenses. Non-staff costs have increased by £178,000 across the year, while staff costs have increased by £86,000. This reflects market conditions in recruiting and retaining staff, as well as a significant increase in recruitment costs. As a result, the management expense ratio per £100 of mean assets (which also includes depreciation and amortisation) has increased to 1.45% (2018: 1.41%).

Arrears continue to be at low levels and the provision for losses and impairment remains static at £1.1m. Excluding the additional provision taken in respect of the legal charge noted above, provisions had reduced to £0.9m. This reflects a crystallisation of losses of £0.3m which were provided for in previous years. The Society is mindful of the increased financial burden which may arise for borrowers as interest rates start to increase. Borrowers who do experience difficulty are offered appropriate support at an early stage.

The Society continues to serve members through the branch network in Loughborough, Derby and Long Eaton and through its agency outlet in Southwell. The Society has made a number of positive changes to accounts this year including ISA accounts and fixed rate bonds. As a result, overall savers' balances increased during the year to £248.7m (2018: £241.7m).

The Society's net profit for the year of £362,000 (2018: £657,000) was transferred to general reserves. The Society continues to report capital growth and at 31 October 2019 total capital stood at £23.3m (2018: £23.0m).

The Society holds liquid assets which can be readily realised when required so that it can meet its financial obligations as they fall due. The Society's liquid assets are held principally in high quality assets, and mainly in the form of cash and government debt. The Society has reduced its liquidity during the year as planned, however the year end balance of £59m remains well above the Board's internal assessment of its minimum requirements.

The Society's business model remains straightforward and it has plans to continue to grow. Through growth and the careful management of costs it will improve its profitability using the capital generated to make strategic investments to support a customer acquisition and retention strategy. All the planned developments are consistent with the values and purpose of the Society and to remain attractive to its loyal and investing members.

This is in the context of a UK economy which is likely to remain uncertain until the details of 'Brexit' have been resolved. The Society continues to monitor the economic environment for possible impacts on its strategy.

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 remain at historic low levels and there is a risk of volatility in the financial markets with continued uncertainty around 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 8 to 12. 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, compliance and statutory 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 a disorderly Brexit, and that any consequent economic downturn, disruption to financial markets or political instability could have an impact on its business model. The Society does not consider this to be a principal business risk in its own right, but that it could be a trigger for other risks, particularly credit risk, interest rate risk and liquidity risk. The Society has stress tested its Business Plan for this risk, 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 lent money, may default on their obligation to pay.

- **Interest Rate Risk,** this is the risk that income or expenditure, arising from the Society's assets or liabilities, varies as a result of changes in interest rates.

- **Liquidity Risk,** this relates to the Society's ability to meet its financial obligations as they fall due.

- **Operational Risk,** this is the risk of a loss arising from inadequate or failed internal processes or systems, human error, key supplier failure or external events including cyber risks.

- **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.

- **Conduct Risk,** this is the risk that the Society does not treat its customers fairly and provides inappropriate products for customers.

- **Strategic Risk,** this is the risk of the Society entering unprofitable markets or offering unprofitable products. The Board has a strategic duty to ensure that the Society makes an adequate amount of profit to maintain capital ratios at a 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.

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 of Directors, 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.

Post Balance Sheet Events

As noted above, immediately prior to finalising the financial statements, the Society became aware of an administrative error relating to the legal charge on one of its residential mortgage loans. The Society has provided for the loan in full in these accounts. Other than this matter, the Board considers that there have been no events since the year end that have a material effect on the financial position of the Society.

Going Concern

The Directors 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 a disorderly Brexit.

As a result of this, the Directors 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 £59.0m (2018: £70.3m) representing 20.2% (2018: 25.3%) 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 407 (2018: 232) plus 69 (2018: 52) further advances on existing accounts, the total amount advanced being £66.2m (2018: £44.5m).

Mortgage Arrears

At the end of the year, there were 5 cases (2018: 10 cases) where mortgage repayments were twelve months or more in arrears, the amount of those arrears being £68,000 (2018: £206,000) and the mortgage balances £1,282,000 (2018: £2,119,000). There were 2 (2018: 4) 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 10 cases (2018: 10 cases) with balances outstanding of £880,000 (2018: £877,000) where forbearance measures such as transfer to interest only and deferred payments were in place at the year end.

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 £362,000 (2018: £657,000).

The Society has maintained its financial strength with capital ratios remaining satisfactory for foreseeable requirements. At 31 October 2019, free capital amounted to £21.2m (2018: £20.6m) or 7.2% (2018: 7.4%) of total shares and borrowings. Gross capital amounted to £23.3m (2018: £23.0m) or 8.0% (2018: 8.3%) of total shares and borrowings. The definitions of free capital and gross capital are shown in the Annual Business Statement on page 57.

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 56.

Directors

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

Non-Executive Directors

D.T. Bowyer FCA	Chair of the Board
D.C. Huntley BA, FIA	Senior Independent Director (until 31 October 2019)
I.J. Webb BSc, MCIM	Retired 31 December 2018
M.W. Parrott FCPFA	Retired 31 May 2019
R. L. Curtis-Bowen	Appointed 1 December 2018
R. W. Barlow BA, FCA	Appointed 1 March 2019 (Senior Independent Director from 1 November 2019)
J.E. Pilcher ACIB, FCT	
H.E. Sachdev FCMA	Deputy Chair of the Board

Executive Directors

G. Brebner BSc, ACA	Chief Executive
C. Joyce BA, ACIB	Operations Director
S.J. Jeffries LLB, FCA	Finance Director – resigned 12 April 2019

Michael Parrott retired earlier in the year after over four years on the Board. Stephen Jeffries left after over seven years with the Society to pursue other opportunities. The Board would like to record their appreciation to both Michael and Stephen for their contributions to the Society.

Following Stephen Jeffries' departure, Paul Gittins was appointed as Interim Finance Director while the Society continues recruitment for the role of Finance Director. Paul is a highly experienced financial services Interim Finance Director who has worked with a number of other banks and building societies in similar roles. Although he attends Board meetings, Paul is not a member of the Board.

Having served for ten years on the Society's Board, David Bowyer will be stepping down following the AGM in February 2020. Helen Sachdev, who has been a Non-Executive Director at the Society for nearly three years and is currently Chair of the Audit and Compliance Committee, is planned to succeed him as Chair.

David Huntley served as Deputy Chair until 1 October 2019 after which this role was taken by Helen Sachdev.

David Huntley and Jane Pilcher will offer themselves for re-election, and Roger Barlow for election, at the forthcoming Annual General Meeting.

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 has 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 Directors 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
David Bowyer,
Chair of the Board
22 January 2020

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 1 January 2019. This report below sets out the Society's position against the 2016 Code.

Code Principle A1: the Role of the Board

"Every company should be headed by an effective board which is collectively responsible for the long-term success of the company."

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, to ensure that effective systems and controls are in place for risk management and ultimately to safeguard the interests of members.

The Board meets ten 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 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.

The Society maintains liability insurance cover for all Directors.

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 13 and 14.

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), D.T. Bowyer, S.J. Jeffries (until 12 April 2019), C. Joyce, J.E. Pilcher, H.E. Sachdev and R.L. Curtis-Bowen (from 1 December 2018).

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: D.T. Bowyer (Chair), D.C. Huntley, J.E. Pilcher and H.E. Sachdev (from 1 October 2019).

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), M.W. Parrott (until 31 May 2019), H.E. Sachdev, R.L. Curtis-Bowen (from 1 December 2018) and R.W. Barlow (from 1 March 2019). In addition, the Executive Directors attend by invitation.

Staff and Remuneration Committee

The Staff and 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 15 to 17.

The following Non-Executive Directors served during the year: D.C. Huntley (Chair), D.T. Bowyer, J.E. Pilcher, I.J Webb (until 31 December 2018), H.E. Sachdev (from 1 October 2019) and R.L. Curtis-Bowen (from 1 October 2019).

Attendance at Board and Committee Meetings

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

	Board	Audit and Compliance	Assets and Liabilities	Staff and Remuneration	Nominations	Risk
D.T. Bowyer (Chair)	10 (10)	*	4 (4)	5 (5)	7 (7)	*
G. Brebner	10 (10)	*	4 (4)	*	*	*
D.C. Huntley	8 (10)	4 (4)	*	5 (5)	7 (7)	*
S.J. Jeffries	5 (5)	*	2 (2)	*	*	*
C. Joyce	10 (10)	*	4 (4)	*	*	*
M.W. Parrott	6 (6)	2 (2)	*	*	*	3 (3)
J.E. Pilcher	8 (10)	*	4 (4)	5 (5)	7 (7)	5 (5)
H.E. Sachdev	10 (10)	4 (4)	3 (4)	2 (2)	1 (1)	4 (5)
I.J. Webb	2 (2)	*	*	2 (2)	*	*
R.L. Curtis-Bowen	7 (8)	*	2 (3)	1 (1)	*	4 (5)
R.W. Barlow	6 (6)	3 (3)	*	*	*	3 (3)
Number of meetings	10	4	4	5	7	5

* Not a member of the Committee

Code Principle A2: Division of Responsibilities

"There should be a clear division of responsibilities at the head of the company between the running of the board and the executive responsibility for the running of the company's business. No one individual should have unfettered powers of decision."

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.

Code Principle A3: The Chair

"The chair is responsible for leadership of the board and ensuring its effectiveness on all aspects of its role."

Board comment:

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.

Code Principle A4: Non-Executive Directors

"As part of their role as members of a unitary board, non-executive directors should constructively challenge and help develop proposals on strategy."

Board comment:

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.

Code Principle B1: The Composition of the Board

"The board and its committees should have the appropriate balance of skills, experience, independence and knowledge of the company to enable them to discharge their respective duties and responsibilities effectively."

Board comment:

At 31 October 2019, the Board was made up of six Non-Executive Directors, including the Chair, Deputy Chair and Senior Independent Director, and two Executive Directors. The position of Finance Director is filled by an experienced Interim Finance Director who is not a member of the Board. 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 Mr D.C. Huntley. From the 1 November 2019, Mr R.W. Barlow took over this position.

Code Principle B2: Appointments to the Board

"There should be a formal, rigorous and transparent procedure for the appointment of new directors to the board."

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 our responsibility for our customers, we enlist the independent judgement of our 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 Approved Persons as defined by the Society's regulators, the PRA and FCA, and must continue to maintain the 'fit and proper' requirements of and comply with the Statements of Principle and the Code of Practice for Approved Persons.

Code Principle B3: Commitment

"All directors should be able to allocate sufficient time to the company to discharge their responsibilities effectively."

Board comment:

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 on page 9.

Code Principle B4: Development

"All directors should receive induction on joining the board and should regularly update and refresh their skills and knowledge."

Board comment:

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.

Code Principle B5: Information and Support

"The board should be supplied in a timely manner with information in a form and of a quality appropriate to enable it to discharge its duties."

Board comment:

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.

Code Principle B6: Evaluation

"The board should undertake a formal and rigorous annual evaluation of its own performance and that of its committees and individual directors."

Board comment:

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 Staff and 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 his assessment on each Director's contribution to the Board's performance, using criteria such as attendance, performance at meetings and additional training and development. The 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.

Code Principle B7: Re-election

"All directors should be submitted for re-election at regular intervals, subject to continued satisfactory performance."

Board comment:

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 Principle C1: Financial and business reporting

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

Board comment:

The Statement of Directors' Responsibilities on page 18 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 6.

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.

Code Principle C2: Risk Management and Internal Control

"The board is responsible for determining the nature and extent of the principal risks it is willing to take in achieving its strategic objectives. The board should maintain sound risk management and internal control systems."

Board comment:

The overall risk management of the Society is carried out through the Risk Committee, as described on page 8. 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 2018/19, 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.

Code Principle C3: Audit Committee and Auditors

"The board should establish formal and transparent arrangements for considering how they should apply the corporate reporting and risk management and internal control principles and for maintaining an appropriate relationship with the company's auditors."

Board comment:

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 13 and 14.

Code Principle D: Remuneration

The Directors' Remuneration Report on pages 15 to 17 explains how the Society complies with the provisions of the Code dealing with remuneration.

Code Principle E1: Dialogue with Shareholders

"There should be a dialogue with shareholders based on the mutual understanding of objectives. The board as a whole has responsibility for ensuring that a satisfactory dialogue with shareholders takes place."

Board comment:

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.

Code Principle E2: Constructive use of the Annual General Meeting

"The board should use the AGM to communicate with investors and to encourage their participation."

Board comment:

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, which is normally held in the early evening to encourage attendance. Members are again offered a choice as to how they may cast their vote, either by postal proxy, on-line voting or attendance at the AGM. For a number of years the Society has encouraged members to vote by linking the number of votes cast to a donation to charity. The Society will donate 20 pence per postal vote and 50 pence 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.

David Bowyer, Chair of the Board
22 January 2020

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.

Membership and attendance

The Audit and Compliance Committee consists of three Non-Executive Directors. The following Non-Executive Directors served during the year: H.E. Sachdev (Chair), M.W. Parrott (until 31 May 2019), R.W. Barlow (from 1 March 2019), and D.C. Huntley. 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.

Michael Parrott and Roger Barlow have 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 monitored the quality of the Society's loan book and has reviewed the appropriateness of the overall level of impairment provision. 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. The Committee has noted that the Auditor has downgraded this risk from 'key' to 'high' risk in the course of his audit.

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:

- Internal Liquidity Adequacy Assessment Process (ILAAP)
- Regulatory returns
- Treasury key controls
- Treasury credit and operational risk
- Liquidity and funding risk management
- Credit risk management framework
- Cyber risk management
- Financial crime and whistleblowing
- Management information
- Senior managers and certification regime

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:

- 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 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 B6. Accordingly, the Committee concluded that it operated effectively and in accordance with its terms of reference.

Helen Sachdev,
Chair of Audit and Compliance Committee
22 January 2020

Directors' Remuneration Report

The purpose of this report is to inform members, in line with good corporate governance practice, of the policy for the remuneration of the Society's Executive Management 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 Staff and 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 Staff and Remuneration Committee are noted in the table on page 9. 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 Staff and Remuneration Committee.

Executive Directors' Remuneration

Remuneration of the Society's Executive Directors can be comprised of a number of elements: basic salary, annual and medium term incentive schemes, 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 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 without them being 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.

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

This is 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 Staff and 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 whilst maintaining the financial strength of the Society for the long term benefit of its members. The maximum possible figure was set at 14.0% of basic salary (2017/18: 14.0%); the amount payable for 2018/19 is 14.0% (2017/18: 2.2%). Payment of the 2018/19 awards has been deferred until there is certainty of the outcome of the event referred to in the business review.

Medium Term Incentives

The Executive Directors have been invited to participate in a non-pensionable, performance related medium term incentive scheme which is payable on achievement of certain financial performance indicators and personal objectives. Performance is based on net mortgage lending over a 3 year period to 31 October 2020. Payment is not guaranteed and is subject to meeting a pre-tax profit test solely at the end of the third year of the scheme. The mortgage asset growth achieved for the year to 31 October 2019 met the notional 2019 interim performance indicators. However no payments are accrued or due to the Executives under this scheme until after the audited results have been finalised for 31 October 2020.

Pension Benefits

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

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 can be terminated by the Society following a maximum of 12 months' notice and by the individual Executive Directors on 12 months' notice.

Directors' Remuneration

Executive Directors (audited information)

2019	**Salary**	**Annual Performance Pay**	**Pension Contributions**	**Benefits**	**TOTAL**
	£000	**£000**	**£000**	**£000**	**£000**
G. Brebner	**150**	**21**	**32**	**11**	**214**
C. Joyce	**101**	**14**	**14**	**13**	**142**
S. J. Jeffries[1]	**49**	**-**	**6**	**3**	**58**
TOTALS	**300**	**35**	**52**	**27**	**414**

2018	Salary	Annual Performance Pay	Pension Contributions	Benefits	TOTAL
	£000	£000	£000	£000	£000
G. Brebner	144	3	31	11	189
C. Joyce	99	2	13	12	126
S.J. Jeffries	104	2	12	7	125
TOTALS	347	7	56	30	440

[1] Mr Jeffries resigned from the Board on 12 April 2019

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 2019	At 31 October 2018	**2019 Fees £000**	2018 Fees £000
D.T. Bowyer	**Chair of the Board**	Chair of the Board	**42**	41
I.J. Webb[1]	**-**	Deputy Chair of the Board	**4**	27
D.C. Huntley	**Senior Independent Director**	Senior Independent Director	**31**	28
M.W. Parrott[2]	**-**	-	**14**	27
J.E. Pilcher	**Chair of Risk Committee**	Chair of Risk Committee	**31**	30
H.E. Sachdev	**Deputy Chair of the Board, Chair of Audit and Compliance Committee**	Chair of Audit and Compliance Committee	**31**	27
R.L. Curtis-Bowen[3]	-	-	**22**	-
R.W. Barlow[4]	-	-	**17**	-
TOTALS			**192**	180

[1] I.J. Webb resigned from the Board on 31 December 2018

[2] M.W. Parrott resigned from the Board on 31 May 2019

[3] R.L. Curtis-Bowen joined the board on 1 December 2018

[4] R.W. Barlow joined the board on 1 March 2019

David Huntley,
Chair of Staff and Remuneration Committee
22 January 2020

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;
- prepare the annual accounts on the going concern basis unless it is inappropriate to presume that the Society will continue in business.

In addition to the annual accounts, the Act requires the Directors to prepare, for each financial year, an Annual Business Statement and a Directors' Report, each containing prescribed information relating to the business of the Society.

Directors' responsibilities for accounting records and internal controls

The Directors are responsible for ensuring that the Society:

- keeps proper accounting records that disclose with reasonable accuracy at any time the financial position of the Society, in accordance with the Act;

- takes reasonable care to establish, maintain, document and review such systems and controls as are appropriate to its business in accordance with the rules made by the Financial 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.

David Bowyer,
Chair of the Board
22 January 2020

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

Report on the audit of the financial statements

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 2019 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";
- 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 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).

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. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the Society.

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

Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: • Revenue recognition of other interest receivable and similar income; and • Loan loss provisioning Within this report, the key audit matters identified are the same as the prior year with the exception of hedge accounting. The prior year was a first year audit and we have now gained a detailed understanding of the Society's approach and sensitivity of key judgements applied in hedge accounting, it is therefore no longer considered a key audit matter.
Materiality	The materiality that we used in the Society's financial statements was £118k which represents 0.5% of net assets.
Significant changes in our approach	Materiality has been determined based on net assets and constitutes 0.5% of this balance (2018: 5% profit before tax ("PBT")). The key reasons for this change are that the overall capital base is a key focus area 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 has been considered a more appropriate base on which to determine materiality and is broadly consistent with other Societies of a similar size and nature as Loughborough Building Society.

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where: • the directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or • the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Society's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.	**We have nothing to report in respect of these matters.**

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.

Within this report, the key audit matters identified are the same as the prior year with the exception of hedge accounting. The prior year was a first year audit and we have now gained a detailed understanding of the Society's approach and sensitivity of key judgements applied in hedge accounting, it is therefore no longer considered a key audit matter.

Revenue recognition of other 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 £7.5m (2018: £7.0m).

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 judgements 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 on page 13.

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

We first obtained an understanding of the Society's process and key controls around revenue recognition by gaining an understanding of the process and reviewing management's judgement paper.

Following identification of the key controls we assessed the design and implementation of controls that the Society has in place over revenue recognition. Specifically, we assessed the implementation of 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 by reference to historical customer redemptions, over which we performed accuracy and completeness testing over the underlying data on a sample basis.

Additionally we challenged any amendments made to the behavioural lives by management during the course of the year, based on recent customer redemption activity.

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 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.

We determined the accounting for revenue to be appropriate, acceptable and materially in line with the requirements of IAS 39.

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 £256.6m (2018: £229.5m) of loans and advances to customers on which a loan loss provision of £1.1m (2018: £1.1m) 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") and forced sale discount ("FSD") assumptions due to the limited historical customer default data used in determining the collective provision. The key assumption in determining the specific provision has been determined as the valuation of the collateral held given the level of judgement involved.

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 judgements 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 page 13.

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

We first understood management's process and key controls around loan loss provisioning by gaining an understanding of the process and reviewing management's judgement paper.

Following identification of the key controls we evaluated the associated design and implementation of such controls. Specifically, we assessed the implementation of controls that the Society has in place to manage the risk of inappropriate assumptions being used in the loan loss provisioning models.

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 challenged management's consideration of the future economic environment, including the potential effect of the withdrawal of the United Kingdom from the European Union, particularly in relation to the valuation of collateral held, which are reducing as a result of Brexit's impact on the property market. We have independently assessed the valuation of the collateral held for a sample of the specific provision cases by validating the assumptions adopted by management and involving our property valuation specialists where appropriate.

As part of our wider assessment of the key audit matter we independently recalculated the loan loss provision for both the collective and specific provision 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.

Furthermore we independently assessed the valuation of the increase to the specific provision following the post balance sheet event, as explained on page 6 and in note 29 to the financial statements.

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.

Key observations

We concluded that management's approach to determining the collective provision was appropriate, albeit note that the provision itself was in the middle of an acceptable range in comparison to other peer groups with similar loan book size and inherent risk.

We concluded that the collective provision was materially reasonable in relation to the PD and FSD assumptions. We also concluded that the specific provision was appropriately stated in relation to the valuation of collateral held.

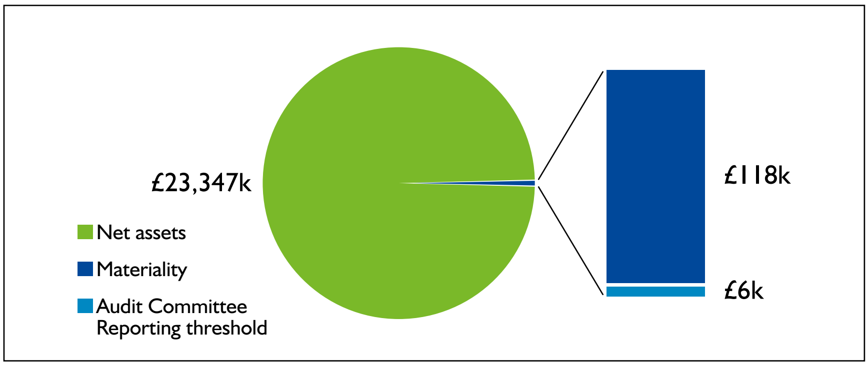
Our application of materiality

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:

Materiality	£118k (2018: £41k)
Basis for determining materiality	Materiality has been determined based on net assets and constitutes 0.5% of this balance. In 2018, we used 5% profit before tax ("PBT") as the basis.
Rationale for the benchmark applied	The key reasons for this change are that the overall capital base is a key focus area 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 has been considered a more appropriate base on which to determine materiality and is consistent with other Societies of a similar size and nature as Loughborough Building Society. This change in the benchmark has been communicated and agreed with the Audit and Compliance Committee.

We agreed with the Audit and Compliance Committee that we would report to the Committee all audit differences in excess of £6k (2018: £2k), 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.



An overview of the scope of our audit

Our audit was scoped by obtaining an understanding of the Society 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.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, including the Business Review and Summary Financial Statement including Notice of Annual General Meeting, other than the financial statements and our auditor's report thereon. 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. In connection with our audit of the financial statements, 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 audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. 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 respect of these matters.**

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.

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.

Details of the extent to which the audit was considered capable of detecting irregularities, including fraud are set out below.

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.

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

We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and then design and perform audit procedures responsive to those risks, including obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion.

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, our procedures included the following:

- enquiring of management, internal audit and the Audit and Compliance Committee, including obtaining and reviewing supporting documentation, concerning the Society's policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
  - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations;
- discussing among the engagement team and involving relevant internal specialists, including tax, financial instruments and information technology specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud. As part of this discussion, we identified potential for fraud in the complexity and estimation of redemption rates in determining interest receivable and the judgement involved in relation to the provision for loan loss estimates; and

- obtaining an understanding of the legal and regulatory framework that the Society operates in, focusing on those laws and regulations that had a direct effect on the financial statements or that had a fundamental effect on the operations of the Society. The key laws and regulations we considered in this context included the legislation imposed by the Financial Conduct Authority (FCA), Prudential Regulation authority (PRA), the Building Societies Act 1986 and tax legislations.

Audit response to risks identified
As a result of performing the above, we identified revenue recognition and loan loss provisioning as key audit matters. 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 relevant laws and regulations discussed above;
- 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

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.

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

In our opinion the information given on page 56 for the financial year ended 31 October 2019 has been properly prepared, in all material respects, in accordance with the Capital Requirements (Country-by-Country Reporting) Regulations 2013.

Matters on which we are required to report by exception

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 by the Society; or • the Society's financial statements are not in agreement with the accounting records; 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.**

Other matters

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 2 years, covering the years ending 31 October 2018 to 31 October 2019.

Consistency of the audit report with the additional report to the Audit and Compliance 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).

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, United Kingdom
22 January 2020

Income Statement

for the year ended 31 October 2019

	Notes	2019 £000	2018 £000
Interest receivable and similar income	2	**7,754**	7,236
Interest payable and similar charges	3	**(2,399)**	(2,133)
Net interest income		**5,355**	5,103
Fees and commissions receivable		**21**	24
Fees and commissions payable		**(60)**	(63)
Other operating income net of charges		**4**	2
Net (loss) / gain from derivative financial instruments	4	**(80)**	56
Total net income		**5,240**	5,122
Administrative expenses	5	**(4,105)**	(3,841)
Depreciation and amortisation	16,17	**(387)**	(366)
Operating profit before impairment losses and provisions		**748**	915
Impairment credit on loans and advances	15	**(279)**	(136)
Provisions for liabilities – FSCS	25	**(15)**	38
Profit before tax		**454**	817
Tax expense	9	**(92)**	(160)
Profit for the financial year		**362**	657

Other Comprehensive Income

for the year ended 31 October 2019

	2019 £000	2018 £000
Profit for the financial year	**362**	657
Other comprehensive income		
Changes in fair value of debt securities taken to available-for-sale reserve	**(29)**	17
Tax credit / (charge) on other comprehensive income	**5**	(2)
Total comprehensive income for the year	**338**	672

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

The notes on pages 30 to 56 form an integral part of these financial statements.

Statement of Financial Position

at 31 October 2019

	Notes	2019 £000	2018 £000
Assets			
Liquid assets			
Cash in hand and balances with the Bank of England	10	**38,685**	42,095
Loans and advances to credit institutions	11	**17,323**	16,060
Debt securities	12	**3,038**	12,099
Derivative financial instrument assets	13	**43**	196
Loans and advances to customers	14	**255,464**	228,417
Tangible fixed assets	16	**1,686**	1,810
Intangible assets	17	**805**	923
Stock	18	**360**	-
Other debtors	19	**448**	200
Total assets		**317,852**	301,800
Liabilities			
Shares	20	**248,647**	241,710
Amounts owed to credit institutions	21	**23,831**	15,315
Amounts owed to other customers	22	**20,359**	20,647
Derivative financial instrument liabilities	13	**831**	98
Other liabilities	23	**710**	888
Deferred tax liability	24	**117**	133
Provisions for liabilities	25	**10**	-
Total liabilities		**294,505**	278,791
Reserves			
General reserve		**23,331**	22,969
Available-for-sale reserve		**16**	40
Total reserves attributable to members of the Society		**23,347**	23,009
Total reserves and liabilities		**317,852**	301,800

The notes on pages 30 to 56 form an integral part of these financial statements.

These accounts were approved by the Board of Directors on 22 January 2020 and signed on its behalf:

David Bowyer
Chair of the Board

Helen Sachdev
Chair of Audit and Compliance Committee

Gary Brebner
Chief Executive

Statement of Changes in Member's Interests

	General reserve 2019 £000	Available-for-sale reserve 2019 £000	Total 2019 £000	General reserve 2018 £000	Available-for-sale reserve 2018 £000	Total 2018 £000
Balance at 1 November	**22,969**	**40**	**23,009**	22,312	25	22,337
Total comprehensive income for the year						
Profit for the financial year	**362**	**-**	**362**	657	-	657
Other comprehensive income:						
Changes in fair value of debt securities taken to available-for-sale reserve	**-**	**(29)**	**(29)**	-	17	17
Tax credit / (charge) on other comprehensive income	**-**	**5**	**5**	-	(2)	(2)
Total comprehensive income for the year	**362**	**(24)**	**338**	657	15	672
Balance at 31 October	**23,331**	**16**	**23,347**	22,969	40	23,009

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

Cash Flow Statement

	Notes	2019 £000	2018 £000
Cash flows from operating activities			
Profit before tax		**454**	817
Adjustments for			
Depreciation and amortisation		**387**	366
Increase / (decrease) in impairment of loans and advances		**23**	(141)
Total		**864**	1,042
Changes in operating assets and liabilities			
Increase in stock		**(360)**	-
Increase in prepayments, accrued income and other assets		**(218)**	(63)
Increase / (decrease) in accruals, deferred income and other liabilities		**51**	(84)
Increase in loans and advances to customers		**(27,070)**	(4,471)
Increase / (decrease) in shares		**6,806**	(10,336)
Increase in amounts owed to other credit institutions and other customers		**8,193**	15,551
Increase in loans and advances to credit institutions		**(3,874)**	(502)
Movement in derivative financial instruments		**886**	(175)
Change in debt securities		**-**	(5)
Taxation paid		**(155)**	(157)
Net cash (used in) / generated by operating activities		**(14,877)**	800
Cash flows from investing activities			
Purchase of debt securities	12	**(5,000)**	(13,000)
Disposal of debt securities	12	**14,000**	11,009
Purchase of tangible fixed assets	16	**(32)**	(416)
Purchase of intangible assets	17	**(113)**	(292)
Net cash generated / (used in) by investing activities		**8,855**	(2,699)
Net decrease in cash and cash equivalents		**(6,022)**	(1,899)
Cash and cash equivalents at 1 November		**46,561**	48,460
Cash and cash equivalents at 31 October		**40,539**	46,561
Cash and cash equivalents comprise:			
Cash in hand and balances at the Bank of England	10	**38,652**	42,053
Loans and advances to credit institutions repayable on demand	11	**1,887**	4,508
		40,539	46,561

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") as issued in September 2015. 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 EU). 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 1 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 LIBOR 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 6.

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 or in the case of 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.

Customers requesting a forbearance option 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 comprise a property asset acquired with a view to sale in the ordinary course of business. This asset is stated at the lower of cost and estimated selling price less costs to sell, which is equivalent to the net realisable value. Cost includes all costs of purchase and other costs incurred in bringing the property asset to its present condition. 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 21.5% (2018: 7.0% and 21.5%) 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. 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 £175,000 (2018: £156,000).

- 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:

- If the propensity to default on our loan book increased by 25%, the collective provision would increase by £84,000 (2018: £87,000).

- If the sales discount applied in our provisioning model increased by 5%, the overall provision level would increase by £166,000 (2018: 197,000).

2 Interest receivable and similar income

	2019 £000	2018 £000
On loans fully secured on residential property	**7,142**	6,629
On other loans	**361**	407
On debt securities	**79**	88
On liquid assets	**401**	369
Net interest expense on derivatives	**(229)**	(257)
	7,754	7,236

Included within interest receivable and similar income on debt securities is income from fixed income securities of £79,000 (2018: £88,000).

3 Interest payable and similar charges

	2019 £000	2018 £000
On shares held by individuals	**2,099**	1,960
On amounts owed to credit institutions and other customers	**300**	173
	2,399	2,133

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

	2019 £000	2018 £000
Derivatives in designated fair value hedge relationships	**(80)**	56

5 Administrative expenses

	2019 £000	2018 £000
Wages and salaries	**1,847**	1,765
Social security costs	**185**	178
Contributions to defined contribution plans	**184**	187
	2,216	2,130
Other administrative expenses	**1,889**	1,711
	4,105	3,841

The remuneration of the external auditor is set out below (excluding VAT):

	2019 £000	2018 £000
Audit of these annual accounts	**87**	57
Other services	**6**	6
	93	63

The audit charges relate to Deloitte LLP and includes other audit services of £6,000 (2018: £6,000).

6 Employee numbers

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

	2019	2018
Head Office		
Full time	**35**	33
Part time	**7**	9
	42	42
Branch Offices		
Full time	**7**	8
Part time	**8**	8
	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, Operations Director and Finance Director.

Total Directors' emoluments for the year amounted to £606,000 (2018: £620,000).

8 Directors' loans and transactions

i) Loans to Directors
At 31 October 2019 there was 1 (2018: 1) outstanding mortgage loan granted in the ordinary course of business to 1 (2018: 1) Director and connected persons, amounting in aggregate to £184,000 (2018: £248,000). 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 2019, 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 2019 was £20,000 (2018: £64,000).

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

9 Taxation

	2019 £000	2018 £000
Current tax		
Current tax on income for the period	**103**	152
Prior year adjustments	**-**	(10)
Total current tax	**103**	142
Deferred tax (see note 24)		
Origination and reversal of timing differences	**(11)**	5
Prior year adjustment	**-**	13
Total deferred tax	**(11)**	18
Total tax	**92**	160

	2019			2018		
	Current tax £000	**Deferred tax £000**	**Total tax £000**	Current tax £000	Deferred tax £000	Total tax £000
Recognised in the income statement	**103**	**(11)**	**92**	142	18	160
Recognised in other comprehensive income	**-**	**(5)**	**(5)**	-	2	2
Total tax	**103**	**(16)**	**87**	142	20	162

The standard rate of corporation tax in the UK was 19% (2018: 19%).

Reconciliation of effective tax rate

	2019 £000	2018 £000
Profit for the year	**454**	817
Tax using the UK corporation tax rate of 19% (2018: 19%)	**86**	155
Expenses not deductible	**6**	2
Adjustment in respect of prior years	**-**	3
Total tax expense included in profit or loss	**92**	160

10 Cash in hand and balances with the Bank of England

	2019 £000	2018 £000
Cash in hand	**90**	77
Balances with the Bank of England	**38,562**	41,976
Total included in "Cash and cash equivalents" per cash flow statement	**38,652**	42,053
Accrued interest	**33**	42
	38,685	42,095

11 Loans and advances to credit institutions

	2019 £000	2018 £000
Repayable on demand	**1,887**	4,508
In not more than three months	**2,526**	5,532
In more than three months but not more than one year	**12,910**	6,020
Total loans and advances to credit institutions	**17,323**	16,060
Total included within cash and cash equivalents	**1,887**	4,508

The above figures include accrued interest of £62,000 (2018: £52,000).

12 Debt securities

	2019 £000	2018 £000
Certificates of deposit (fixed income debt securities)	**3,019**	12,048
Accrued interest	**19**	51
	3,038	12,099
Debt securities have remaining maturities as follows:		
In no more than one year	**3,038**	12,099
Transferable debt securities comprise:		
Unlisted	**3,038**	12,099
	3,038	12,099

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

	2019 £000	2018 £000
At 1 November	**12,099**	10,069
Additions	**5,000**	13,000
Disposal and maturities	**(14,000)**	(11,009)
Net changes in accruals and amortisation	**(32)**	22
Net (losses) / gains from changes in fair value recognised in other comprehensive income	**(29)**	17
At 31 October	**3,038**	12,099

13 Derivative financial instruments

	2019 Notional principal amount £000	**2019** Positive market value £000	**2019** Negative market value £000	2018 Notional principal amount £000	2018 Positive market value £000	2018 Negative market value £000
Derivatives designated as fair value hedges:						
Interest rate swaps	**94,650**	**43**	**831**	75,650	196	98
	94,650	**43**	**831**	75,650	196	98

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

14 Loans and advances to customers

	2019 £000	2018 £000
Loans fully secured on residential property	**250,439**	222,931
Loans fully secured on land	**5,247**	6,685
Other loans	**193**	-
Provision for impairment losses	**(1,138)**	(1,115)
Fair value adjustment for hedged risk	**723**	(84)
Total included in Cash and cash equivalents per cash flow statement	**255,464**	228,417

	2019 £000	2018 £000
The remaining maturity of loans and advances to customers from the reporting date is as follows:		
On call and at short notice	**88**	-
In not more than three months	**338**	137
In more than three months but not more than one year	**1,568**	2,622
In more than one year but not more than five years	**18,203**	15,549
in more than five years	**236,405**	211,224
	256,602	229,532
Less: allowance for impairment (note 15)	**(1,138)**	(1,115)
	255,464	228,417

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

At 31 October 2019, the Society had pledged £27,164,000 (2018: £32,584,000) 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	Other loans £000	Total £000
At 1 November 2018			
Individual impairment	**606**	**163**	**769**
Collective impairment	**156**	**190**	**346**
	762	**353**	**1,115**
Income statement			
Impairment loss / (credit) on loans and advances			
Individual impairment	**87**	**190**	**277**
Collective impairment	**20**	**(18)**	**2**
	107	**172**	**279**
Amounts utilised during the year	**(105)**	**(151)**	**(256)**
	2	**21**	**23**
At 31 October 2019			
Individual impairment	**588**	**202**	**790**
Collective impairment	**176**	**172**	**348**
	764	**374**	**1,138**

	Loans fully secured on residential property £000	Other loans £000	Total £000
At 1 November 2017			
Individual impairment	743	205	948
Collective impairment	91	217	308
	834	422	1,256
Income statement			
Impairment loss / (credit) on loans and advances			
Individual impairment	140	(42)	98
Collective impairment	65	(27)	38
	205	(69)	136
Amounts utilised during the year	(277)	-	(277)
	(72)	(69)	(141)
At 31 October 2018			
Individual impairment	606	163	769
Collective impairment	156	190	346
	762	353	1,115

16 Tangible fixed assets

	Freehold Land and Buildings £000	Equipment, Fixtures, Fittings and Vehicles £000	Total £000
Cost			
Balance at 1 November 2018	1,331	1,661	2,992
Additions	-	32	32
Balance at 31 October 2019	1,331	1,693	3,024
Depreciation and impairment			
Balance at 1 November 2018	60	1,122	1,182
Depreciation charge for the year	22	134	156
Balance at 31 October 2019	82	1,256	1,338
Net book value			
At 1 November 2018	1,271	539	1,810
At 31 October 2019	1,249	437	1,686

The net book value of land and buildings occupied by the Society for its own activities is £1,120,000 (2018: £1,141,000).

17 Intangible fixed assets

	Software £000
Cost	
Balance at 1 November 2018	1,721
Additions	113
Balance at 31 October 2019	1,834
Amortisation and impairment	
Balance at 1 November 2018	798
Amortisation for the year	231
Balance at 31 October 2019	1,029
Net book value	
At 1 November 2018	923
At 31 October 2019	805

Intangible assets are represented by software costs incurred in developing the Society's core operating system commissioned in 2014 and originally amortised over 7 years. The overall system has multiple components which are managed and hosted by a single provider. During the year ended 31 October 2019, the Society entered into discussions with the provider over future developments and how the services are delivered and over what time period. As a result, the Society has reassessed downwards the remaining life of some of the software and hardware components currently used and increased others. The remaining net book value of the core platform is now depreciating over a further 3 years; 10 years in total. The total remaining depreciation period is now 5 years. Those components with a reduced useful life have been reduced to match their period of forecast service with a maximum new remaining period of 2 years.

18 Stock

	2019 £000	2018 £000
Property held for resale	**360**	-

19 Other Debtors

	2019 £000	2018 £000
Prepayments and accrued income	**448**	200

20 Shares

	2019 £000	2018 £000
Held by individuals	**248,647**	241,710
Shares are repayable with remaining maturities from the balance sheet date as follows:		
Accrued interest	**1,197**	1,065
On demand	**182,207**	184,525
In not more than three months	**44,238**	43,279
In more than three months but not more than six months	**5,841**	5,010
In more than six months but not more than one year	**6,492**	-
In more than one year but not more than five years	**8,672**	7,831
	248,647	241,710

21 Amounts owed to credit institutions

	2019 £000	2018 £000
Accrued interest	**31**	15
With agreed maturity dates or periods of notice		
In not more than three months	**9,000**	1,500
In more than three months but not more than one year	**3,500**	2,500
In more than one year but not more than five years	**11,300**	11,300
	23,831	15,315

22 Amounts owed to other customers

	2019 £000	2018 £000
Accrued interest	**69**	49
Repayable on demand	**11,015**	12,098
With agreed maturity dates or periods of notice		
In not more than three months	**4,000**	7,000
In more than three months but not more than one year	**5,275**	1,500
	20,359	20,647

23 Other liabilities

	2019 £000	2018 £000
Corporation tax	**120**	172
Taxation and social security	**53**	55
Other creditors	**537**	661
	710	888

24 Deferred tax and liabilities

The elements of deferred taxation are as follows:

	2019 £000	2018 £000
Difference between accumulated depreciation and capital allowances	**109**	125
Short term timing differences	**(23)**	(23)
Capital gains	**31**	31
Net deferred tax liability	**117**	133

The deferred tax liability has been provided at a rate of 17% (2018: 17%) which is the rate applicable when the deferred tax liability is expected to crystallise.

25 Provisions for liabilities

	FSCS levy £000
Balance at 1 November 2018	-
Amount charged during the year	**15**
Amount paid during the year	**(5)**
Balance at 31 October 2019	**10**

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 2019 includes an estimate of the management levy for the scheme year 2018/19. No further provision has been made for any levies relating to 2019/20 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 2019	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	-	38,685	-	-	-	38,685
Loans and advances to credit institutions	17,323	-	-	-	-	17,323
Debt securities	-	-	3,038	-	-	3,038
Derivative financial instruments	-	-	-	43	-	43
Loans and advances to customers	255,464	-	-	-	-	255,464
Total financial assets	272,787	38,685	3,038	43	-	314,553
Non-financial assets	-	3,299	-	-	-	3,299
Total assets	272,787	41,984	3,038	43	-	317,852
Financial liabilities						
Shares	-	248,647	-	-	-	248,647
Amounts owed to credit institutions	-	23,831	-	-	-	23,831
Amounts owed to other customers	-	20,359	-	-	-	20,359
Derivative financial instruments	-	-	-	831	-	831
Total financial liabilities	-	292,837	-	831	-	293,668
Non-financial liabilities	-	837	-	-	-	837
Total liabilities	-	293,674	-	831	-	294,505

Carrying values by category

31 October 2018	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	-	42,095	-	-	-	42,095
Loans and advances to credit institutions	16,060	-	-	-	-	16,060
Debt securities	-	-	12,099	-	-	12,099
Derivative financial instruments	-	-	-	196	-	196
Loans and advances to customers	228,417	-	-	-	-	228,417
Total financial assets	244,477	42,095	12,099	196	-	298,867
Non-financial assets	-	2,933	-	-	-	2,933
Total assets	244,477	45,028	12,099	196	-	301,800
Financial liabilities						
Shares	-	241,710	-	-	-	241,710
Amounts owed to credit institutions	-	15,315	-	-	-	15,315
Amounts owed to other customers	-	20,647	-	-	-	20,647
Derivative financial instruments	-	-	-	95	3	98
Total financial liabilities	-	277,672	-	95	3	277,770
Non-financial liabilities	-	1,021	-	-	-	1,021
Total liabilities	-	278,693	-	95	3	278,791

At the year end, the Society has loan commitments of £20.5m (2018: £15.9m) 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 2019	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Financial assets				
Available-for-sale				
Debt securities	**3,038**	**-**	**-**	**3,038**
Fair value through profit and loss				
Interest rate swaps	**-**	**43**	**-**	**43**
	3,038	**43**	**-**	**3,081**
Financial liabilities				
Fair value through profit and loss				
Interest rate swaps	**-**	**831**	**-**	**831**
	-	**831**	**-**	**831**

31 October 2018				
Financial assets				
Available-for-sale				
Debt securities	12,099	-	-	12,099
Fair value through profit and loss				
Interest rate swaps	-	196	-	196
	12,099	196	-	12,295
Financial liabilities				
Fair value through profit and loss				
Interest rate swaps	-	98	-	98
	-	98	-	98

Financial assets pledged as collateral

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

	2019 £000	2018 £000
Loans and advances to customers	**27,164**	32,584

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:

	2019	2018
	£000	£000
Cash in hand and balances at the Bank of England	**38,685**	42,095
Loans and advances to credit institutions	**17,323**	16,060
Debt securities	**3,038**	12,099
Derivative financial instruments	**43**	196
Loans and advances to customers	**255,464**	228,417
Total statement of financial position exposure	**314,553**	298,867
Off balance sheet exposure – mortgage commitments	**20,526**	15,943
	335,079	314,810

Concentration risk

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

Concentration by Fitch credit rating	**2019**	2018
	£000	£000
AA+ to AA-	**38,620**	47,094
A+ to A-	**5,901**	12,432
Below A- and unrated Building Societies	**14,525**	10,728
	59,046	70,254

Concentration by Industry sector	**2019**	2018
	£000	£000
Banks	**5,888**	13,662
Building Societies	**14,563**	14,574
Central Bank	**38,595**	42,018
	59,046	70,254

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.

	2019 Loans fully secured on residential property £000	2019 Other loans £000	2018 Loans fully secured on residential property £000	2018 Other loans £000
Neither past due nor impaired	**246,434**	**5,126**	217,347	5,729
Past due but not impaired				
Up to 3 months	**2,358**	**-**	2,348	-
Over 3 months	**622**	**-**	789	-
	249,414	**5,126**	220,484	5,729
Individually impaired				
Not past due	**-**	**-**	-	312
Up to 3 months	**402**	**-**	956	98
Over 3 months	**1,346**	**314**	1,407	546
Total balances gross of provisions	**251,162**	**5,440**	222,847	6,685
Allowance for impairment				
Individual	**588**	**202**	606	163
Collective	**176**	**172**	156	190
Total allowance for impairment	**764**	**374**	762	353
Total balances net of provisions	**250,398**	**5,066**	222,085	6,332

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 was 1 (2018: 3) case 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 2019 %	Percentage of exposure that is subject to collateral requirements 2018 %	Principal type of collateral held
Loans and advances to customers	**99.9**	100	Property

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

	2019 £000	2018 £000
East Anglia	**5,043**	3,135
East Midlands	**116,555**	115,802
Greater London	**9,797**	8,244
North	**6,864**	6,233
North West	**21,429**	18,505
Outer South East	**29,550**	22,785
South West	**15,774**	12,586
Wales	**9,193**	7,604
West Midlands	**21,089**	18,126
Yorkshire and Humberside	**21,308**	16,512
	256,602	229,532

The tables below stratify credit exposures from 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.

	2019 £000	2018 £000
Loans fully secured on residential property – LTV ratio		
Up to 50%	**76,097**	69,961
>50 – 70%	**83,077**	83,883
>70 – 90%	**78,777**	64,274
>90 – 100%	**13,404**	4,729
	251,355	222,847
Loans fully secured on land	**5,247**	6,685
	256,602	229,532

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.

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

	2019 Number	2018 Number
Temporary concession	**1**	1
Loan re-structuring	**9**	9
	10	10

In total £880,000 (2018: £877,000) of mortgage loans are subject to forbearance. Individual impairment provisions of £nil (2018: £nil) are held in respect of these mortgages.

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 20.2% (2018: 25.3%).

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 2019	On demand £000	Not more than three months £000	More than three months but not more than one year £000	More than one year but not more than five years £000	More than five years £000	No specific maturity and loss provision £000	Total £000
Financial assets							
Cash in hand and balances with the Bank of England	38,685	-	-	-	-	-	38,685
Loans and advances to credit institutions	1,887	2,526	12,910	-	-	-	17,323
Debt securities	-	1,021	2,017	-	-	-	3,038
Derivative financial instruments	-	-	3	40	-	-	43
Loans and advances to customers	88	338	1,568	18,203	236,405	(1,138)	255,464
Tangible and intangible assets and other assets	-	-	-	-	-	3,299	3,299
Total financial assets	40,660	3,885	16,498	18,243	236,405	2,161	317,852
Financial liabilities							
Shares	183,272	44,261	12,373	8,741	-	-	248,647
Amounts owed to credit institutions	-	9,029	3,502	11,300	-	-	23,831
Amounts owed to other customers	11,054	4,014	17	5,274	-	-	20,359
Derivative financial instruments	-	1	22	808	-	-	831
	194,326	57,305	15,914	26,123	-	-	293,668
Other liabilities	-	-	-	-	-	837	837
Reserves	-	-	-	-	-	23,347	23,347
Total financial liabilities	194,326	57,305	15,914	26,123	-	24,184	317,852
Net liquidity gap	(153,666)	(53,420)	584	(7,880)	236,405	(22,023)	-

31 October 2018

	On demand £000	Not more than three months £000	More than three months but not more than one year £000	More than one year but not more than five years £000	More than five years £000	No specific maturity and loss provision £000	Total £000
Financial assets							
Cash in hand and balances with the Bank of England	42,095	-	-	-	-	-	42,095
Loans and advances to credit institutions	4,508	5,532	6,020	-	-	-	16,060
Debt securities	-	3,032	9,067	-	-	-	12,099
Derivative financial instruments	-	-	10	186	-	-	196
Loans and advances to customers	-	137	2,622	15,549	211,224	(1,115)	228,417
Tangible and intangible assets and other assets	-	-	-	-	-	2,933	2,933
Total financial assets	46,603	8,701	17,719	15,735	211,224	1,818	301,800
Financial liabilities							
Shares	185,516	43,292	5,025	7,877	-	-	241,710
Amounts owed to credit institutions	-	1,515	2,500	11,300	-	-	15,315
Amounts owed to other customers	12,136	7,011	-	1,500	-	-	20,647
Derivative financial instruments	-	8	28	62	-	-	98
	197,652	51,826	7,553	20,739	-	-	277,770
Other liabilities	-	-	-	-	-	1,021	1,021
Reserves	-	-	-	-	-	23,009	23,009
Total financial liabilities	197,652	51,826	7,553	20,739	-	24,030	301,800
Net liquidity gap	(151,049)	(43,125)	10,166	(5,004)	211,224	(22,212)	-

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 2019	On demand £000	Not more than three months £000	More than three months but not more than one year £000	More than one year but not more than five years £000	More than five years £000	Total £000
Financial liabilities						
Shares	183,272	44,307	12,434	9,167	-	249,180
Amounts owed to credit institutions	-	9,040	3,525	11,546	-	24,111
Amounts owed to other customers	11,054	4,036	5,332	-	-	20,422
Derivative financial instruments	-	1	22	808	-	831
	194,326	57,384	21,313	21,521	-	294,544

31 October 2018	On demand £000	Not more than three months £000	More than three months but not more than one year £000	More than one year but not more than five years £000	More than five years £000	Total £000
Financial liabilities						
Shares	185,516	43,313	5,060	8,018	-	241,907
Amounts owed to credit institutions	-	1,518	2,515	11,619	-	15,652
Amounts owed to other customers	12,136	7,029	1,510	-	-	20,675
Derivative financial instruments	-	21	84	1,220	-	1,325
	197,652	51,881	9,169	20,857	-	279,559

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.

	2019	2018
	£000	£000
Sensitivity of projected net interest income to a +2% parallel shift		
At 31 October	**292**	425
Average for the period	**351**	316
Maximum for the period	**467**	496
Minimum for the period	**231**	215

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:

	2019		2018	
	Assets	**Liabilities**	Assets	Liabilities
	£000	**£000**	£000	£000
Instrument type:				
Interest rate swap	**43**	**831**	196	98

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 Total Capital Requirement (TCR) 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 2019 (2018: 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 2019 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 £5.4m
Average number of employees on a full-time equivalent basis	50
Profit before tax	£0.45m
UK corporation tax paid in the year	£0.09m
Public subsidies received	None

29 Post Balance Sheet Event

Immediately prior to finalising the financial statements, the Society became aware of an administrative error relating to the legal charge on one of its residential mortgage loans in the amount of £193,000.

Following an investigation into the event and other similar transactions, Management are confident that the error does not represent a systemic failure in controls and is an isolated processing error.

The resolution of this matter is likely to take several months and, as the property concerned was in possession, the Society has therefore taken the prudent approach of providing for the position in full in these accounts.

Annual Business Statement

1 Statutory Percentages

	2019	Statutory Limit
	%	%
Lending limit	**2.35**	**25.00**
Funding limit	**15.09**	**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

	2019	2018
	%	%
As a percentage of shares and borrowings:		
Gross capital	**7.97**	8.29
Free capital	**7.24**	7.43
Liquid assets	**20.16**	25.30
As a percentage of mean total assets:		
Profit the financial year	**0.12**	0.22
Management expenses	**1.45**	1.41

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 27.

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.

4 Information relating to the Directors at 31 October 2019

Name (Date of birth)	Date of appointment	Business occupation	Other Directorships
D.T. Bowyer Chair of the Board (03.03.55)	01.03.10	Chartered Accountant	Age Concern (Solihull)
G Brebner (02.05.60)	13.07.09	Building Society Chief Executive	None
D.C. Huntley (07.02.61)	01.10.16	Executive Coach	Scottish Friendly Assurance Society FIL Life (UK) Limited FIL Life (Ireland) DAC Huntley Consulting Limited Canada Life Pension Managers & Trustees Limited
C. Joyce (21.05.63)	10.11.03	Building Society Operations Director	None
J.E. Pilcher (29.10.62)	01.05.16	Group Treasurer	Anglian Water Services Financing Plc Anglian Water Services Holdings Limited Anglian Water Services UK Parent Co Limited
H.E. Sachdev (18.09.65)	01.03.17	Chief Operating Officer	AiNED WOMBA Limited
R.L. Curtis-Bowen (07.01.74)	01.12.18	Chief Customer Officer	Cambridge and Counties Bank RCB Property Limited RD Bowen Property Limited
R.W. Barlow (04.01.54)	01.03.19	Non-Executive Director Chartered Accountant	Bank & Clients Plc Anexo Plc Sapien Partnership Limited Impact Holdings (UK) Plc

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

The Executive Directors are employed under on-going contracts requiring a maximum of 12 months' notice by the Society and 12 months' notice by the individual. The contract for Gary Brebner was entered into on 1 July 2009. The contract for Caroline Joyce was entered into on 19 October 2004.

The Loughborough Building Society

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Established 1867