Lending Standards Board
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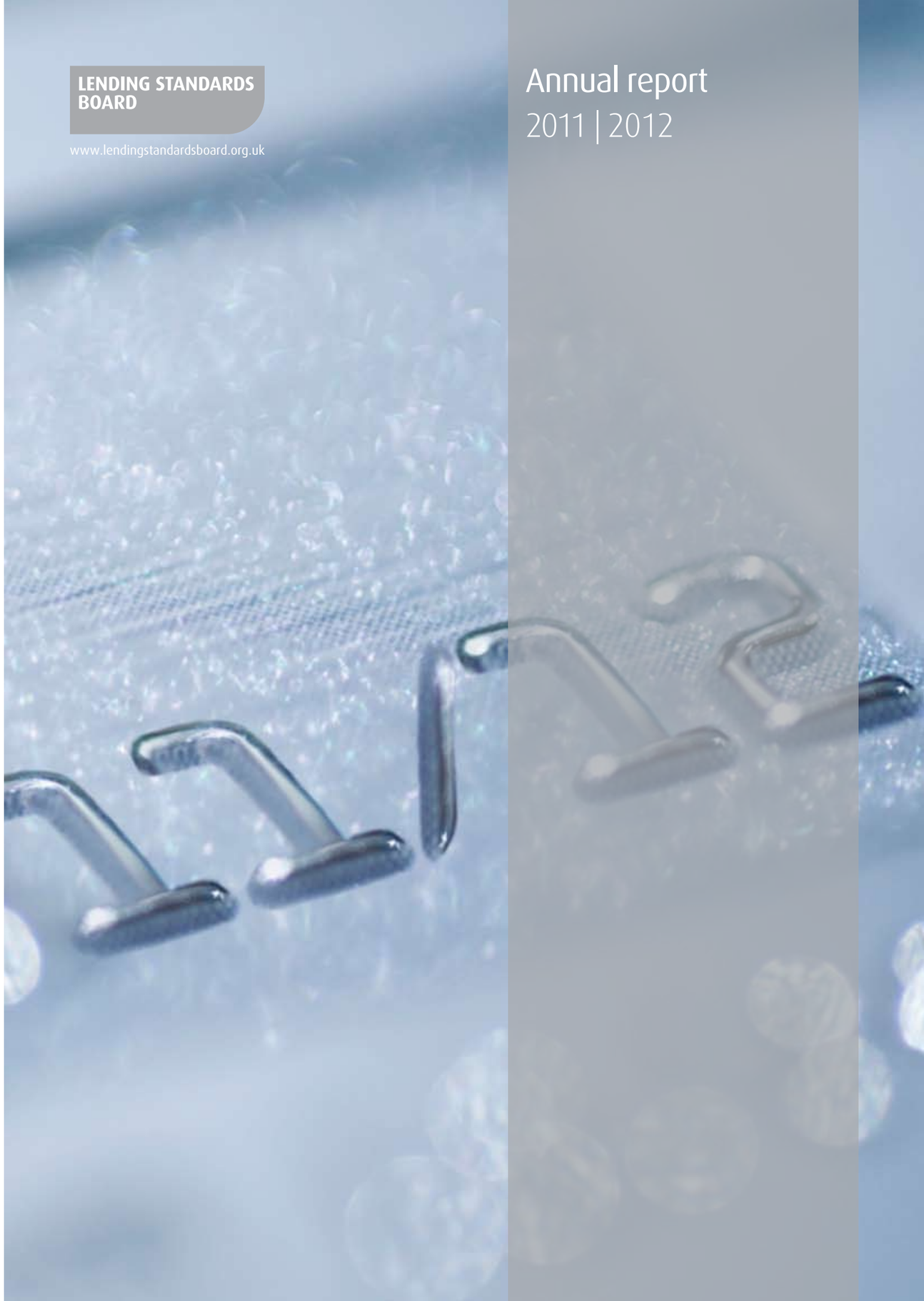
www.lendingstandardboard.org.uk

LENDING STANDARDS BOARD

www.lendingstandardsboard.org.uk



LENDING STANDARDS BOARD

www.lendingstandardsboard.org.uk

Annual report
2011 | 2012

Who are we and what do we do?

Contents

assist
monitor
enforce

The role of the Lending Standards Board is to monitor and enforce the Lending Code

The Lending Standards Board (LSB) is the successor organisation to the Banking Code Standards Board and began its work on 2 November 2009.

The LSB's key objectives are:

- To assist firms to interpret and meet the requirements of the Lending Code.
- To monitor and enforce compliance with the Code and take enforcement action for material breaches.
- To identify any gaps and deficiencies in the Code that could lead to consumer detriment and to advocate change.

The Lending Code is owned by the sponsoring bodies – the British Bankers' Association (BBA), the Building Societies Association (BSA) and The UK Cards Association.

The Lending Code replaced the Banking Codes following the transfer of responsibilities for the conduct of business regulation for deposit and payment products to the FSA on 1 November 2009. The Lending Code protects the following types of borrowing customer:

- a consumer
- a micro-enterprise
- a charity which has an annual income of less than £1 million.

A micro-enterprise is a business that employs fewer than 10 persons and has a turnover or annual balance sheet that does not exceed €2 million.

The Lending Code sets standards of good lending practice in relation to loans, credit and charge cards and current account overdrafts. It does not apply to non-business borrowing secured on land, store cards or to sales finance. The Code contains key commitments and detailed requirements on how customers should be dealt with through the whole product life cycle, from marketing and account opening, maintenance and the provision of information on changes to terms and conditions and interest rates. Important protection is also included to help when something goes wrong, including when someone is experiencing financial difficulties.

The text of the Lending Code can be found on our website: **www.lendingstandardsboard.org.uk** This also lists all current Lending Code subscribers.

Chairman's Statement

The LSB's objective is that borrowers are treated fairly by firms who subscribe to the Lending Code. We seek to achieve this by monitoring and enforcing compliance with both the letter and the spirit of the Lending Code and by working with the Code Sponsors, subscribers and consumer bodies to address emerging areas of potential consumer detriment.

Our self-regulatory regime, sitting alongside the statutory rules, has benefits for both consumers and the industry. I believe that they have both been well served by it during the year despite the problems that have been seen in other parts of the financial services market beyond the scope of the Code.

However, there remains considerable uncertainty around how consumer credit will be regulated in the future and what this will mean for the Lending Code and the LSB.

Although government has signalled its clear intent to transfer responsibility for consumer credit from the Office of Fair Trading (OFT) to the new Financial Conduct Authority (FCA), it is not yet clear what the new regulatory regime will actually look like. The Financial Services Bill, which will enable this transfer, is expected to receive Royal Assent later this year, but much detailed work has still to be carried out to ensure that the new regime is an appropriate response to the risks in this market and provides a level of consumer protection that represents a real improvement on what we have today.

The LSB supports the move to a single statutory regulator for all retail banking products and believes that self-regulation, via effectively monitored and enforced industry codes, would bring additional and complementary benefits to a purely statutory approach and should be considered fully in designing the new regime.

Self-regulation can be more flexible and responsive to change and emerging issues. It also offers a vehicle to embody industry best practice and can provide a level of detail that supports the high level rules. The Lending Code has demonstrated an ability to set standards that go beyond the statutory rules – the new provisions on debt sale mentioned in the Chief Executive's review are a good example of this and the LSB has an excellent track record of ensuring compliance with the Code.

It should not, in my view, be a choice between statutory or self-regulation – they both have a place and I strongly believe the best outcome would be for them to continue to co-exist. We should take the best of what each has to offer to achieve an appropriate and proportionate balance between consumer protection and the commercial needs of a properly functioning competitive market.

Not all the codes of practice that cover consumer credit have standards as strong as those in the Lending Code and there are varying levels of compliance monitoring and enforcement. But replacing these industry codes with vast tomes of detailed, prescriptive statutory rules is not the answer to achieve a regime that meets one of the first principles of good regulation – Proportionality. Better to work with the industry to encourage them to include higher standards in the codes, as government is doing in the payday lending market, and that compliance is independently monitored and enforced.

The LSB will continue to participate fully in discussions on the design of the new regime and in the transitional arrangements to ensure there is no weakening of consumer protection during the move to the new regime and that the benefits that self-regulation can bring are not lost.

Despite these uncertainties, for now it is 'business as usual' for the LSB. It has been another busy year. The Code has continued to develop with all the changes introduced following last year's independent review now fully implemented as well as new rules and guidance that have been issued during the year, most particularly in the area of financial difficulties which has rightly remained very high on the Board's agenda. Overall, compliance with the Code is high and we have not had to resort to formal enforcement action this year. However, where subscribers have not met the standards we would expect, we have identified these short-comings and agreed remedial action. A summary of our work during the year and our future priorities can be found in the Chief Executive's review.

I was very pleased that we were able to agree a Memorandum of Understanding with the OFT which was signed in December, mirroring a similar arrangement that has existed with the FSA for a number of years. We have been working increasingly closely with the OFT and the MoU sets out a formal framework covering co-operation and communication. I believe our work over the last 12 months provides an excellent demonstration of how self-regulatory bodies can work effectively with statutory regulators.

Self-regulation only works if it has the full support of those who are regulated. I am pleased to say that the LSB continues to enjoy a very good relationship with the Code Sponsors – the BBA, BSA and The UK Cards Association and their members who subscribe to the Code. During the year they have again demonstrated their commitment to ensuring the Code evolves to address areas of potential consumer detriment.

There were two changes to the Board during the year. Sadly, Sir Robin Mountfield died in November. Robin made an enormous contribution to our work over the five years that he served on the Board, in particular during the organisational transformation from the Banking Code Standards Board to the LSB. He will be missed greatly. We were delighted to welcome Lady Bloom to replace Robin. Margaret brings with her considerable knowledge and experience of consumer credit, debt advice and competition issues and I am sure that the Board will benefit greatly as a result.

I would like to finish by thanking Robert Skinner and his team who, despite the distractions of the debate over the future of consumer credit regulation and the potential impact for the LSB, have continued to do an excellent job.

Lord Hunt of Wirral
Chairman
July 2012.

Reflecting the challenging economic climate, a major focus of our work during the year has been on how firms support customers who are in or are at risk of financial difficulties and in particular ensuring that the changes introduced at the beginning of the year, following the independent review of the Lending Code undertaken by Professor Lorne Crerar in 2010, have been embedded into policies and procedures.

Overall our extensive reviews evidenced good standards of support for customers in financial difficulties and the vast majority continue to receive sympathetic and positive treatment. However, at one subscriber, we did find a number of Code breaches and areas of poor practice requiring urgent corrective action. This subsequently led us to issue a Chief Executive's Warning to the firm and we will shortly be undertaking a full review of its compliance with all aspects of the Code.

Further information on our themed reviews is given below. Summary reports of each can be found on our website and in our Bulletins.

At the end of the year, there were 41 subscribers to the Lending Code regime including virtually all significant providers of products covered. The Lending Code continues to enjoy the full support of the Sponsors and their members who have again demonstrated their willingness to agree changes to the Code outside the formal review process when the LSB has identified areas of potential consumer detriment.

In addition to the 40 significant changes made following Professor Crerar's review, which were introduced in 2011, we have recently agreed with the Code Sponsors additional provisions to provide greater protection to customers where the collection of their debt is outsourced or sold to a third party. New rules, which became effective in May 2012, require subscribers to undertake routine audits and monitoring of firms to whom they sell debts to ensure that customers continue to be dealt with in a manner consistent with the Lending Code. A new edition of the Lending Code reflecting these new provisions has now been issued.

As well as these changes to the Code itself, we have also issued guidance to firms during the year on a number of issues including the pre-notification of current account charges and changes to credit card minimum payments.

Compliance Monitoring

The LSB takes a risk based approach to monitoring compliance with the Code which we believe is proportionate to the potential detriment to consumers and cost effective.

During the year we undertook four themed reviews and a number of ad-hoc investigations. We also completed a full analysis of each subscriber's Annual Statement of Compliance (ASC) which this year required firms to provide much greater information on their internal policies and procedures designed to ensure full compliance with the Code.

A total of 42 breaches were found during our monitoring work and a further 38 were identified from the ASCs. The majority of these were minor, technical breaches with minimal consumer detriment. For all significant breaches, we require the firm to agree a remedial action plan with us to rectify the problems identified. Follow up checks are then made after 6 months (in the case of all Red reports) or 12 months to ensure full compliance has been achieved with both the letter and spirit of the Code.

Financial Difficulties

The review involved nine subscribers, representing a cross-section of lenders offering overdrafts, loans and credit cards, through branch, internet and telephone channels, and included a sample of Debt Collection Agents (DCAs) working on their behalf. Our findings indicated that the majority of customers in financial difficulties continue to experience sympathetic and positive treatment.

Across the nine participating firms and their agents, we assessed a total of 1,245 files and telephone calls across multiple sites. In around 10% of the cases sampled, issues were identified that may have led to a less than satisfactory outcome for customers or which suggested non-compliance with the Code.

At one subscriber we found a number of breaches and management weaknesses which, as mentioned above, resulted in a Red assessment grading. At four firms, although we identified breaches of the Code, these were occurring for the first time, were inadvertent and their impact did not affect significant numbers of customers or have a financial impact for any one customer that we deemed to be significant. We issued Amber grading assessments to these subscribers to acknowledge the existence of some areas for improvement. At one subscriber we found no issues, and at three others identified only minor or technical concerns where no customer detriment had occurred. We issued Green assessment gradings to all of these subscribers.

Despite the continuing uncertainty regarding the future regulation of consumer credit covered in the Chairman's Statement, it has been very much business as usual for the LSB and we have again undertaken a major programme of monitoring work.

Across the participating subscribers in the review, the issues identified included:

- Collections staff agreeing repayments plans and making decisions based on out of date information
- Collections staff requesting increased repayment amounts from customers who had already confirmed limited affordability, or where no affordability checks had been made
- Confirmation of repayment arrangements were not sent unless requested by the customer
- On occasion customers were sent letters, information and agreements in relation to financial difficulties which were unclear or which did not adequately explain the action that would be taken
- In a number of calls customers said that they had engaged the services of a third party debt manager/advice agency. However advisers continued their attempts to negotiate with the customer rather than referring to the third party
- On more than one occasion we identified a subscriber's strategy for refunding charges being administered inconsistently.

Remedial action plans have been agreed to ensure these issues are addressed by subscribers.

Opt-out from unarranged overdrafts

Section 5 of the Code includes provisions relating to the marketing and operation of current accounts with a facility to opt-out from unarranged overdrafts. These new standards were developed following agreement in 2010 between the OFT and the main current account providers and became effective in July 2011. In addition, subscribers have an obligation under Section 9 of the Code to consider a range of solutions to assist personal customers who are identified as being at risk of being in financial difficulty, which may include promotion of an opt-out from unarranged overdrafts where such a facility is available.

The LSB agreed to undertake a review of subscriber compliance with the standards within six months of implementation. At the time of our review, only three subscribers were offering products that allow customers to opt-out of unauthorised overdraft and no breaches of the Code were identified. Subscribers were seen to be acting proactively to make customers aware of the ability to opt-out, at appropriate times and in line with the requirements of both Section 5 and Section 9 of the Code. Work in this area will continue as other subscribers bring opt-out products to the market.

Credit Assessment

The review involved six subscribers and Green assessments were issued in all cases. No breaches of the Code or management weaknesses were found and no remedial action plans were required, indicating that standards of compliance and practice in relation to credit assessment activities remain very high.

The majority of subscribers continue to operate restrictive credit assessment criteria in response to the current economic environment. Before lending any money, granting or increasing an overdraft, credit card limit or other borrowing, subscribers always assessed whether the customer would be able to repay it in a sustainable manner.

We also checked that customers applying for a credit product or credit line increase are made aware of the information that will be shared with credit reference agencies.

Credit card provisions and UK cards Best Practice Guidelines

The UK Cards Association publishes a variety of Best Practice Guidelines (BPGs) for its members to follow in relation to credit cards. All relevant BPGs are covered by the Lending Code's monitoring and enforcement regime.

A total of 16 breaches were identified across the six subscribers reviewed. Only one failing related to something other than the provision of information on monthly statements.

Of the statement-related breaches, eight occurred as a result of incomplete, inadequate or unclear information provision which did not meet the full requirements of paragraph 127 of the Code. We did not find any issues with the paper and web-based literature provided to applicants pre- and post-sale.

Overall, we are of the view that standards of compliance with the BPGs and the associated Code provisions are good, and have improved since our previous review.

Enforcement

There were no cases which warranted consideration by our Adjudications Committee this year.

Whilst we did consider formal enforcement action in respect of the subscriber that received the Red rating for compliance with the financial difficulties provisions, we decided that on balance this fell just short of the materiality test. As mentioned above, we did however issue a Chief Executive's Warning and obtained senior level commitment to a remedial action plan which we are monitoring to completion.

A further 56 breaches were advised to the Board which had been dealt with under the 'Remedial Action Agreed by Executive' procedure.

Focus of our future work

Financial difficulties will remain central to our future monitoring work and a further themed review will be undertaken later this year. We will also be undertaking a review of compliance with the various provisions in the Code relating to lending to micro-enterprises across a range of subscribers who service this market.

Work is planned to look at how firms handle disputed credit card transactions, which continues to get regular media coverage and what might be done to improve the clarity and timeliness of communications to customers who incur charges for unarranged overdrafts.

Aside from our themed review work we also intend to undertake a number of full and partial code reviews at subscribers where their ASC or intelligence received from third parties gives us cause for concern.

Working with others

The LSB maintains a close working relationship with the key consumer and debt advice bodies, who provide both important market intelligence to assist in prioritising our monitoring work and identify areas of potential consumer detriment as well as referring specific cases to us which they feel are breaches of the Code and could be systemic. We are grateful for their continued support.

As mentioned in the Chairman's Statement, in December 2011 we signed a MoU with the OFT which establishes a framework for co-operation and communication. This provides for regular liaison and information sharing and allows for the referral of both industry level and firm specific concerns to the LSB for investigation. The LSB also has a MoU with the FSA and a Statement of roles and responsibilities with the FOS. Copies of all three documents can be accessed via the LSB website.

The LSB meets regularly with the various trade bodies active in the consumer credit market. The Credit Services Association (CSA), the trade body for the debt collection industry and their Debt Buyers and Sellers Group have been very helpful in providing feedback on the new provisions covering the outsourcing of debt collection and the sale of debt.

We have responded to a range of consultations during the year which, in addition to the HMT/BIS consultation on the future of consumer credit regulation, have also included the OFT's Irresponsible Lending and Debt Collection Guidance, the FSA/OFT consultation on the sale of PPI-type products and the FOS consultation on the publication of its decisions.

The LSB team

The LSB would not be able to maintain its high standing with stakeholders without the hard work and dedication shown by my colleagues at the LSB and I would like to thank both the staff and the Board for all their support during the year. After some 8 years with the BCSB and LSB, our Compliance Director, Paul Smith left us in May 2012 to move into the world of consultancy. We wish him well. Paul has been replaced by Chris McAteer.

Robert Skinner
Chief Executive
July 2012

Themed reviews undertaken	2011/12			2010/11			2009/10		
	Green	Amber	Red	Green	Amber	Red	Green	Amber	Red
Credit Assessment	6						9		
Bankers right of set-off				9					
Financial difficulties	4	4	1	12	2	2	6	4	1
Risk based interest rate re-pricing							15		
UK cards best practice guidelines							9	2	
Unauthorised credit card transactions				7					
Opt-out from unauthorised overdraft	3								
Credit card provisions and UK Cards BPGs	2	4							

The Board consists of eight Directors: three public interest Directors, an independent Chairman, representatives of the three sponsoring trade bodies and the Chief Executive of the LSB.

Our People

Board members at 31 March 2012

Chairman

The Right Hon The Lord Hunt of Wirral MBE

David Hunt has been a parliamentarian for 36 years, first as MP for Wirral, then moving from the House of Commons to the House of Lords in 1997. He has been a partner in DAC Beachcroft LLP, solicitors, since 1969 and is currently Chairman of their Financial Services Division. He was a Minister in successive governments for 16 years and a member of the Cabinets of both Margaret Thatcher and John Major. He has also been Chair of the Press Complaints Commission since 2011.

Independent Directors

Claire Ighodaro CBE (1)

Claire Ighodaro is a Board member/Non-executive Director and Audit Committee Chair of Lloyd's of London, the British Council and the Open University. She was previously a senior executive at BT plc, a Board Member of UK Trade & Investment (UKTI) and BIS and is a Past President of the Chartered Institute of Management Accountants (CIMA).

Lady Bloom CBE (2)

Margaret Bloom is a Senior Consultant at Freshfields Bruckhaus Deringer LLP and a visiting Professor at the Dickson Poon School of Law, King's College London. Margaret is also the Deputy Chair of the Money Advice Trust and an independent member of the LINK Consumer Council. She is a former Director of Competition Enforcement at the Office of Fair Trading.

Alan Whiting (1,2)

Alan Whiting is Chairman and Managing Director of Merlan Financial, he is also Chairman of the Gibraltar Financial Services Commission and NYSE Liffe. Alan was previously Director of Financial Regulation at HM Treasury covering banks, investment companies, building societies and friendly societies. More recently Alan was Executive Director, Regulation and Compliance at the London Metal Exchange.

Directors representing the sponsors

Adrian Coles OBE (1)

Director General, Building Societies Association

Eric Leenders (1,2)

Executive Director of Retail, British Bankers' Association

Paul Marsh (2)

Managing Director, The UK Cards Association

Chief Executive

Robert Skinner

Biographies of all Directors can be found on the LSB website at www.lendingstandardsboard.org.uk/staffdirectors.htm

An Adjudication Committee, comprising two independent Directors and one industry Director, selected by rotation, and under the chairmanship of an external, independent, legally qualified practitioner, considers cases of alleged material breach and decides upon the sanction. The current chairman of the Committee is Duncan Campbell.

In addition to the Adjudication Sub-Committee, there are two further Board committees:

- The Audit & Finance Committee (1), whose role includes reviewing budgets and the annual accounts, seeking assurance that internal controls are effective and reviewing the appointment of the Auditors;
- A Remuneration Committee (2) that makes recommendations on the remuneration of the Chairman, Independent Directors, the Chief Executive and members of staff.

Staff of the LSB at 31 March 2012

Sue Scott – Legal & Enforcement Director

Chris McAteer – Compliance Director

Gaye Kirby – Operations Manager

Julie Huxen – Administration & IT Manager

Compliance Managers

Alan Dengate

Michael Merry

Elizabeth Thompson

Company information

Directors

The Right Hon The Lord Hunt of Wirral MBE (Chairman)

Robert Skinner (Chief Executive)

Adrian Coles OBE

Claire Ighodaro CBE

Lady Bloom CBE

Alan Whiting

Paul Marsh (resigned 3 May 2012)

Eric Leenders

Jacqueline Tribe (appointed 4 May 2012)

Company Secretary

Sisec Limited

Registered office

21 Holborn Viaduct
London
EC1A 2DY

Auditor

Chantrey Vellacott DFK LLP
Chartered Accountants
Statutory Auditor
Russell Square House
10 – 12 Russell Square
London
WC1B 5LF

Bankers

Coutts & Co
440 Strand
London
WC2R 0QS

The Directors have pleasure in presenting their report and the audited financial statements of the company for the year ended 31 March 2012.

Incorporation

The company was incorporated on 14 October 1999 as a company limited by guarantee and not having share capital. Every member of the Company would be required under the terms of the guarantee to contribute such amount as may be required (not exceeding £10) to the Company's assets if it should be wound up.

Principal activities

The principal activity of the company is the monitoring and enforcement of the Lending Code (the Code); a voluntary code of practice for financial services providers intended to protect customers.

Directors

The Directors who served the company during the year were as follows:

Robert Skinner (Chief Executive)

Adrian Coles OBE

Claire Ighodaro CBE

Eric Leenders

Paul Marsh

Alan Whiting

Lord Hunt of Wirral (Chairman)
(Appointed 1 April 2011)

Lady Bloom CBE
(Appointed 28 March 2012)

Sir Robin Mountfield KCB
(Died 9 November 2011)

Paul Marsh resigned from being a Director of the company on 3 May 2012.

Jacqueline Tribe was appointed as a Director of the company on 4 May 2012.

Governance Structure

The Board meets approximately eight times a year. At each Board meeting Directors review detailed papers on the activities of the company. Monitoring of Lending Code subscribers is via pre-application reviews, themed reviews and investigations; the members of the Board have oversight of this. In addition, each subscriber is required to produce an annual statement confirming full compliance with the Code.

Where a material breach of the Code is identified, an Adjudication Committee, chaired by an independent legal practitioner who is not a Director, and consisting of two independent and one industry Director, considers the case and decides upon the sanction. Less serious breaches of the Code are considered by the Chief Executive who agrees appropriate remedial action with the subscriber.

In addition to the Adjudication Committee, there are two further Board committees:

- The Audit and Finance Committee, whose role includes reviewing budgets and the annual accounts, seeking assurance that internal controls are effective and reviewing the appointment of the Auditors, and
- A Remuneration Committee, that makes recommendations on the remuneration of the Chairman, Independent Directors, the Chief Executive and members of staff.

Directors' responsibilities

The Directors are responsible for preparing the Directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006.

They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Insofar as the Directors are aware:

- there is no relevant audit information of which the company's auditor is unaware; and
- the Directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

Auditor

Chantrey Vellacott DFK LLP are deemed to be re-appointed under section 487(2) of the Companies Act 2006.

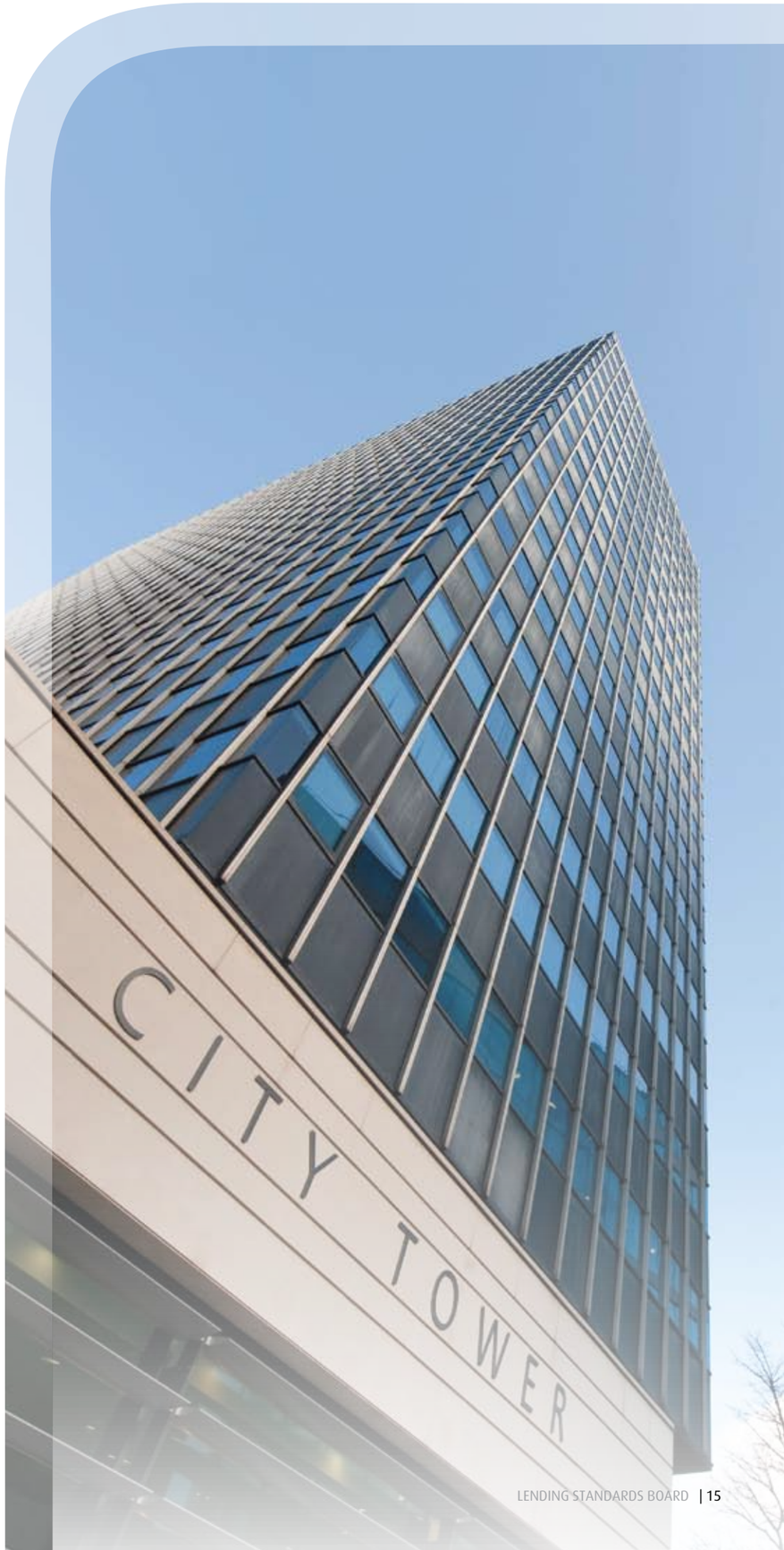
Small company provisions

This report has been prepared in accordance with the special provisions for small companies under Part 15 of the Companies Act 2006.

Signed on behalf of the Directors

Lord Hunt of Wirral
Director

Approved by the Directors on 11 July 2012



To the members of The Lending Standards Board Year ended 31 March 2012.

We have audited the financial statements of The Lending Standards Board Limited for the year ended 31 March 2012 which comprise the profit and loss account, balance sheet and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company'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 company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditor

As explained more fully in the Directors' responsibilities statement set out on pages 14 to 15, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2012 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- the Directors were not entitled to prepare the financial statements in accordance with the small companies regime and take advantage of the small companies' exemption in preparing the Directors' report.

Chris Malacrida (Senior Statutory Auditor)
for and on behalf of
Chantrey Vellacott DFK LLP
Chartered Accountants and Statutory Auditor London

11 July 2012

Profit and loss account

Year ended 31 March 2012

	Note	2012 £	2011 £
Fees		**1,164,074**	1,189,009
Operating costs		**1,109,642**	1,211,527
Operating profit/(loss)	2	**54,432**	(22,518)
Interest receivable and similar income	5	**16,207**	9,774
Interest payable and similar charges		**–**	(5,590)
Profit/(loss) on ordinary activities before taxation		**70,639**	(18,334)
Tax on profit/(loss) on ordinary activities	6	**2,415**	234
Profit/(loss) for the financial year		**68,224**	(18,568)

All of the activities of the company are classed as continuing.

The company has no recognised gains or losses other than the results for the year as set out above.

There is no difference between the results shown above and their historical cost equivalents.

Balance sheet

As at March 2012

	Note	2012 £	2011 £
Fixed assets			
Tangible assets	7	**7,917**	7,599
Current assets			
Debtors	8	**78,511**	98,164
Cash at bank		**703,240**	670,413
		781,751	768,577
Creditors: amounts falling due within one year	9	**105,621**	160,353
Net current assets		**676,130**	608,224
Total assets less current liabilities		**684,047**	615,823
Reserves			
Profit and loss account	12	**684,047**	615,823
Members' funds		**684,047**	615,823

The notes on pages 18 – 22 form part of these financial statements

These financial statements have been prepared in accordance with the special provisions for small companies under Part 15 of the Companies Act 2006.

These financial statements were approved by the directors and authorised for issue on 11 July 2012, and are signed on their behalf by:

Lord Hunt of Wirral
Director

Robert Skinner
Director
Company Registration Number: 3861859

1. Accounting policies

Basis of accounting

The financial statements have been prepared under the historical cost convention, and in accordance with applicable United Kingdom accounting standards.

Going Concern

The directors believe the use of the going concern basis of accounting is appropriate because there are no material uncertainties related to events or conditions that may cast significant doubt about the ability of the company to continue as a going concern.

Cash flow statement

The Directors have taken advantage of the exemption in Financial Reporting Standard No 1 (Revised 1996) from including a cash flow statement in the financial statements on the grounds that the company is small.

Fees

Fees comprises annual subscriptions payable for the year ended 31 March 2012.

Fixed assets

All fixed assets are initially recorded at cost.

Depreciation

Depreciation is calculated so as to write off the cost of an asset, less its estimated residual value, over the useful economic life of that asset as follows:

Fixtures & Fittings – 33% straight line

Computer and other equipment – 33% straight line

Operating lease agreements

Rentals applicable to operating leases where substantially all of the benefits and risks of ownership remain with the lessor are charged against profits on a straight line basis over the period of the lease.

Pension costs

The company offers a Group Personal Pension Plan for all employees or contributes to existing personal pension plans. The assets of the plans are held separately from those of the company. The annual contributions payable are charged to the profit and loss account.

Deferred taxation

Deferred tax is recognised in respect of all material timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more tax, with the following exception:

Deferred tax assets are recognised only to the extent that the Directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Financial instruments

Financial assets such as cash and debtors are measured at the present value of the amounts receivable, less an allowance for the expected level of doubtful receivables. Financial liabilities such as trade creditors, loans and finance leases are measured at the present value of the obligation. An equity instrument is any contract that evidences a residual interest in the assets of the company after deducting all of its liabilities.

2. Operating profit/(loss)

Operating profit/(loss) is stated after charging:

	2012 £	2011 £
Depreciation of owned fixed assets	**6,567**	6,925
Loss on disposal of fixed assets	**49**	26
Auditor's fees	**8,000**	7,600
Operating lease costs: Land and buildings	**37,500**	37,500

3. Directors' remuneration

	2012 £	2011 £
Lord Hunt of Wirral (appointed 1 April 2011)	**50,000**	–
Robert Skinner	**192,816**	185,666
Lady Bloom CBE (appointed 28 March 2012)	**1,288**	–
Adrian Coles OBE	**–**	–
Claire Ighodaro CBE	**17,450**	17,000
Eric Leenders	**–**	–
Gerard Lemos CMG (resigned 31 March 2011)	**–**	50,000
Paul Marsh	**–**	–
Sir Robin Mountfield KCB (died 9 November 2011)	**10,300**	15,000
Alan Whiting	**15,450**	15,000
	287,304	282,666

Directors' remuneration includes contributions totalling £16,074 (2011: £15,606) paid to a pension arrangement to secure money purchase benefits for Robert Skinner.

4. Directors and staff costs

The aggregate payroll costs (including all Directors and pension contributions) were:

	2012 £	2011 £
Wages and salaries	**678,372**	661,857
Social security costs	**81,183**	115,945
Other pension costs	**45,657**	52,070
	805,212	829,872

The average number of staff employed by the company during the financial year (excluding non-executive directors) amounted to 8 (2011 – 8). Pension contributions were paid into an employee Group Personal Pension Plan.

5. Interest receivable and similar income

	2012 £	2011 £
Bank interest receivable	**12,077**	9,774
Other similar income receivable	**4,130**	–
	16,207	9,774

Other similar income of £4,130 relates to the overprovision of interest payable on unpaid tax relating to prior years (see note 9).

6. Taxation on ordinary activities

(a) Analysis of charge in the year

	2012 £	2011 £
Current tax:		
UK Corporation tax based on the results for the year at 20% (2011 – 21%)	**2,415**	–
Over/under provision in prior year	**–**	234
Total current tax	**2,415**	234

(b) Factors affecting current tax charge

The tax assessed on the profit/(loss) on ordinary activities for the year is at a lower rate than the standard rate of corporation tax in the UK of 20% (2011 – 21%).

	2012 £	2011 £
Profit/(loss) on ordinary activities before taxation	**70,639**	(18,334)
Profit/(loss) on ordinary activities multiplied by rate of tax	**14,128**	(3,850)
Expenses not deductible for tax purposes	**1,145**	2,077
Other short term timing differences	**(1,491)**	–
Capital allowances for period in excess of depreciation	**(1,098)**	(1,583)
Unrelieved tax losses	**(10,269)**	3,356
Adjustments to tax charge in respect of previous periods	**–**	234
Total current tax (note 6 (a))	**2,415**	234

(c) Factors that may affect future tax charges

The company has tax losses of approximately £33,600 (2011: £81,488) available to be carried forward against future trading profits. As there is insufficient evidence that these tax losses will become recoverable with the meaning of FRS 19, Deferred Taxation, they have not been recognised.

7. Tangible fixed assets

	Fixtures & Fittings £	Computer and other equipment £	Total £
Cost			
At 1 April 2011	**5,419**	**37,482**	**42,901**
Additions	**–**	**6,964**	**6,964**
Disposals	**–**	**(5,060)**	**(5,060)**
At 31 March 2012	**5,419**	**39,386**	**44,805**
Depreciation			
At 1 April 2011	**4,587**	**30,715**	**35,302**
Charge for the year	**667**	**5,900**	**6,567**
On disposals	**–**	**(4,981)**	**(4,981)**
At 31 March 2012	**5,254**	**31,634**	**36,888**
Net book value			
At 31 March 2012	**165**	**7,752**	**7,917**
At 31 March 2011	832	6,767	7,599

8. Debtors

	2012 £	2011 £
VAT recoverable	**11,177**	22,734
Other debtors	**67,334**	75,430
	78,511	98,164

9. Creditors: amounts falling due within one year

	2012 £	2011 £
Trade creditors	**38,483**	26,981
Corporation tax	**2,398**	234
PAYE and social security	**–**	42,543
Other creditors	**–**	9,148
Accruals and deferred income	**64,740**	81,447
	105,621	160,353

In 2011, the company made a provision of £45,000 in respect of PAYE & National Insurance tax liabilities, including interest and penalties arising on employee benefits in prior years following an H M Revenue & Customs inspection of employer records. A final settlement with HMRC amounting to £24,256 including interest and penalties was paid in the year and accordingly the balance of last years provision of £20,744 has been credited to the profit and loss account.

10. Commitments under operating leases

	2012		2011	
	Land and buildings £	**Other items £**	Land and buildings £	Other items £
Operating leases which expire:				
Within one year	**21,875**	**–**	–	–
Within two to five years	**–**	**3,192**	37,500	–
	21,875	**3,192**	37,500	–

At 31 March 2012 the company had annual commitments under non-cancellable operating leases as set out opposite.

11. Company limited by guarantee

The company was incorporated on 14 October 1999 as a company limited by guarantee and not having share capital. Every member of the Company would be required under the terms of the guarantee to contribute such amount as may be required (not exceeding £10) to the Company's assets if it should be wound up.

12. Profit and loss account

	2012 £	2011 £
Balance brought forward	**615,823**	634,391
Profit/(loss) for the financial year	**68,224**	(18,568)
Balance carried forward	**684,047**	615,823

Subscribers

Subscribers to the Lending Code as at 31 March 2012

Adam & Company Plc
AIB Group (UK) plc
Airdrie Savings Bank
American Express Services Europe Limited
Bank of Cyprus Public Company Limited
Bank of Ireland UK plc
Barclays Bank PLC
Butterfield Bank (UK) Limited
Capital One (Europe) plc
Citibank International plc (UK Consumer Banking Division)
Clydesdale Bank PLC
Co-operative Bank (The)
Coutts & Co
Coventry Building Society
Cumberland Building Society
First Trust Bank
Habib Bank AG Zurich
Harrods Bank Limited
HSBC Bank plc
Lloyds Banking Group
Marfin Popular Bank Public Company Limited
Marks & Spencer Financial Services plc
MBNA Europe Bank Limited
Nationwide Building Society
Northern Bank Limited
Northern Rock (Asset Management) plc
Northern Rock PLC
Royal Bank of Scotland plc
S G Hambros Bank Ltd
Sainsbury's Bank plc
Santander Cards UK Limited
Santander UK plc
Secure Trust Bank plc
State Bank of India
Tesco Personal Finance plc
Triodos Bank NV
Turkish Bank (UK) Ltd
Ulster Bank Limited
Unity Trust Bank plc
Wesleyan Bank Limited
Yorkshire Building Society

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