Annual report

2016 - 2017

CONTENTS

WHO ARE WE AND **WHAT DO WE DO?**

OUR VISION

Our vision is that the LSB is to be the prime conduct self-regulatory body in financial services, ensuring that all personal and small business customers receive a fair deal from their lender.

The LSB's mission is 'promoting fair lending', and this is achieved through discharging its role of overseeing the achievement of the principles, customer outcomes and standards contained within the Standards of Lending Practice for personal and business customers and acting where Firms fail to achieve these.

Our strategic aims are:

- Promote and help deliver fair outcomes and greater consistency for personal and small business borrowers;
- Achieve high level of market coverage of personal and business lenders;
- Demonstrate how self-regulation can deliver good customer outcomes and can complement the work of the FCA;
- Be recognised as a leading, influential voice for personal and business lending; and
- Add value for Registered Firms.

STANDARDS OF LENDING PRACTICE

The LSB has now transitioned from the Lending Code to the Standards of Lending Practice (the Standards), covering loans, credit cards, overdrafts and charge cards. Both personal and small business customers now have their own set of standards which focus on fair customer outcomes throughout the whole customer journey.

The Standards recognise that there may be several ways to achieve the right outcome for customers, depending on the specific situation and individual circumstances. Instead of expecting Firms to rigidly follow a set of rules that may not always be relevant, we look at the ways in which they demonstrate they are achieving the desired outcomes. This offers a far greater level of flexibility and better outcomes for borrowers.

We take a proactive, risk-based approach to oversight and enforcement, with an emphasis on supporting and challenging Firms to meet the Standards. Our compliance oversight model has been designed to strike a balance, by providing the independent assurance that standards are being achieved whilst avoiding over-burdening Firms whose processes are subject to regular review by statutory regulators and their own independent assurance functions. This collaborative, proactive approach significantly reduces the burden on Firms, is proportionate to the risk presented, yet can still be viewed as robust and independent.

EXECUTIVE SUMMARY

ECONOMIC AND REGULATORY LANDSCAPE

OUR VISION

'Promoting Fair Lending' – our vision is to be the prime conduct self-regulatory body in financial services, ensuring that all personal and small business customers receive a fair deal from their lender.

OUR AIMS

- Promote and help deliver fair outcomes and greater consistency for personal and small business borrowers;
- Achieve high level of market coverage of personal and business lenders;
- Demonstrate how self-regulation can deliver good customer outcomes and can complement the work of the FCA;
- Be recognised as a leading, influential voice for personal and business lending; and
- Add value for Registered Firms.

OUR KEY ACHIEVEMENTS

- Launched the Standards of Lending Practice for personal customers in 2016 and for business customers in 2017.
- Embedded the new oversight regime and completed risk assessment reviews for all Registered Firms.
- Registered an additional three Firms.
- Conducted research and development work on affordability assessments, money management, customer vulnerability and digital.
- Took over responsibility for overseeing the Access to Banking Standard voluntary code of practice.
- Worked with a wide range of stakeholders including debt charities, consumer bodies, government bodies, regulators and trade associations.
- Launched a new, improved website.

OUR AMBITIONS FOR 2017/18

- Enhancing the Standards of Lending Practice for personal customers, and embedding those for business customers.
- Continuing to deliver a dynamic and proportionate oversight strategy, that is complementary to the work of the FCA.
- Working with UK Finance and the industry to assume responsibility for oversight of additional voluntary agreements.
- Remaining at the forefront of debates around personal debt and working with firms and the industry to develop strategies to mitigate against the possible financial impacts of an economic squeeze.
- Extension of our scope into new sectors and looking to bring on board challenger banks and fintechs for personal and business lending.
- Extension of our scope to bring in new products such as invoice finance, asset finance and peer to peer lending.
- Ensure that our governance arrangements continue to support our strategic aims.
- Provision of good practice and thought leadership for our Registered Firms through our research and insights work.
- Developing collaborative partnerships with other organisations to assist the industry in delivering good customer outcomes.

CHAIRMAN'S FOREWORD

THE LSB'S FOCUS HAS BEEN ON TRANSITIONING FROM THE LENDING CODE TO THE NEW STANDARDS OF LENDING PRACTICE

There have been many developments at the LSB since the report last year of my predecessor, Lord Hunt of Wirral.

I would like to express, on behalf of the LSB Board, our gratitude for the distinguished leadership that Lord Hunt provided to the LSB over his six-year tenure, culminating with the launch of Standards of Lending Practice for personal customers in July 2016, and those for business customers in March 2017. Lord Hunt always had a steadfast belief in the value of voluntary self-regulation and I know he will continue to be supportive as the LSB evolves to meet the new challenges we face.

Although 10 years have passed since the economic crisis of 2007/8, and although interest rates are at an unprecedented low, serious personal debt is again on the rise. Several million of our fellow citizens are close to the edge of a personal financial crisis, over which a rise in interest rates and the potential impact of Brexit could tip them. The LSB recognises that it needs to be working proactively with the financial services industry to support people through the next few difficult years.

I am honoured to have taken over the role of Chair of the LSB. Although I was not party to the tremendous work the organisation undertook in 2016/17, I followed developments closely, particularly with the synergy with one of my other roles as Deputy Chair of the Financial Inclusion Commission.

The LSB's focus has been on transitioning from the Lending Code to the new Standards of Lending Practice, developed in conjunction with the industry and launched in 2016/17. It is a tribute to the tenacity and professionalism of the team that both sets of Standards are now successfully in operation. At the launch of the business Standards in March I gave an indication of how I hope the organisation will evolve in the next three years.

Our vision hasn't changed: to be the prime conduct self-regulatory body in financial services, ensuring that all personal and small business customers receive a fair deal from their lender. To help us achieve this, I want to build on the collaboration of the many other like-minded organisations that we have worked well with over the years.

The key priorities in achieving our vision are these:

- The LSB will use its unique position to provide independent oversight of the voluntary codes of practice in consumer credit – oversight of the Access to Banking Standard is the first step to achieving this.
- We will extend the scope of products covered, initially focussing on the business Standards to include invoice finance, asset finance and peer to peer lending.
- We want to extend protection to more customers; while our main focus will be on penetrating existing sectors further, we are keen to explore the alternative and community lending sectors.
- We will continue to work with the FCA to ensure that we complement their work and help firms meet their statutory obligations.

The organisation has continued to make progress despite significant changes at Board level. As well as a change of Chair, there has been a change of Chief Executive, with Robert Skinner retiring at the end of September and Dave Pickering, formerly our Compliance Director, picking up the reins as interim CEO. Dave was pivotal in driving through the changes necessary to move the organisation forward. The merger of our two key sponsors, BBA and UK Cards, into the new trade body UK Finance, has also prompted the need for change in our governance structure.

In light of this, we have decided to undertake an independent review of the governance framework to ensure that the Board can provide the right level of support and challenge to the executive to achieve our aims. As part of the governance review we are considering Board composition and structure, and the 'ownership' model to reflect the future direction of the LSB. What will remain sacrosanct, however, will be our independence and this will be reflected in the final proposal. We have ambitious plans for the future role of the LSB in challenging times, and we need a governance structure that will help us achieve those ambitions.

CHAIRMAN'S FOREWORD
CONTINUED

WE HAVE DECIDED TO UNDERTAKE AN INDEPENDENT REVIEW OF THE GOVERNANCE FRAMEWORK TO ENSURE THAT THE BOARD CAN PROVIDE THE RIGHT LEVEL OF SUPPORT AND CHALLENGE TO THE EXECUTIVE TO ACHIEVE OUR AIMS

It leaves me to say a big thank you to the LSB team, which has worked tirelessly during a very challenging period in moving the LSB through this transitional period to the new regime, while ensuring that a high quality, value added service is provided to our Registered Firms.

The LSB has a key role to play going forward and my three-year term promises to be an exciting and challenging one. I look forward to working with you to achieve our aims and help to ensure that personal and business customers receive a fair deal.

Chris Pond

Chair, LSB

CHIEF EXECUTIVE'S REPORT

WATCH OUT FOR FURTHER DEVELOPMENTS IN 2017 AS WE COMPLETE THE FIRST REVIEW OF THE STANDARDS AND EXTEND PROTECTION TO THOSE CURRENTLY FINANCIALLY EXCLUDED

I want to start by saying what a privilege it is to have been given the opportunity to lead the LSB following the retirement of Robert Skinner in September.

The economic forecast for the UK is uncertain; we know that a rise in interest rates could lead to a sudden rise in customers falling into financial difficulty, given the number of people that are currently just about managing their debts. In addition, we are embarking on the process of taking the UK out of the EU, a journey that will take us into the unknown. While we have no real sense of what the future holds, we do know that there will be a significant cost to this and to have any chance of success we will need to be productive, efficient and innovative. Central to this will be the UK's SMEs, which number some 5.5 million and employ around 15.7 million people. Support for SMEs is going to be crucial.

In financial services, Brexit will clearly have an impact but so too will the continuing trend of consumers towards digital, and the increasing number of fintechs that are operating in the market. More choice for consumers, more competition, but consequently a more congested space, with firms needing to strike a balance between speed and efficiency without bypassing human intervention where necessary. There is a challenge here, too, for regulation and voluntary standards to keep pace.

The LSB has evolved significantly in the last 12 months and will continue to do so as we gear ourselves up for a changing environment, both at a macro-economic level and in the financial services marketplace.

We have focused our business plan to meet the above challenges, becoming more dynamic as an organisation and being agile to respond to change. We need to continually develop and improve what we do so that we can protect customers and support our Registered Firms effectively. The LSB's five aims are to:

- Promote and help deliver fair outcomes and greater consistency for personal and small business borrowers;
- Achieve high level of market coverage of personal and business lenders;
- Demonstrate how self-regulation can deliver good customer outcomes and can complement the work of the FCA;
- Be recognised as a leading, influential voice for personal and business lending; and
- Add value for Registered Firms.

The Standards of Lending Practice for personal customers complement the work of the FCA, while extending into new areas such as money management and vulnerability. Watch out for further developments in 2017 as we complete the first review of the Standards and extend protection to those currently financially excluded.

We see the launch of the Standards of Lending Practice for business customers as a landmark for the industry. There has been much bad publicity for the banks regarding the treatment of SMEs and so the creation of a bespoke set of Standards, that seek to ensure consistently high treatment of business customers by our Registered Firms, represents an opportunity for the banking sector to demonstrate its commitment to fair lending. We believe that these new Standards will set the benchmark for lenders and will facilitate improvements in standards.

The business Standards are significant in two other aspects; protection will increase from businesses up to €2m turnover to £6.5m, while over the course of 2017/18 product scope will be extended from loans, overdrafts, credit cards and charge cards to include asset finance, invoice finance, commercial mortgages and peer to peer lending.

When we launched the new regime, we felt there was an increasing role for the LSB to play in respect of developing self-regulation and providing some innovative thinking in areas that are relevant to our work. We have issued reports on affordability and repayment plans, money management, focusing on customers exhibiting signs of financial stress, and our initial thoughts on digital and how to bring the Standards to life in this regard. We will be following up on this latter theme through a series of roundtable discussions.

One of our aims at the LSB is to make sure more people know about us, and what we do; we want our voice to be heard. Our new website is a major improvement on the previous one and we have made sure that it is updated on a regular basis with news. We have also published many more articles in trade journals to

CHIEF EXECUTIVE'S REPORT
CONTINUED

coincide with key events such as the launch of the business Standards, presented or spoken at industry conferences and roundtables, and we are active on social media, in particular on LinkedIn and Twitter.

I would like to pick out a couple of points of note for the year ahead; voluntary agreements and new sectors.

There are several voluntary agreements that financial institutions are signed up to. There is an appetite within the banking industry for the LSB to be the natural home for oversight and ongoing development of these agreements. We feel we are well placed to do this and are excited at the opportunity presented, with the first agreement moving across relating to the Access to Banking Standard, focusing on branch closure programmes. This is a clear way that the LSB can use its standing in the industry to add value to Firms and promote fair outcomes.

Broadening the appeal of the Standards to new sectors is vital to ensure that more consumers benefit from their protection and the regime remains relevant as new entrants to the market continue to emerge. I would like to stress, however, that we want to do this in a managed and sustainable way and that the integrity of the regime is paramount. We will seek to bring new firms on board but rest assured that we will not do anything to compromise the quality of our work or take our eye off the ball. It is all a question of balance.

Lastly, and importantly, I would like to acknowledge the broad range of stakeholders we engage with. We have continued to work with many debt charities, consumer bodies, government bodies, regulators and trade associations, without whom we would not be as effective or as influential. We really value the open and collaborative relationship we hold with them and this helps to ensure that we remain in touch with current trends and can keep people informed of what we are doing. We will look to increase the level of engagement and to partner more formally with other like-minded organisations, exploring the opportunities of joint working to improve consumer outcomes. Something to watch out for in 2017/2018.

I didn't want to miss the opportunity to say what a privilege it is to have been given the opportunity to lead the LSB following the retirement of Robert Skinner in September, and also to thank Robert for his outstanding work, leading the LSB successfully through so many changes in the last ten years. Robert has left the organisation in excellent shape, and in a strong position to deliver on its ambitious aims. Having been here now for four years, I am in no doubt that the organisation's strength is that the people associated with it believe in what we do and buy into our aims and objectives. That is a fundamental starting point and explains why, after a prolonged period of uncertainty, the LSB has not only come through some tough challenges, but it is now going from strength to strength. 2016/17 was an exciting and successful year for us and 2017/18 will hopefully be even better.

I would finally like to thank the team for their hard work, commitment and loyalty at a time when the organisation's future was uncertain and for maintaining the highest professional standards throughout. This is a small team, but a very effective and capable one, and I believe the industry is well served by them. The LSB is now very well placed to continue its evolution in the longer term and to be an influential force in the financial services world, working collaboratively with stakeholders and providing support and challenge to its Registered Firms.

Dave Pickering

Chief Executive, LSB

BROADENING THE APPEAL OF THE STANDARDS TO NEW SECTORS IS VITAL TO ENSURE THAT MORE CONSUMERS BENEFIT FROM THEIR PROTECTION AND THE REGIME REMAINS RELEVANT AS NEW ENTRANTS TO THE MARKET CONTINUE TO EMERGE

HEAD OF COMPLIANCE REPORT

As I write this and cast my mind back to the start of the period under review, April 2016 feels an awful long time ago as so much has happened since then. The activity that the LSB has been involved in has been defined by the two launches to a large extent and both Chris and Dave have rightly given plenty of coverage to those landmark events.

The CEO report also makes another important point around the integrity of the regime and this is undoubtedly underpinned by the independent oversight we exercise over our Firms to ensure that the Standards are being adhered to, calling out issues when we find them, and, in the most serious cases, taking enforcement action.

It has been a theme of this year's Chair and CEO reports to spend some time reflecting on the year in question and to devote some time to what is planned for the year ahead, and my report will run along the same lines.

As we embarked on the new financial year in April 2016, we were drawing to a close our work under the Lending Code as far as personal borrowers were concerned while we also knew at that point that the Standards of Lending Practice for business customers were not much further down the track. As such, we concluded our final thematic review in the first quarter of 2016/17, which was a review of third parties. While we have focused a lot of attention on outsourcing of debt collection, our Registered Firms also outsource other activity that relates to the Standards, largely in respect of the fulfilment and statementing processes. This work resulted in visits to several key outsource partners to assess how they ensure they meet requirements and an assessment of the oversight exercised by Firms over their third parties. The full report is available on our website but the overall view is that third party oversight and delivery of outsourced services are effective.

In the Chief Executive's report mention is made of research projects. During the year we completed three research projects covering affordability and repayment plans, digital, and lending to small businesses. The purpose of these pieces of work were to help inform the development of the Standards and the supporting Information for Practitioners (IfP).

The scope of the affordability project covered the practices adopted by Firms when discussing and agreeing with customers the repayment of any arrears or missed payments, including lump sums. It produced a series of recommended good practice covering areas such as completion of income and expenditure, the application of interest and charges, and the application of pro rata payments. The output of this project was incorporated into the IfP.

The digital exercise was spread over a long period of time and involved engagement both with our Registered Firms and fintechs. The purpose of the project was to identify practical steps that could be taken by firms to meet the Standards when transacting through digital media. The report, published on our website, is more a start to the debate and we have decided to use the work as a catalyst for more extensive research, which will take place in 2017, with Registered Firms and fintechs, commencing with a series of round table discussions in the summer.

The work we conducted on SMEs was particularly helpful in shaping the new Standards of Lending Practice for business customers. The work involved visits to a few of our firms and provided real insight into the practicalities of small business lending.

The most significant undertaking during the year was the completion of risk assessment reviews for our Registered Firms in respect of lending to personal customers. The new oversight regime is based on assessing the adequacy of Firms' own internal governance arrangements and determining how much reliance we can place on these. The output from these reviews was the application of a maturity rating for each Firm in respect of its internal governance and risk management framework, to which we then provided an internal risk overlay. We have conducted 34 visits to firms in the latter half of 2016/17 with the remaining two firms to take place in 2017/18. Overall Firms were placed in either mature (the majority) or progressive, with no Firms attracting an immature assessment. The output from this has enabled us to determine an

THE MOST SIGNIFICANT UNDERTAKING DURING THE YEAR WAS THE COMPLETION OF RISK ASSESSMENT REVIEWS FOR OUR REGISTERED FIRMS IN RESPECT OF LENDING TO PERSONAL CUSTOMERS.

HEAD OF COMPLIANCE REPORT

CONTINUED

oversight strategy for each Firm and this has been tailored based on the output from the review. As expected, given the fact that personal financial services have been heavily regulated for so long, the higher proportion of mature assessments is not a surprise and is a product of how the industry has evolved. The majority of Firms will be primarily overseen through a relationship management model, although this will be a much more robust oversight tool than previously used, when we relied more heavily on our thematic work.

We have continued to encourage new firms to register with the LSB and we were delighted to announce during the year that three CSA members – Arrow Global, Wescot and Hoist Finance – all successfully achieved registration. It is always good to bring new firms on board – they often bring a fresh perspective, promote further debate on topical issues and contribute to the identification of additional good practice.

So that was 2016/17. A busy year for the team and yet the year ahead looks even busier. I would like to take some time to highlight our key areas of focus for 2017/18.

The business Standards will be a major focus for next year. We currently have 22 of our Registered Firms which lend to SMEs and we will be undertaking a risk assessment review at each one. Given the fact that the SME market has been largely unregulated, and that there have been some high-profile issues in this space, the LSB will be undertaking some thematic review work focusing on those areas where there is the highest impact on fair customer outcomes, such as transparency at point of sale, debt sale and how businesses are treated when they get into a turnaround situation. In addition to this, we will continue to seek new Registered Firms and we would hope to be conducting some application reviews for business banks.

Away from SME where will our compliance focus be? The three main areas of focus for personal customers will be:

- Oversight of voluntary agreements – access to Banking Standards will be a key area for us in 2017/18. In addition, following on from the FCA's credit card market study, the FCA has opted for industry self-regulation for the first three information remedies (relating to promotional expiry, payment dates and borrower prompts) and nominated the LSB as the body responsible for oversight. We will continue our activity monitoring the implementation phase before moving into post-implementation in 2018.
- New application reviews – towards the end of 2016/17 we started to receive more interest in registration from challenger banks, start-ups, and debt collection and debt purchase firms. We will continue to prioritise prospective new firms.
- Delivery of the oversight strategy – we will follow up on the risk assessment reviews with the first round of relationship management meetings which will focus on vulnerability and money management.

Of course, the new regime is flexible and if we need to divert resource to higher risk areas then we can do so. We have also set some time aside to ensure we can conduct outcomes testing at those Firms where we believe there is a need to ensure any identified issues are being resolved.

The transition to the Standards of Lending Practice has meant a reduction in the number of breaches that have been reported. Given the move to customer outcomes and high-level principles, pinpointing breaches of an outcome, for example, is often difficult. We have a breach management framework and we will continue to work with Firms to ensure that any weaknesses are identified, reported and remedied.

We continue to set ourselves an ambitious agenda in terms of innovative thinking and research. It is our intention to continue researching areas of emerging risk to customer outcomes and we plan to undertake further work across a number of areas, including financial inclusion, digital, money management, vulnerability and affordability.

Overall this has been another successful year for the LSB. It has had many challenges but the team has met them head on and delivered a stronger organisation as a result. I would like to end by thanking the team for their outstanding efforts in 2016/17 and to look forward to an exciting future for voluntary self-regulation.

Liz Thompson

Head of Compliance, LSB

WE PLAN TO UNDERTAKE FURTHER WORK ACROSS A NUMBER OF AREAS, INCLUDING FINANCIAL INCLUSION, DIGITAL, MONEY MANAGEMENT, VULNERABILITY AND AFFORDABILITY.

OUR PEOPLE

BOARD MEMBERS
AT 31 MARCH 2017

THE BOARD CONSISTS OF SEVEN DIRECTORS: THREE PUBLIC INTEREST DIRECTORS, AN INDEPENDENT CHAIRMAN, INDUSTRY REPRESENTATIVES AND THE CHIEF EXECUTIVE OF THE LSB

CHAIRMAN

CHRIS POND

Chris Pond is currently Chair of Caxton Foundation, the Equity Release Council, and the Money Charity, along with the LSB. He is also Vice Chair of the Financial Inclusion commission, and trustee of GambleAware, along with Z2K and Family and Childcare Trust. Chris is former Labour MP for Gravesham, serving between 1997 and 2005 under the Blair Governments, undertaking the role of Parliamentary under Secretary of State in the Departments for Work and Pensions from 2003 to 2005, after serving in the HM Treasury Ministerial team. Chris was also Director of Financial Capability at the Financial Services Authority and Chief Executive of The National Council for One Parent Families, before becoming Chair of the Working Group on Serious Personal Debt, then Partner and Head of Public Affairs at Kreab Worldwide.

INDEPENDENT DIRECTORS

BARBARA MOORHOUSE

Barbara is a non-executive director at Balfour Beatty plc, Microgen plc, IDOX plc and Agility Trains. She is a Trustee of Guy's and St Thomas' Charity. Previous NED appointments include Chair of OPM Group. Barbara spent the first 20 years of her career in strategic, commercial and finance roles in the private sector, latterly as Chief Finance Officer in two international listed IT companies. In 2005, she was appointed Director General at the Ministry of Justice and subsequently the Department for Transport. In 2010, Barbara moved to Westminster City Council as Chief Operating Officer.

LADY BLOOM CBE

Margaret Bloom is a Senior Consultant at Freshfields Bruckhaus Deringer LLP and an honorary Professor at the Dickson Poon School of Law, King's College London. Margaret is also an independent member of the LINK Consumer Council and the Vice Chair of the Professional Standards Council for Asset Based Finance. She is a former Director of Competition Enforcement at the Office of Fair Trading.

JONATHAN REES

Jonathan is a Director of Ombudsman Services, the Personal Finance Society and the Employers Network on Equality and Inclusion as well as a Trustee of Citizens Advice, and the CA Pension Fund. He had a long and varied career as a senior civil servant over 35 years, including working as adviser to two Prime Ministers, spells in the Cabinet Office, Foreign Office and European Commission in Brussels and five years as Director General of the Government Equalities Office. He spent five years leading on consumer and competition policy and initiated the first review of consumer credit legislation in a generation leading to the Consumer Credit White Paper of 2004 and subsequent legislation.

DIRECTORS REPRESENTING THE INDUSTRY

GRAHAM PEACOP

Chief Executive,
The UK Cards Association

CHRIS RHODES

BBA Representative

CHIEF EXECUTIVE

DAVE PICKERING

Biographies of all Directors can be found on the LSB website at lendingstandardsboard.org.uk/our-people

STAFF AT THE LSB

AT 31 MARCH 2017

Elizabeth Thompson – Head of Compliance

Simone Freire – Senior Manager – Risk, Communication and Development

Anna Roughley – Lead Manager, Insight and Support Services

Laura Mahoney – Legal and Policy Manager

Patricia Kearney – Operations Manager

Saima Hansraj – Compliance Manager

Shada Nasrullah – Compliance Manager

Hema Kanji – Compliance Manager

Hannah Adesanya – Trainee Compliance Manager

Jenny Moran – Compliance, Risk and Development Analyst

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 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 Nominations and Remuneration Committee (2) that makes recommendations on the remuneration of the Chairman, Independent Directors, the Chief Executive and members of staff. The committee is also responsible for leading the process for Board appointments, succession planning and recruitment of independent Non-Executive Directors and key staff.

COMPANY INFORMATION

THE LENDING STANDARDS BOARD LIMITED
(A COMPANY LIMITED BY GUARANTEE)

DIRECTORS

Chris Pond (Chairman)

Dave Pickering (Chief Executive)

Lady Bloom CBE

Chris Rhodes

Barbara Moorhouse

Jonathan Rees

Graham Peacop

REGISTERED NUMBER

03861859

REGISTERED OFFICE

21 Holborn Viaduct
London
EC1A 2DY

INDEPENDENT AUDITORS

Moore Stephens LLP
150 Aldersgate Street
London
EC1A 4AB

BANKERS

Coutts & Co
440 Strand
London
WC2R 0QS

DIRECTORS' REPORT

THE DIRECTORS PRESENT THEIR REPORT AND THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017

DIRECTORS' RESPONSIBILITIES STATEMENT

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 applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'. 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 these financial statements, the directors are required to:

- select suitable accounting policies for the Company financial statements and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent; and
- 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.

RESULTS AND DIVIDENDS

The profit for the year, after taxation, amounted to £74,026 (*2016 – loss* £64,701).

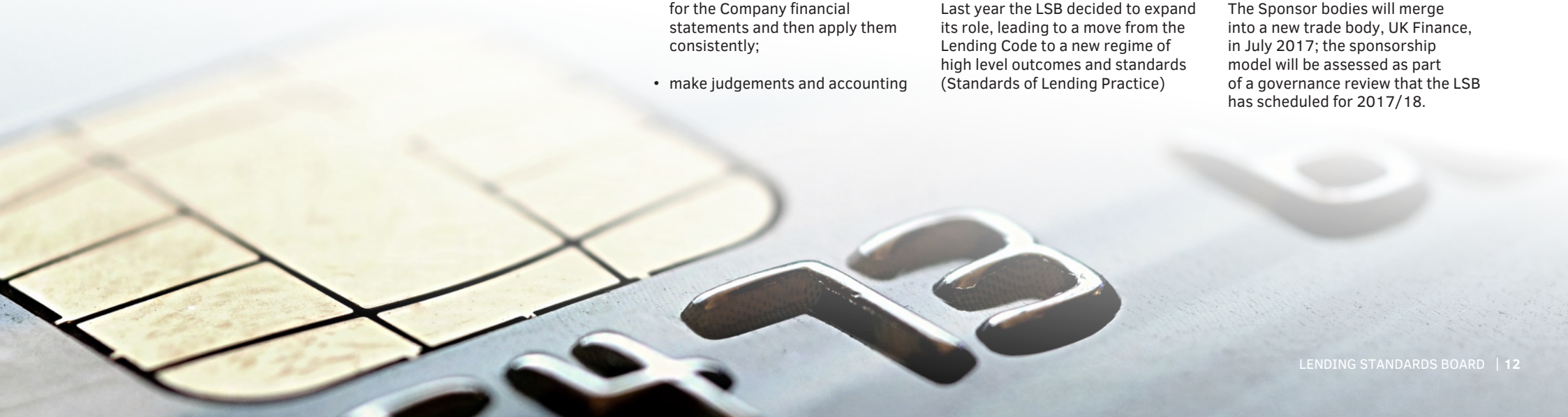
Last year the LSB decided to expand its role, leading to a move from the Lending Code to a new regime of high level outcomes and standards (Standards of Lending Practice) with strong support from the industry, resulting in a re-engineering of the organisation in order to meet this objective. Consequently the LSB moved from a loss in 2016 to a profit this year (2017), which largely reflects the fact that the 2016 figures included the transformation costs resulting from this organisational change; the Company's reserves remain healthy.

FUTURE DEVELOPMENTS

The Board and Sponsors (British Bankers' Association and the UK Cards Association) agreed a budget and business plan through to April 2018. This plan includes the launch of the new Standards of Lending Practice ("Standards"), to replace the Lending Code, and changes to the LSB's oversight strategy.

The re-commitment of the industry to self-regulation and independent oversight provides increased certainty around the future of the Company.

The Sponsor bodies will merge into a new trade body, UK Finance, in July 2017; the sponsorship model will be assessed as part of a governance review that the LSB has scheduled for 2017/18.



DIRECTORS' REPORT
CONTINUED

DIRECTORS

The directors who served during the year were:

Christopher Pond
(appointed 01 April 2017)

Lord Hunt of Wirral (Ex-Chairman – resigned 31 March 2017)

David Pickering
(appointed 30 September 2016)

Robert Skinner (Ex-Chief Executive – resigned 30 September 2016)

Lady Bloom CBE (1) (2)

Barbara Moorhouse (1)

Jonathan Rees (2)

Eric Leenders (resigned 20 September 2016) (1) (2)

Graham Peacop (1) (2)

Christopher Rhodes (appointed 10 January 2017) (1) (2)

(1): member of the Audit & Finance Committee

(2): member of the Nominations and Remuneration Committee

GOVERNANCE STRUCTURE

The Board meets seven times a year. At each Board meeting directors review detailed papers on the activities of the company. Monitoring and oversight of registered firms is via pre application reviews, risk assessments, relationship meetings and more in depth reviews; the members of the Board have oversight of this.

Where a material breach of the Standards 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 Standards are considered by the Chief Executive who agrees appropriate remedial action with the firm.

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, ensuring that internal controls are effective and reviewing the appointment of the Auditors, and

– A Nominations and Remuneration Committee, that makes recommendations to the Board on the remuneration of the Chairman, Independent Directors, the Chief Executive and members of staff. The Committee is also responsible for leading the process for Board appointments and succession planning and recruitment of independent non executive directors and key staff.

DISCLOSURE OF INFORMATION TO AUDITORS

Each of the persons who are directors at the time when this Directors' Report is approved has confirmed that:

- so far as that director is aware, there is no relevant audit information of which the Company's auditors are unaware, and
- that director has taken all the steps that ought to have been taken as a director in order to be aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

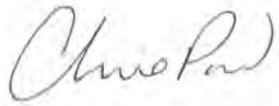
POST BALANCE SHEET EVENTS

There have been no significant events affecting the Company since the year end. See Future Developments for details of changes to the Company's business plan.

AUDITORS

Under section 487(2) of the Companies Act 2006, Moore Stephens LLP will be deemed to have been reappointed as auditors 28 days after these financial statements were sent to members or 28 days after the latest date prescribed for filing the accounts with the registrar, whichever is earlier.

This report was approved by the board on 20 July 2017 and signed on its behalf.



Christopher Pond (Chairman)

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF THE LENDING STANDARDS BOARD LIMITED

We have audited the financial statements of The Lending Standards Board Limited for the year ended 31 March 2017 set out on pages 15 to 21. The financial reporting framework that has been applied in their preparation is applicable law and Section 1A "Small Entities" of FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (United Kingdom Generally Accepted Accounting Practice applicable to Smaller Entities).

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 auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the 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 AUDITORS

As explained more fully in the Directors' Responsibilities Statement, on page 12, 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 Financial Reporting Council's Ethical Standards for Auditors.

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's web-site at www.frc.org.uk/auditscopeukprivate.

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 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice applicable to Smaller Entities; 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, based on thework undertaken in the course of the audit:

- 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 Directors' Report has been prepared in accordance with applicable legal requirements.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

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

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us 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 take advantage of the small companies' exemption from the requirement to prepare a Strategic Report.

Simon Fowles
(Senior Statutory Auditor)
for and on behalf of
Moore Stephens LLP
Statutory Auditor

150 Aldersgate Street
London
EC1A 4AB

Date: 27 July 2017

FINANCIAL STATEMENTS

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 MARCH 2017

	Note	2017 £	2016 £
Turnover	4	**1,690,217**	1,426,327
Cost of sales		**(487,843)**	(386,953)
Gross profit		**1,202,374**	1,039,374
Administrative expenses		**(1,130,115)**	(1,110,492)
Operating profit/(loss)	5	**72,259**	(71,118)
Interest receivable and similar income	8	**1,961**	6,417
Profit/(Loss) on ordinary activities before tax		**74,220**	(64,701)
Tax on profit/(loss)	9	**194**	–
Profit/(Loss) for the year		**74,026**	(64,701)

There are no items of other comprehensive income.

The notes on pages 17 to 21 form part of these financial statements.

STATEMENT OF FINANCIAL POSITION

AS AT 31 MARCH 2017

	Note	2017 £	2016 £
Fixed assets			
Tangible assets	10	**28,666**	3,422
		28,666	3,422
Current assets			
Debtors: amounts falling due within one year	11	**87,691**	62,968
Cash at bank and in hand	12	**837,495**	783,640
		925,186	846,608
Creditors: amounts falling due within one year	13	**(201,967)**	(172,171)
Net current assets		**723,219**	674,437
Total assets less current liabilities		**751,885**	677,859
Net assets		**751,885**	677,859
Capital and reserves			
Profit and loss account		**751,885**	677,859
		751,885	677,859

The Company's financial statements have been delivered in accordance with the provisions applicable to companies subject to the small companies regime.

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 20 July 2017.

Christopher Pond (Chairman)
Director

David Pickering (Chief Executive)
Director

The notes on pages 17 to 21 form part of these financial statements.

FINANCIAL STATEMENTS

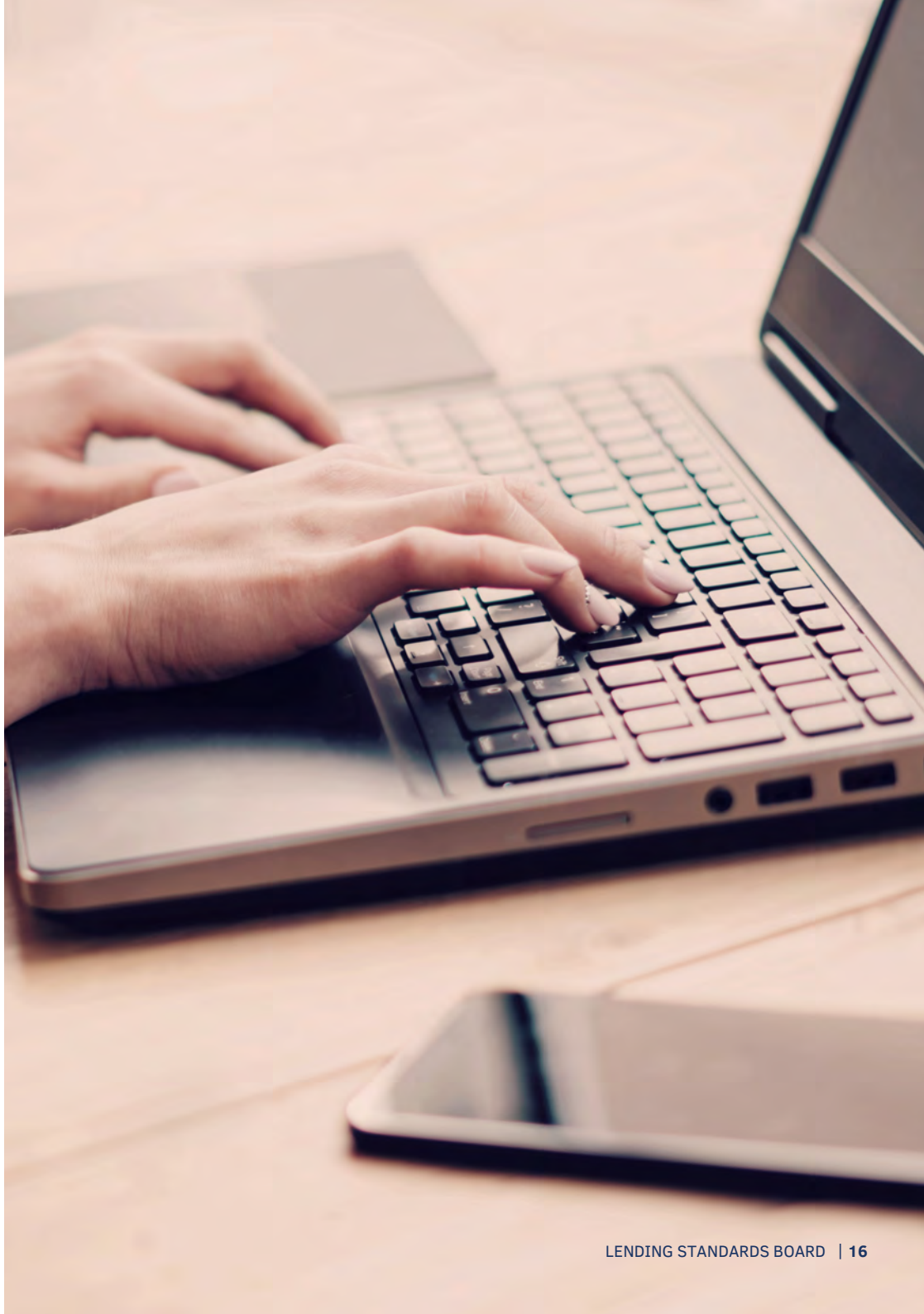
STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 MARCH 2017

	Retained earnings £	Total equity £
At 1 April 2016	**677,859**	677,859
Comprehensive income for the year		
Profit for the year	**74,026**	74,026
Total comprehensive profit for the year	**74,026**	74,026
At 31 March 2017	**751,885**	751,885

	Retained earnings £	Total equity £
At 1 April 2015	**742,560**	742,560
Comprehensive income for the year		
Loss for the year	**(64,701)**	(64,701)
Total comprehensive loss for the year	**(64,701)**	(64,701)
At 31 March 2016	**677,859**	677,859

The notes on pages 17 to 21 form part of these financial statements.



NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2017

1. General information

The company is incorporated in England & Wales and is limited by guarantee. Its principal place of business is 5th Floor, Abbey House, 74/76 St. John Street, London, EC1. The principal activity of the company is the monitoring, oversight and enforcement of the Standards; a voluntary code of practice for financial services providers intended to protect customers.

2. Accounting policies

2.1 Basis of preparation
The financial statements have been prepared under the historical cost convention and in accordance with Financial Reporting Standard 102, the Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland and the Companies Act 2006.

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the Company's accounting policies (see note 3).

The company has adopted Financial Reporting Standard 102 Section 1A and has therefore claimed exemption from preparing a cash flow statement.

The following principal accounting policies have been applied:

2.2 Revenue
Revenue comprises annual registration fees payable for the year ended 31 March 2017 and non refundable joining fees received. Registration income is recognised in line with the period of registration and joining fees when the application process is completed.

2.3 Tangible fixed assets
Tangible fixed assets under the cost model are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

The Company adds to the carrying amount of an item of fixed assets the cost of replacing part of such an item when that cost is incurred, if the replacement part is expected to provide incremental future benefits to the Company. The carrying amount of the replaced part is derecognised. Repairs and maintenance are charged to profit or loss during the period in which they are incurred.

Depreciation is charged so as to allocate the cost of assets less their residual value over their estimated useful lives, using the straight line method.

Depreciation is provided on the following basis:	
Fixtures and fittings	**- 33%**
Leasehold improvements	**- 33%**
Computer equipment	**- 33%**

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, or if there is an indication of a significant change since the last reporting date. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'other operating income' in the Statement of Comprehensive Income.

2.4 Debtors
Short term debtors are measured at transaction price, less any impairment.

2.5 Cash and cash equivalents
Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 90 days.

2.6 Financial instruments
The Company only enters into basic financial instruments transactions that result in the recognition of financial assets and liabilities like trade and other accounts receivable and payable.

2.7 Creditors
Short term creditors are measured at the transaction price.

2.8 Pensions
The Company operates a defined contribution plan for its employees. A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity. Once the contributions have been paid the Company has no further payments obligations. The contributions are recognised as an expense in the Income Statement when they fall due. Amounts not paid are shown in accruals as a liability in the Statement of Financial Position. The assets of the plan are held separately from the Company in independently administered funds. No contributions were outstanding to the fund at the current or prior reporting date.

2.9 Interest income
Interest income is recognised in the Income Statement on an accruals basis.

2.10 Taxation
Tax is recognised in the Income Statement, except that a change attributable to an item of income and expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date in the countries where the Company operates and generates income.

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the Statement of Financial Position date, except that:

– The recognition of deferred tax assets is limited to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits; and

– Any deferred tax balances are reversed if and when all conditions for retaining associated tax allowances have been met.

Deferred tax balances are not recognised in respect of permanent differences except in respect of business combinations, when deferred tax is recognised on the differences between the fair values of assets acquired and the future tax deductions available for them and the differences between the fair values of liabilities acquired and the amount that will be assessed for tax. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date

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

3. Judgements in applying accounting policies and key sources of estimation uncertainty

The directors consider that there are no key judgements or key sources of estimation uncertainty used in the application of the accounting policies.

4. Analysis of turnover

	2017 £	2016 £
Registration and joining fees	**1,690,217**	1,426,327
	1,690,217	1,426,327

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2017

5. Operating profit/(loss)

THE OPERATING LOSS IS STATED AFTER CHARGING:

	2017 £	2016 £
Depreciation of tangible fixed assets	**17,222**	5,321
Fees payable to the Company's auditor for the audit of the company's annual financial statements	**9,500**	9,350
– Taxation compliance services	**1,900**	2,275
Operating leases – land & buildings	**51,749**	40,000
Defined contribution pension cost	**68,919**	64,996

6. Directors' Remuneration

	2017 £	2016 £
Lord Hunt of Wirral	**56,020**	54,921
Robert Skinner	**99,050**	215,215
Lady Bloom CBE	**19,580**	19,195
Barbara Moorhouse	**22,580**	21,195
David Pickering	**71,680**	–
Jonathan Rees	**19,580**	19,195
Christopher Pond	**4,792**	–
	293,282	329,721

Directors' remuneration includes contributions totalling £9,005 (2016: £17,656) paid to a pension arrangement to secure money purchase benefits for Robert Skinner.

7. Employees

STAFF COSTS, INCLUDING DIRECTORS' REMUNERATION, WERE AS FOLLOWS:

	2017 £	2016 £
Wages and salaries	**948,675**	928,857
Social security costs	**107,001**	111,318
Cost of defined contribution scheme	**68,919**	64,996
	1,124,595	1,105,171

8. Interest receivable

	2017 £	2016 £
Other interest receivable	**1,961**	6,417
	1,961	6,417

9. Taxation

	2017 £	2016 £
Corporation tax		
Corporations tax at 20%	**194**	–
Total current tax	**194**	–
Deferred tax	**–**	–
Total deferred tax	**–**	–
Taxation on profit/(loss) on ordinary activities	**194**	–

Factors affecting tax charge for the year

The tax assessed for the year is lower than (*2016 - higher than*) the standard rate of corporation tax in the UK of 20% (*2016 - 20%*). The differences are explained below:

	2017 £	2016 £
Profit/(Loss) on ordinary activities before tax	**74,220**	(64,701)
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 20% (2016 - 20%)	**14,844**	(12,940)
Effects of:		
Expenses not deductible for tax purposes, other than goodwill amortisation and impairment	**2,154**	208
Capital allowances for year in excess of depreciation	**(5,189)**	–
Depreciation for the year in excess of capital allowances	–	474
Other allowable deductions	**(74)**	–
Other credits	**(392)**	–
Tax losses utilised	**(11,343)**	–
Unrelieved tax losses carried forward	–	12,258
Total tax charge for the year	**–**	–

A deferred tax asset of £2,520 (2016: £13,862) relating to unrelieved losses has not been recognised due to the uncertainty of future profits.

10. Tangible fixed assets

	Fixtures and fittings £	Leasehold improvements £	Computer equipment £	Total £
Cost or valuation				
At 1 April 2016	**6,695**	–	**47,032**	**53,727**
Additions	**1,704**	**35,106**	**5,798**	**42,608**
Disposals	**(343)**	–	**(16,519)**	**(16,862)**
At 31 March 2017	**8,056**	**35,106**	**36,311**	**79,473**
Depreciation				
At 1 April 2016	**6,511**	–	**43,794**	**50,305**
Charge for the period	**610**	**11,701**	**4,911**	**17,222**
Disposals	**(201)**	–	**(16,519)**	**(16,720)**
At 31 March 2017	**6,920**	**11,701**	**32,186**	**50,807**
Net book value				
At 31 March 2017	**1,136**	**23,405**	**4,125**	**28,666**
At 31 March 2016	*184*	–	*3,238*	*3,422*

11. Debtors

	2017 £	2016 £
Other debtors	**16,738**	6,263
Prepayments and accrued income	**70,953**	56,705
	87,691	62,968

Financial assets measured at amortised cost comprise cash in hand and other debtors.

12. Cash and cash equivalents

	2017 £	2016 £
Cash at bank and in hand	**837,495**	783,640
	837,495	783,640

13. Creditors: Amounts falling due within one year

	2017 £	2016 £
Trade creditors	**57,473**	28,464
Taxation and social security	**33,092**	30,528
Other creditors	**10,278**	5,307
Corporations tax liability	**194**	-
Accruals and deferred income	**100,930**	107,872
	201,967	172,171

Financial Liabilities measured at amortised cost comprise trade, other creditors and accruals.

14. Company status

The company is a private company limited by guarantee and consequently does not have share capital. Each of the members is liable to contribute an amount not exceeding £10 towards the assets of the company in the event of liquidation.

15. Controlling party

The directors are of the opinion that there was no controlling party in either the current or prior financial year.

16. Commitments under operating leases

At 31 March 2017 the Company had future minimum lease payments under non-cancellable operating leases as follows:

	2017 £	As restated 2016 £
Land and buildings		
Not later than 1 year	**61,000**	20,000
Later than 1 year and not later than 5 years	**183,000**	–
	244,000	20,000
Others		
Not later than 1 year	**1,968**	881
Later than 1 year and not later than 5 years	**2,460**	–
	4,428	**881**

REGISTERED FIRMS

REGISTERED FIRMS TO THE STANDARDS OF LENDING PRACTICE AS AT 31 MARCH 2017

Adam & Company plc

AIB Group (UK) p.l.c.

American Express Services Europe Limited

Bank of Cyprus UK Limited

Bank of Ireland (UK) plc

Barclays Bank PLC

Capital One (Europe) plc

Citibank International plc (UK Consumer Banking Division)

Clydesdale Bank PLC

Co-operative Bank p.l.c. (The)

Coutts & Co

First Trust Bank

HSBC Bank plc

Lloyds Banking Group plc

Marks & Spencer Financial Services plc

MBNA Limited

Nationwide Building Society

NewDay Ltd.

Northern Bank Limited

Royal Bank of Scotland plc (The)

SG Hambros Bank Limited

Sainsbury's Bank plc

Santander plc

Tesco Personal Finance plc

Triodos Bank NV (UK Branch)

TSB Bank plc

Turkish Bank (UK) Ltd

Ulster Bank Limited

Unity Trust Bank plc

Virgin Money plc

Arrow Global Limited

Baker Tilly Creditor Services LLP

1st Credit Limited

Cabot Credit Management Group Limited

Hoist Finance UK Ltd

Wescot Credit Services Limited

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