LENDING STANDARDS BOARD

Annual report 2014 | 2015





LENDING STANDARDS BOARD

Who are we and what do we do?

The LSB is a self-regulatory body whose mission is:

■ To raise standards and improve the overall level of customer protection in the consumer credit market.

We achieve this through our monitoring and enforcement of the Lending Code, the provision of advice and spreading of best practice, and the use of our market intelligence, experience and relationships with other regulators and industry bodies.

The Lending Code sets standards of good lending practice in relation to loans, credit and charge cards and current account overdrafts as well as debt collection activities related to these products.

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 Code protects the following types of borrowers:

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

The text of the Lending Code can be found on our website:

www.lendingstandardsboard.org.uk

This lists all current Lending Code Subscribers.

Chairman's Statement

Since the Lending Code was introduced in 2009, there has been a significant amount of change in the financial services industry.

There has been a massive increase in the use of digital channels both for application and servicing of lending products, rapid growth and subsequent contraction in the short-term, high-cost credit (payday) sector and the emergence of non-traditional providers such as the peer-to-peer lenders.

The pace of change is unlikely to slow over the next few years. Demand for consumer credit remains high, currently growing at over 7% p.a and a range of new entrants, with both traditional and new business models are waiting in the wings.

On the regulatory front, the Financial Conduct Authority (FCA) introduced a new sourcebook (CONC) and brought a more proactive and forward looking approach to the regulation of the market. The Banking Standards Board, a product of Richard Lambert's Banking Standards Review, has also now started its work.

Although these changes present major challenges for the LSB, they also

represent exciting times for us as we seek to help the industry use the Lending Code to demonstrate how it is setting high standards. The Board is committed to meeting these challenges head on.

The Lending Code and the scope of the LSB's activities have also evolved during this period most particularly in the area of support for those who find themselves in financial difficulties.

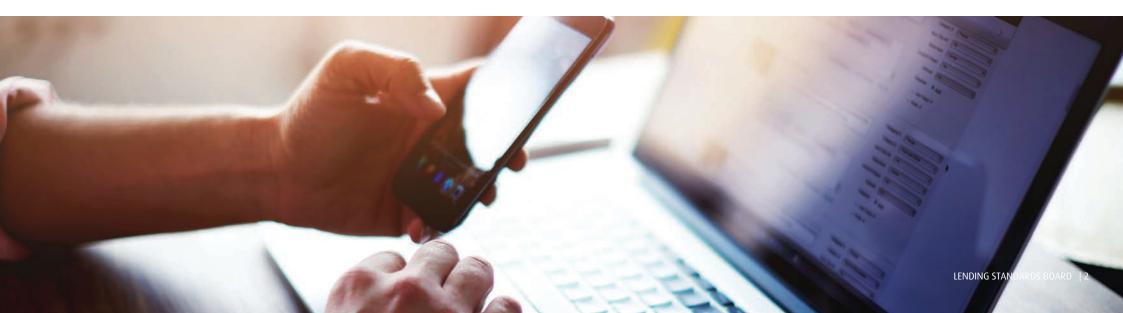
In 2014, we introduced a new Associate Subscriber category to allow debt collection and debt purchase firms to subscribe to the Lending Code. I am delighted that we now have five firms registered who have successfully completed our application process and a number of major firms are in the pipeline. All Associate Subscribers are members of the Credit Services

Association (CSA) and we have recently signed a MoU with the CSA that provides a framework for co-operation and information sharing. Given the importance of our relationship with the CSA, their Chief Executive is invited to attend our Board meetings.

Recognising the dynamic nature of financial services and the importance of upholding standards at the forefront of industry practice, the LSB monitors the content of the Code and initiates major reviews at regular intervals. This ensures that the Code continues to add value in the context of changing market circumstances.

In line with this, in December 2014, the Board engaged Professor Russel Griggs OBE to undertake an independent review of the Code. The review provides us with an opportunity to reaffirm the Code's role in setting standards of best practice and to build upon the firm foundations that have been established.

The scope of this review is more fundamental and wider than that undertaken four years ago. Professor Griggs has, as was the case last time, sought views on existing Code provisions that need to be revised or updated to ensure their intended outcome is achieved, and on any areas of potential detriment impacting personal and small business customers not presently addressed adequately by the Code or statutory rules. He is also considering the impact of market developments, the need to avoid overlap and duplication of CONC, as well as changes which might improve the effectiveness of the Code and the work of the LSB, and how the wider benefits of the regime might be increased.



Chairman's Statement (cont'd)

Prior to commissioning the Code review, the Board undertook a stakeholder survey and I am delighted that the view of the LSB's performance was very positive with the vast majority of respondents rating our professionalism as good or excellent. The Code was rated highly by Subscribers and other stakeholders for its clarity and fitness for purpose, and perceived as having been helpful in raising standards for customers.

A number of valuable comments and suggestions were made on what more the LSB might do to improve its effectiveness and views on how the Lending Code might be developed. These have been provided to Professor Griggs to consider alongside the submissions to the public consultation that closed in March.

The approach to regulation in financial services has been a major topic of debate in recent years. The need to address major failings in the industry is self evident. However, the best means to deliver high standards of banking conduct and effective customer protection, whilst supporting the industry's contribution to the UK economy, has been more widely debated.

Some have questioned whether a more intrusive and prescriptive approach to regulation may increase the cost burden – ultimately met by customers – and fail

to deliver the responsible and proactive engagement with customers that is the aim.

I believe firmly that self-regulation, via independently monitored codes of practice, can play an important part in ensuring that customers are treated well. Where codes are designed to be complementary to the statutory regime, they allow for targeting by the regulator with detailed, prescriptive conduct rules, focused on those areas of real concern or market failure without creating major disturbance and potentially restricting consumer choice, in those parts of the market that are working well.

The industry should be setting the standards which underpin how they will treat their customers, raising the bar rather than just complying with minimum statutory rules.

Self-regulatory codes can be the vehicle to achieve this, to document industry best practice standards that are market/product focused as compared with the broad generic approach necessary for statutory regulation. All of which can lead to a better outcome for consumers than a purely statutory approach.

There is an opportunity for the FCA to take greater account of the work of selfregulatory bodies such as the LSB, provided that they can demonstrate effectiveness, and for industry codes of practice to be used as an alternative to further statutory rules. We have an excellent working relationship with the FCA and see this continuing to develop as the new consumer credit regime beds in.

The Lending Code, although having the greatest coverage and most proactive compliance monitoring, is only one of a number of trade body sponsored codes covering the consumer credit market.

As the largest firms subscribe to several of these codes, there are potential opportunities for co-ordination and rationalisation, aligning standards and possibly streamlining compliance assurance. The Board and the Sponsors are keen to explore this further, the

catalyst for which could be the current review of trade associations being led by the major banks.

There has been just one change to Board membership during the year. Alan Whiting left the Board after completing nine years as an independent Director of the Banking Code Standards Board and the LSB. Sadly, Alan passed away recently and I would like to record the enormous contribution he made to our work over the years.

In Alan's place I am delighted to welcome Jonathan Rees who joined us last July. I am grateful for all the support and wise counsel that I have received from my fellow Directors during the year.

Finally, I must recognise the LSB staff's diligent work during the year. Robert Skinner and his team continue to deliver the highest standards of professionalism and I am grateful to them.

28-24

Lord Hunt of Wirral MBE Chairman , 31 July 2015

I believe firmly that self-regulation, via independently monitored codes of practice, can play an important part in ensuring that customers are treated well.



Chief Executive's Report

This has been another busy year for the LSB. Following the decision to extend the scope of the Code, we have welcomed new debt collection agents and debt purchase firms as Associate Subscribers, which have added to our compliance monitoring workload.

We have also had to adapt to the introduction of the more intensive and forward looking approach to the regulation of the consumer credit market by the FCA, which has required us to look critically at how we approach our work to avoid duplication and ensure we add value.

This process continues and will be a key part of the Code review currently underway.

Monitoring and research

The mix of our compliance work remains themed reviews, investigations and the analysis of the Annual Statement of Compliance (ASC)

completed by all Subscribers. How customers who are in, or are at risk of getting into financial difficulties are treated, continues to be a major focus of our work. In addition to reviewing how lenders' in-house teams support customers, we have also looked at the oversight and due diligence undertaken by lenders when they outsource collections or sell debt. This work did highlight some shortcomings and these are covered in the Compliance Director's report.

The LSB places a heavy reliance on the ASC and we have undertaken assurance work across a range of Subscribers looking at the Code governance and control arrangements which included the completion of the ASC. This provided us with considerable confidence over the accuracy and completeness of the ASC and the robustness of the process.

Whilst compliance monitoring is at the heart of our work, we have also undertaken a number of reviews which have focused on topical issues in the consumer credit industry.

These research pieces have included the treatment of vulnerable customers. how firms identify and assist customers at risk of financial difficulties (pre-arrears) and the costs to customers of calling telephone helplines, which has resulted in Subscribers reviewing the availability of freephone numbers. Following collaborative work between the industry and the Ministry of Defence, new provisions have been agreed with the Code Sponsors to ensure that members of the armed forces are not disadvantaged when applying for credit as a result of thin credit histories resulting from their service.

Further work is planned on pre-arrears which will inform the work being led by the Money Advice Service and on vulnerable customers, where we have been providing input to the FCA in support of their own work and that of the recently established Financial Services Vulnerability Taskforce.

Code breaches and enforcement

No cases have been referred to our Adjudications Committee this year but we did issue one executive warning to a Subscriber for poor oversight of a third party to whom they had outsourced debt collection.

Just under 200 breaches of varying severity were either reported to us by firms or identified by our monitoring work. The majority of these were minor or technical breaches and further details are given in the Compliance Report.



Chief Executive's Report (cont'd)

Data gathering

The gathering of firm specific and wider market intelligence is fundamental to our work.

In addition to reviewing specific data collected from firms, we now collect quarterly information from around half of our Subscribers, including all large firms, on arrears and default levels, repayment plans agreed and broken and complaint numbers. This allows us to monitor trends and assists in the allocation of our compliance resources. This is an area of development for us and we will continue to enhance our continuous monitoring of our major Subscribers.

Working with Subscribers

Contact with our Subscribers ranges from the regular compliance team visits to Chief Executive and Chair level meetings. A series of seminars were held for Subscribers in May which allowed us to share findings from our reviews and discuss current concerns and forward monitoring agenda. These will be repeated later this year. We have also instigated quarterly 'user group' meetings attended by a crosssection of Subscribers which assist us to ensure our work is targeted and adds real value.

We attended a number of Subscriber events and meetings during the year and continue to provide advice and

quidance to new and existing Subscribers as they develop their Code related processes. Our team is always available to discuss Code related matters and provide guidance on interpretation issues or best practice.

Working with others

Our relationship with the FCA continues to develop. Our regular meetings allow us to discuss concerns and share our forward agenda with a view to reducing the risk of overlap of our compliance work and hopefully limit duplication of information provision by firms. We also meet with the Financial Ombudsman Service (FOS) to discuss areas of poor performance by firms and emerging areas of consumer detriment.

We continue to strengthen and widen our contacts within the consumer and debt advice bodies who provide us with vital intelligence of current and emerging concerns at both firm and market level. In response to the stakeholder survey mentioned in the Chairman's Statement, a number of suggestions were made on how we might increase the understanding and transparency of our work and we will be taking these on board. I am grateful for the support we receive from the advice sector.

During the year, the LSB has spoken at a range of industry conferences and seminars. These have given us the

We continue to strengthen and widen our contacts within the consumer and debt advice bodies who provide us with vital intelligence of current and emerging concerns at both firm and market level.

opportunity to provide further detail about our compliance work and how the Code and the LSB can add value in the new FCA regulatory world.

New Subscribers

There were 42 firms registered at 1 April 2015. We were pleased to welcome seven new firms; NewDay and TSB Bank as full Subscribers and 1st Credit, Cabot, Experto Credite, Hillesden Securities and Robinson Way as Associate Subscribers.

Three firms left the register during the year either as a result of business/ lending book sale or because they had only very limited activities covered by the Code's scope.

Financial position

A pre-tax loss of £72,671 was recorded for the year. This was in line with our

budget as we had taken the decision to meet some of the costs incurred in extending the reach of the Code, to include debt collection and debt purchase firms, from our reserves and to achieve full recovery over a two year period. Our reserves remain healthy and at the end of the year stood at £742,560.

The LSB Team

This has been a challenging year for the LSB and a great deal has been achieved by a small team. I must thank them all for their hard work which is reflected in the positive comments in the stakeholder survey.

Robert Skinner Chief Executive



Compliance Director's Report

As both our Chairman and Chief Executive have indicated this has been a transitional year for the consumer credit industry and the LSB.

Historically the compliance report has focused on the work we have completed during the year and our findings. While I will use some of the report to do that I feel that it would also be helpful to share some thoughts on how the monitoring strategy has been evolving in the past year and the direction it is heading in, especially given the launch of a new Code in 2016.

We took a view when setting last year's plan to look critically at how we can improve the support to our Subscribers,

while at the same time fulfilling our independent monitoring remit. In particular, we are conscious that we need to evolve our approach to ensure that both the Code and the LSB continue to add value and complement the work of the FCA.

So what have we done so far? Well, firstly, we feel that the Code needs to set the standard and to do this it needs to continue to move into new areas. In 2014/15, we achieved this on two fronts: launching the Associate

Subscriber initiative to widen the scope of the Code into the debt collection industry; and undertaking themed review work in areas where we felt the Code could be strengthened, such as pre-arrears, the availability of freephone numbers and consumer vulnerability, all of which have helped in defining best practice and informing the development of the new Code.

Secondly, we have looked at efficiency. Any assurance function has finite resource and has to apply this to the areas of highest risk. We have regularly updated our risk scorecard, which assesses risk against each part of the consumer credit customer journey as well as those areas that cut across the whole lifecycle such as governance and infrastructure. What did this tell us? For last year the three areas of most concern were governance, which covers a multitude of processes and systems, vulnerability and financial

difficulties. Vulnerability I've already mentioned but it's worth touching on the other two.

Financial difficulty is an area where the LSB has traditionally focused much of its effort and will form a significant part of its future monitoring. We did, however, modify our approach in the last themed review reported in August 2014. In order to obtain a more complete view of how customers in financial difficulty were being treated we assessed a series of calls, file notes and correspondence for the same customer over a six month period for nine Subscribers, whereas previously we have only listened to isolated calls at random. This 'end to end' approach provided us with greater insight into how customers in financial difficulty are treated and allowed for an assessment of the timeliness of interventions as well as reviewing adherence to Code standards; for example, the provision of breathing space at the correct time, or an appropriate referral for third party free debt advice.

Governance has been a much used word in financial services in the past decade. To provide assurance that the Code is being complied with on a consistent basis we feel it essential to assess the effectiveness of a firm's governance arrangements, in particular the adequacy of the control framework that is in place to ensure that the provisions of the Code are being met. By focusing on this higher level work at nine Subscribers, we were able to gain an informed view on the overarching governance, the controls over compliance with the Code, breach management and the firms' change management processes. This process also enabled us to test the adequacy of Subscribers' completion of the Annual Statement of Compliance (ASC), but more of that later.



Compliance Director's Report (cont'd)

The Associate Subscriber programme has enabled us to draw together the above two themes in the process of taking on five new associates in the past year. These assessments have combined the key elements of the governance and financial difficulty reviews to provide a comprehensive view of that firm before signing it off as a Subscriber to the Code.

So what have the above reviews and the other ones we have undertaken this vear told us and how can we demonstrate that we have improved the level of customer protection in the consumer credit market?

The table on page 8 summarises the theme review work undertaken in the past year with links to the summary reports on our website so I will focus on the highlights here.

Financial difficulties – the new approach enabled us to assess customer outcomes more readily, resulting in raising issues with call quality, in particular the fact finding, questioning and listening skills of agents, and our consideration of governance arrangements resulted in the identification of issues relating to oversight of third parties and due diligence. Some of the main improvements implemented by firms as a result of this review include:

- Enhanced due diligence so that when debt is sold the firm will undertake sufficient checks to ensure that the debt purchaser is treating its customers in accordance with the standards set out in the Lending Code;
- Rationalisation of their debt collection agency (DCA) panel to focus on fewer DCAs thus facilitating more effective oversight of each DCA;
- The introduction of enhanced relationship management and monitoring where debt is outsourced;
- Enhanced customer fact find training for agents assessing current and future changes in circumstances and the impact on affordability to ensure the right plan is set for the customer;
- Introduction of an enhanced affordability tool supported by more rigorous call monitoring focused on customer outcomes; and
- Removal of a staff incentive scheme that was focused on cash. collected rather than quality.

Associate Subscribers – we have undertaken six assessments in 2014/15 and five firms have been successful in their application.

As a result these firms now fall within the LSB's monitoring regime and this can only help improve standards overall.

Code governance – this was a new type of themed review for the LSB and we did not grade these reports. While there have been enhancements made to Subscribers' processes following the issue of individual reports, this review more significantly identified several areas where the Code could be strengthened, particularly around oversight of outsourced functions, breach management, the role of the Code Compliance Officer, the quality of firms' assurance programmes, and completion of the ASC.

Credit card mystery shop - as a result of this exercise all 17 firms sampled are providing actions covering how they are going to improve the provision of information to customers at the point of sale across branch, telephone and online channels.

Freephone telephone numbers – the Code's Sponsors (BBA, UK Cards and BSA) have been working with their members to ensure that customers can access free telephone numbers to contact Subscribers in areas such as financial difficulties and those where they wish to opt out of services they have not requested.

Financial difficulties – the new approach enabled us to assess customer outcomes more readily...

Breach management

The table below shows the severity rating for both open and closed breaches as at 31 March 2015 identified through LSB themed review work, or reported by Subscribers through either the ASC or their internal breach management processes, for 2014/15. Although no breaches were referred to the Adjudication Committee and therefore not classified as material as defined in our rules – an executive warning was issued in respect of breaches identified through the financial difficulties themed review.

Severity & Status	Minor	Technical	Moderate	Significant	Total
Open breaches	28	3	15	9	55
Closed breaches	66	31	16	29	142
Total	94	34	31	38	197

The majority of breaches identified in the last 12 months have been minor or technical (65%), with 19% rated as significant. Many of the significant items have related to the issues raised on financial difficulty, although some relate to governance issues and some to non-production of statements. Every breach has been assessed for root cause and the analysis is shown below.

Root Cause & Status	Policy	Systems	People	Processes	Total
Open breaches	6	12	12	25	55
Closed breaches	11	43	31	57	142
Total	17	55	43	82	197

Compliance Director's Report (cont'd)

Looking ahead

I'd like to look ahead to this year and the monitoring approach we are looking to adopt in light of the industry developments I referred to earlier. We recognise that the regulatory burden on firms is increasing and that the new Code needs to complement statutory regulation. We are developing the types of review we do and the overall mix to ensure that we work efficiently and these are set out below.

Firstly, we have developed closer relationships with the FCA in the past 12 months and one key area is the sharing of review plans to ensure that we align our monitoring to avoid duplication, an example being a credit card third party review which we have just started and

in which the FCA has expressed an interest. We have also shared the anonymised results of our review work that has helped the FCA in some of its research. We will continue to work on improving our information sharing and co-ordination of plans.

Secondly, we will be undertaking more research pieces, referred to as Code development reviews (CDRs), which will enable us to do more collaborative work with Subscribers to identify good practice and which result in improvements to the Code. Our first three CDRs will build on the work we have already undertaken on vulnerability and pre-arrears, as well as affordability. These reviews will not be rated.

Thirdly, every firm will be risk assessed using available management information (MI) and through discussion with senior management to enable a monitoring strategy to be developed for each firm.

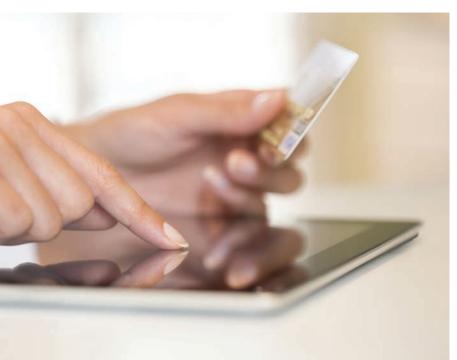
Fourthly, we will undertake a review of the ASC this year with a view to launching a new ASC (or equivalent) in readiness for 2016, which ties in with the new Code. The aim will be to develop a process that works as efficiently as possible for both the LSB and Subscribers.

Finally, we will be piloting a form of continuous monitoring by sample testing financial difficulty calls at Subscribers on a quarterly basis.

Regular output from the monitoring will enable us to present a view on compliance with financial difficulty provisions and the development of a financial difficulties index. We will explore other opportunities to undertake monitoring activity outside of the themed review process and in particular identify MI we can obtain that will highlight areas of concern.

I mentioned finite resource earlier. A word or two for my dedicated team of six managers at this point would be appropriate. It never ceases to amaze me what they achieve each year in terms of managing relationships with Subscribers, assessing new firms, undertaking themed reviews, developing the Code, preparing for user groups and seminars, developing our internal processes, producing reports and being on hand to offer advice as and when required. We are only able to add value through the quality of our people and for this reason I feel we are in a strong position to deliver when the new Code is launched. We look forward to working with our Subscribers and potential new Subscribers over the next year and to help them deliver the right outcomes for consumers.

David Pickering **Compliance Director**



Compliance monitoring activity					
	Red	Amber	Yellow	Green	Total
Subscriber Code review*			1		1
New Subscriber assessments				1	1
Associate Subscriber assessments	1	4		2	7
Code governance review (ungraded)					9
Financial difficulties	2	6		1	9
Complaints provision				9	9
Pre-arrears (ungraded)					8
Cost of calling telephone service lines (ungraded)					18
Credit card mystery shop (ungraded)**					17

^{*} The Subscriber Code review was graded 'yellow', a new rating introduced in March 2014

^{**} Overall grades were applied to the channels: online and branch (green), telephone (amber)

Our People Board members at 31 <u>March 20</u>15

Chairman



The Right Hon the Lord Hunt of Wirral MBE

David Hunt has been a parliamentarian for 39 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.

In addition to the LSB, Lord Hunt is also Chairman of the British Insurance Brokers' Association, Chairman of Cornerstone Mutual Services Limited and the Credit Union Expansion Project. As Chairman of the Press Complaints Commission from 2011 to 2014, he was the inaugural Chairman of the Independent Press Standards Organisation before handing over to Sir Alan Moses in September 2014.

David has been a member of the Privy Council since 1990.

Independent Directors



Barbara Moorhouse (1)

Barbara Moorhouse spent the first 20 years of her career in the private sector holding a variety of strategic, financial and commercial Director roles. From 2000-2004 she was Chief Finance Officer of Kewill Systems PLC and Scala International NV. In 2005 she was appointed as Director General at the Ministry of Justice and subsequently at the Department for Transport. From 2010-2013 she was Chief Operating Officer at Westminster City Council. Barbara is a former member of Council for the Chartered Institute of Management Accountants and the Financial Reporting Review Panel. Barbara is a portfolio non-executive director and chaired OPM Group until May 2015.



Lady Bloom CBE (1,2)

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 (2)

Ionathan 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 sponsors



Robin Fieth (1) Chief Executive, **Building Societies Association**



Eric Leenders (1,2) Executive Director, Retail and Private Banking, British Bankers' Association



Graham Peacop (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 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 and succession planning and recruitment of independent Non-executive Directors and key staff.

Staff of the LSB at 31 March 2015

Compliance

David Pickering – Compliance Director Elizabeth Thompson – Senior Compliance Manager Laura Mahoney – Legal & Compliance Manager (Policy)

Compliance Managers Saima Hansrai Simone Freire Michael Merry Shada Nasrullah

Operations

Patricia Kearney – Operations Manager Julie Huxen – Administration & IT Manager

Company Information

Directors

Lord Hunt of Wirral MBE (Chairman) **Robert Skinner** (Chief Executive)

Lady Bloom CBE

Eric Leenders

Barbara Moorhouse

Robin Fieth

Graham Peacop

Jonathan Rees (Appointed 1 July 2014)

Alan Whiting (Resigned 30 June 2014)

Company Secretary

Sisec Limited

Registered Office

21 Holborn Viaduct London EC1A 2DY

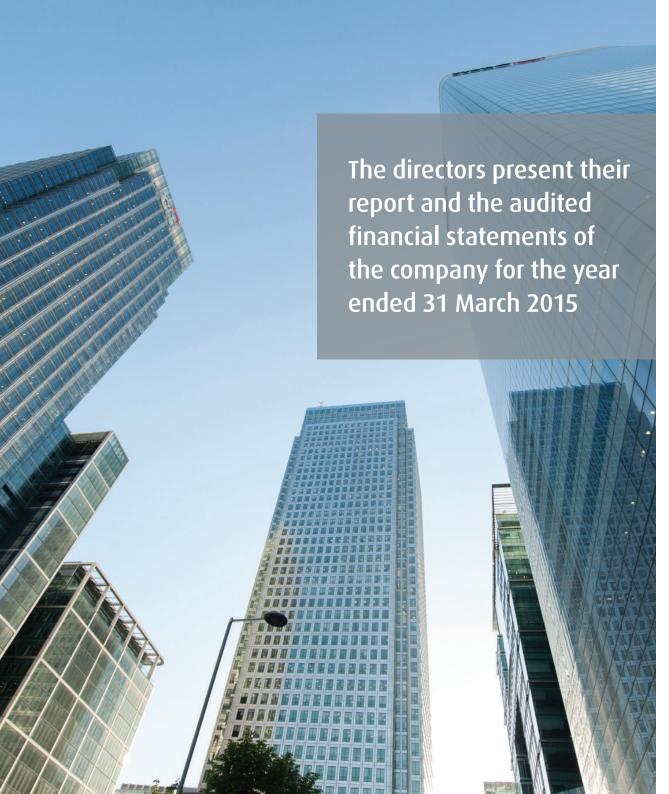
Auditor

Moore Stephens LLP Chartered Accountants and Statutory Auditor Russell Square House 10 –12 Russell Square London WC1B 5LF

Bankers

Coutts & Co 440 Strand London WC2R OQS





The Lending Standards Board Limited **Company Limited by Guarentee**

Directors' Report

Incorporation

The company was incorporated on 14 October 1999 as a company limited by quarantee 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:

Lord Hunt of Wirral MBE (Chairman) **Robert Skinner** (Chief Executive) Lady Bloom CBE **Eric Leenders** Barbara Moorhouse Robin Fieth **Graham Peacop Jonathan Rees** (appointed 1 July 2014) Alan Whiting

(resigned 30 June 2014)

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

Directors' Report (cont'd)

A Nominations and Remuneration Committee, 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 and succession planning and recruitment of independent non-executive directors and key 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 year.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting

- 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.

Auditor

As a result of the merger between Chantrey Vellacott DFK LLP and Moore Stephens LLP that took place on 1st May 2015, Chantrey Vellacott DFK resigned as auditors on 30th April 2015 with Moore Stephens appointed on 1st May 2015.

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

Each of the persons who is a director at the date of approval of this report confirms that:

 So far as they are aware, there is no relevant audit information of which the company's auditor is unaware; and they have taken all steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information.

Small company provisions

This report has been prepared in accordance with the provisions applicable to companies entitled to the small companies exemption

Signed on behalf of the directors.

Jan Jan

Lord Hunt of Wirral, Director

Approved by the directors on 23 July 2015



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

Independent Auditor's Report

To the members of The Lending Standards Board Limited Year ended 31 March 2015.

We have audited the financial statements of The Lending Standards Board Limited for the year ended 31 March 2015 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 page 13, 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 the 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 and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the

knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statementsIn our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2015 and of its loss 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 and take advantage of the small companies' exemption from the requirement to prepare a strategic report.

Moore Stophens LLP

CHRIS MALACRIDA

(Senior Statutory Auditor)
for and on behalf of MOORE STEPHENS LLP
Chartered Accountants and Statutory
Auditor London

31 July 2015



The Lending Standards Board Limited **Company Limited by Guarentee**

Financial Statements

Profit and loss account

Year ended 31 March 2015

	Note	2015 £	2014 £
Fees		1,358,577	1,271,158
Operating costs		1,437,841	1,220,539
Operating (loss)/profit	2	(79,264)	50,619
Interest receivable	5	6,593	10,279
(Loss)/profit on ordinary activities before taxation		(72,671)	60,898
Tax on (loss)/profit on ordinary activities	6	(13,511)	13,511
(Loss)/profit for the financial year		(59,160)	47,387

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 31 March 2015

	Note	2015 £	2014 £
Fixed assets			
Tangible assets	7	7,828	6,024
Current assets			
Debtors	8	90,796	71,416
Cash at bank		765,579	861,220
		856,375	932,636
Creditors: amounts falling due within one year	9	121,643	136,940
Net current assets		734,732	795,696
Total assets less current liabilities		742,560	801,720
Reserves			
Profit and loss account	12	742,560	801,720
Members' funds		742,560	801,720

The notes on pages 16-19 form part of these financial statements

These accounts have been prepared in accordance with the provisions applicable to companies subject to the small companies regime.

Lord Hunt of Wirral, Director

These financial statements were approved by the directors and authorised for issue on 23.7.15, and are signed on their behalf by:

Robert Skinner, Director

Company Registration Number: 3861859

The Lending Standards Board Limited Company Limited by Guarentee

Notes to the Financial Statements

Year ended 31 March 2015

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 that, at this point in time, the use of the going concern basis of accounting is appropriate. The Board is comfortable that the level of reserves maintained by the company is sufficient to accommodate any changes that might result from the independent review of the Lending Code. Further information regarding the review is contained within the Chairman's Statement in the Annual Report.

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 2015 and non-refundable joining fees received.

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 makes payments on behalf of staff to defined contribution schemes nominated by individual members of staff. The company's contributions are charged to profit and loss account in the year the obligation

arises. The assets of the nominated scheme are held and managed by the pension providers with no further involvement of the company.

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.



Notes to the Financial Statements

2. Operating (loss)/profit

Operating (loss)/profit is stated after charging

	2015 £	2014 £
Depreciation of owned fixed assets	6,217	6,059
Loss on disposal of fixed assets	402	82
Auditor's fees	9,250	8,750
Operating lease costs: land and buildings	40,000	34,725

3. Directors' remuneration

	2015 £	2014 £
Lord Hunt of Wirral	53,845	52,788
Robert Skinner	211,407	206,674
Lady Bloom CBE	18,820	18,450
Claire Ighodaro CBE (resigned 21 February 2014)	-	18,746
Barbara Moorhouse (appointed 28 February 2014)	20,820	1,704
Alan Whiting (resigned 30 June 2014)	4,705	18,450
Jonathan Rees (appointed 1 July 2014)	14,115	-
	323,712	316,812

Directors' remuneration includes contributions totalling £17,310 (2014: £16,970) paid to a pension arrangement to secure money purchase benefits for Robert Skinner.

4. Directors and staff costs

The average number of staff employed by the company during the financial year (excluding nonexecutive directors) amounted to 10 (2014 - 9). Pension contributions were paid into the defined contribution schemes nominated by individual members of staff.

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

	2015 £	2014 £
Wages and salaries	821,384	722,724
Social security costs	118,368	97,705
Other pension costs	66,698	51,547
	1,006,450	871,976

5. Interest receivable

	2015 £	2014 £
Bank interest receivable	6,593	10,279

Notes to the Financial Statements

6. Taxation on ordinary activities

(a) Analysis of charge in the year

	2015 £	2014 £
Current tax:		
UK Corporation tax based on the results for the year at 20% (2014 - 20%)	-	13,511
Tax recoverable in respect of provision made in prior year	(13,511)	-
Total current tax	(13,511)	13,511

(b) Factors affecting current tax charge

The tax assessed on the (loss)/profit on ordinary activities for the year is at a higher rate than the standard rate of corporation tax in the UK of 20% (2014 - 20%).

	2015 £	2014 £
(Loss)/profit on ordinary activities before taxation	(72,671)	60,898
(Loss)/profit on ordinary activities multiplied by rate of tax	(14,534)	12,180
Expenses not deductible for tax purposes	279	2,595
Capital allowances for period in excess of depreciation	(860)	(702)
Unrelieved tax losses carried forward	1,604	-
Other short term timing differences	-	(562)
Total current tax (note 6 (a))	(13,511)	13,511

(c) Factors that may affect future tax charges

The company has deferred tax assets, representing timing differences on capital allowances and available trading losses totalling £2,304 at current tax rates. As there is insufficient evidence that these tax assets will become recoverable within 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 2014	6,282	40,851	47,133
Additions	274	8,159	8,433
Disposals	-	(2,754)	(2,754)
At 31 March 2015	6,556	46,256	52,812
Depreciation			
At 1 April 2014	5,832	35,277	41,109
Charge for the year	378	5,839	6,217
On disposals	-	(2,342)	(2,342)
At 31 March 2015	6,210	38,774	44,984
Net book value			
At 31 March 2015	346	7,482	7,828
At 31 March 2014	450	5,574	6,024

8. Debtors

	2015 £	2014 £
Corporation tax repayable	13,511	_
VAT recoverable	20,136	14,275
Other debtors	57,149	57,141
	90,796	71,416

Notes to the Financial Statements

9. Creditors: amounts falling due within one year

	2015 £	2014 £
Trade creditors	33,343	31,950
Corporation tax	-	13,511
Accruals and deferred income	88,300	91,479
	121,643	136,940

10. Commitments under operating leases

At 31 March 2015 the company had annual commitments under non-cancellable operating leases as set out below.

		2015		2014
	Land and buildings £	Other items	Land and buildings £	Other items £
Operating leases which expire:				
Within one year	-	1,762	-	1,596
Within two to five years	40,000	-	40,000	-
	40,000	1,762	40,000	1,596

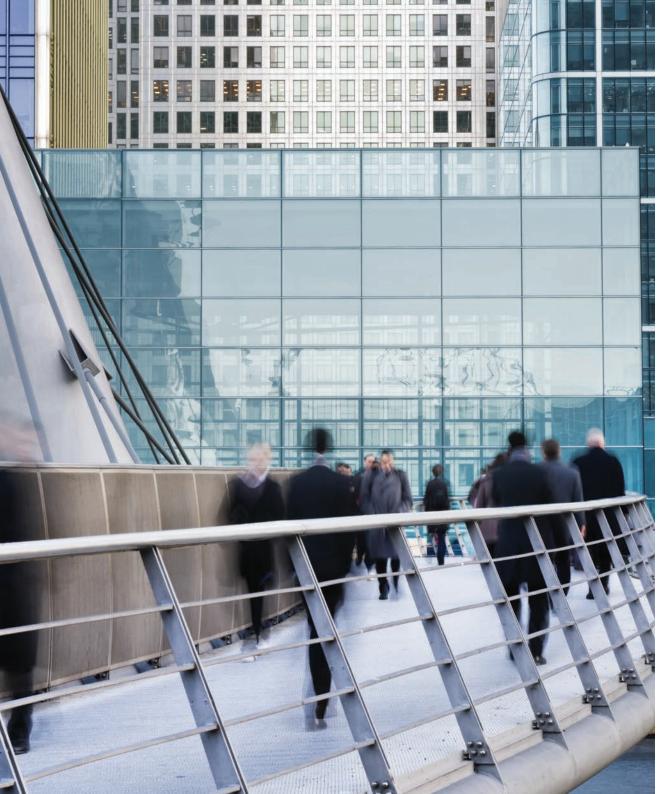
During the year the company reached an agreement with the landlord to extend the lease on the company's offices which now expires on 28 September 2016.

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

	2015 £	2014 £
Balance brought forward	801,720	754,333
(Loss)/profit for the financial year	(59,160)	47,387
Balance carried forward	742,560	801,720



Subscribers

Subscribers to the Lending Code as at 31 March 2015

Lending Subscribers

Adam & Company plc AIB Group (UK) plc Airdrie Savings Bank American Express Services **Europe Limited** Bank of Cyprus UK 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

Cumberland Building Society First Trust Bank

Harrods Bank Limited HSBC Bank plc

Lloyds Banking Group

Marks & Spencer Financial Services Plc

MBNA Limited

Nationwide Building Society

NewDay Ltd

Northern Bank Limited

Royal Bank of Scotland plc

S G Hambros Bank Ltd

Sainsbury's Bank plc

Santander UK plc

Secure Trust Bank plc Tesco Personal Finance Triodos Bank NV (UK Branch) TSB Bank plc Turkish Bank (UK) Ltd Ulster Bank Limited Unity Trust Bank plc Virgin Money plc Wesleyan Bank Limited Yorkshire Building Society

Associate Subscribers

1st Credit Limited Cabot Credit Management **Experto Credite Limited Robinson Way Limited** (Hillesden Securities Limited - joined 1 April 2015)

Contact us

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