Report and Accounts

For the year ended 31 December 2009

TEACHERS
building society

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building society

Contents

Directors, Management and Professional Advisors

Directors	A J Frost, Chairman J J Bawa, Chief Executive S E Gorham, Finance Director K A Flaherty, Solicitor and Secretary M H Percy, Non-executive Director M J Reed, Non-executive Director K F Richardson, Non-executive Director R J Spragg, Non-executive Director
Auditors	Deloitte LLP, Southampton, United Kingdom
Bankers	National Westminster Bank PLC, 7 West Borough, Wimborne Minster, BH21 1PR
Principal Office	Allenview House, Hanham Road, Wimborne, Dorset BH21 1AG
FSA Firm Reference Number	156580

Chairman's Statement

Our aim in 2009, as indicated in my report last year, was to continue to provide members with "stability and reassurance".

This we attempted to do in very difficult conditions. The environment for mutuals, particularly those that adopted a risky profile in earlier years, has continued to be hostile and we have seen further consolidation in the sector. As a smaller society we face unique difficulties not the least of which is competing against failed institutions that have been propped up by taxpayers' money. This has enabled them to offer rates that we can only match by cutting back on initiatives to grow the Society safely, so that this year we have seen the Society shrink. This, of course, adds insult to injury. They failed because of poor strategy and management and now use the public purse to offer products that would be uneconomic to those well-run societies that have survived. Nevertheless, we have worked hard to deal with these difficulties, adapting our business as necessary but always making every effort to maintain the trust and confidence of our members and provide them with best value products.

There were many regulatory developments in the year, building towards a reshaped regulatory environment. James Bawa will touch on some of these issues in his report, but towards the end of last year Sir David Walker issued his final report on Corporate Governance. Although this was aimed principally at large financial institutions much of it is relevant to mutual organisations. The new regime includes specific guidance on the recruitment process for non-executive directors, their induction programme, their time commitment and their continuing professional development. At Teachers Building Society these matters have had close attention for some time now and we feel we shall be able to satisfy the more stringent requirements of the new governance world.

Very sadly I shall be presiding over my last AGM in April. Good governance dictates that I should retire from the Board after nine years. I do this in the knowledge that my Board colleagues are ably ready to continue to manage the Society on your behalf and I shall miss their wise counsel and friendship. As I have said before, at the heart of everything we have done lies our firm belief in the importance and value of our members. I wish the Society well and look forward to watching its progress in the years to come.

Alan Frost
Chairman

23 February 2010

Chief Executive's Report

In my report last year, I referred to the collapse of certain banks witnessed in 2008. Whilst 2009 proved to be a more stable year in that respect, it was even more challenging in other respects. A new financial landscape has emerged; one in which most major banking institutions have been restructured and part-nationalised. This has given these state-funded banks a material advantage which has distorted the savings and mortgage markets.

As a building society which lends almost exclusively to teachers, we finished the year in an enviable position with arrears at an extremely low level and no properties in possession. Our members in the education profession have continued to show that they are prudent borrowers and we have endeavoured to protect all our members in these difficult times.

There has been much discussion over the requirement for prudent organisations such as us to contribute to the costs of supporting failed financial institutions through the Financial Services Compensation Scheme levy. A further charge appears in this year's accounts, although the Financial Services Authority (FSA) has reduced its initial estimate of the cost of the Scheme, mainly because of the lower interest rate environment. However there remains the, as yet unquantified, amount payable if the assets of the failed banks fall short of their liabilities. The extent of any additional contribution in this respect may become apparent in 2010.

In this unprecedented low interest rate environment, we have had to strike a careful balance between the interests of our savers and our borrowers. This has not been an easy task and has meant that in order to maintain attractive rates for both groups of members, we are reporting lower profits than in recent years and this is likely to continue until market rates, including Bank Base Rate, rise.

Demand for new savers, particularly from those state-backed banks who previously relied on other sources of funding, has created a shortfall in UK retail savings. This has led us to review our retail savings strategy and in the coming year and beyond we shall be focusing on the education sector for new savings accounts, as well as increasing our activities around our base in the Dorset area. But much of our strength comes from our existing savers who, apart from recognising the superb customer service we offer, know that we are consistently good value with our interest rates, a fact recently recognised for the second year running by Moneyfacts Magazine.

We have had to take some difficult decisions in order to maintain a strong balance sheet and have chosen not to pursue growth aggressively which, while the current conditions continue, is only available at uneconomic or destabilising costs. This strategy meant that total assets fell to £257m over the course of the year but it helped us to maintain member value and strong asset quality. These remain our primary objectives, so we will ensure that the Society is recognised as a safe haven for our members' savings.

Our financial strength is reflected in the level of our reserves. After taking into account a reduction of £0.5m to support our obligations under the defined benefit pension scheme (now closed for the accrual of further benefits) these reserves fell by just over £0.2m but the free capital and reserve ratios both improved significantly during the year.

Although conditions remain challenging in many areas, there has been much greater stability in the financial services sector generally when compared to 2008. The benefits of this have flowed through into the housing market and it was pleasing to see house prices recover a little in 2009. We are hopeful that there will be a similarly stable property market over the next year.

In 2010 a number of significant regulatory developments will take place. Firstly, more prescriptive rules will be phased in over several years from October 2010 requiring all financial institutions to hold a large proportion of liquid assets (used to meet investor withdrawals, make mortgage advances and to meet the expected demands of the business) in the form of Government gilts and treasury bills. Such assets, while assumed to be generally more marketable than debt issued by financial institutions, earn a lower rate of interest and the FSA acknowledges that some of the cost will be passed on to customers who will, in turn, benefit from even greater security for their savings.

The FSA has also been consulting with all building societies on the development of a new Sourcebook (due to be finalised in 2010) which will set out, in a more prescriptive manner, the types and limits on new mortgage business that building societies may undertake. As this Society has maintained a prudent business model over many years, the new Sourcebook should not require many significant changes to the way in which we operate. However, we have made strong representations to the FSA to ensure that our ability to help those teachers and other members most in need of our mortgages is not reduced.

To ensure our mortgage and savings administration system continues to meet the needs of the business and its customers, it will be significantly upgraded in 2010, and we shall also be developing our other systems to improve our management of risk and anti-money laundering. Such investment underlines our commitment to the maintenance of a stable and forward-looking Society.

Throughout the year our staff have, time and time again, risen to the challenges before them. While some other banks and building societies have run into difficulties and felt it necessary to merge, our staff have been able to reassure members, making them aware of Teachers Building Society's unique and prudent business model, one that has avoided sub-prime mortgages or over-reliance on borrowing from the money markets. They should all be extremely proud of their achievements over the past year and we thank them for their hard work and dedication.

Finally, Alan Frost will retire from this Board at the end of the next Annual General Meeting this year after 9 years as a director at Teachers' Building Society, for the last 6 of which he has been Chairman. His experience and skill in leading the Board through the ever-changing financial services and economic environment has been invaluable. We shall miss him greatly.

James Bawa
Chief Executive
23 February 2010

Directors' Report

The Directors have pleasure in presenting the Annual Report and Accounts for the year ended 31 December 2009.

Business Objectives and Activities

The Group's main purpose is to raise funds from members in order to provide residential mortgages, particularly for teachers and others in the education sector.

The Society intends to remain an independent mutual building society providing investing members with secure and competitive savings and borrowers with attractive mortgage products.

Business Review and Performance

The Group's business and future plans are reviewed by the Chairman and Chief Executive on pages 3 and 4. The Society monitors its performance and development by reference to a range of key performance indicators. For 2009 these indicators were as follows:

• Profit and Capital

Net profit for the year of £306,000 (2008: £347,000) has been transferred to the Group general reserve. Gross capital (which comprises reserves and revaluation reserves) was £18.1m at the year-end (2008: £18.3m) and represented 7.64% of share and deposit liabilities (2008: 7.04%). Free capital (comprising gross capital and portfolio provisions for bad and doubtful debts less tangible fixed assets) was £18.2m (2008: £18.4m), or 7.67% (2008: 7.07%) of share and deposit liabilities.

• Assets

Total assets decreased by 8.3% from £280.8m to £257.4m. Mortgage advances totalled £16.2m (2008: £33.8m).

• Management Expenses

Group management expenses measured as a percentage of average total assets were 0.80% (2008: 0.88%).

• Mortgage Arrears

At the year-end 2 accounts (2008: 2) were 12 months or more in arrears. The balances on these accounts totalled £126,000 (2008: £234,000) and the arrears totalled £8,000 (2008: £38,000). The Society closely monitors accounts in arrears and the recoverability of amounts outstanding. It is satisfied that appropriate action is taken to control the risk of loss, whilst ensuring the fair treatment of customers in arrears.

The Society continues to apply a consistent provisioning methodology against potential mortgage losses including those arising from high loan-to-value advances. Although actual experience in this area has been good, the level of provisioning and reserves reflects the cautious outlook of the Directors towards the housing market, as shown in note 8 to the Accounts. The Society's policy on provisioning is contained in note 1(g) to the Accounts.

Fixed Assets

Changes to fixed assets during 2009 are summarised in note 13 to the Accounts.

Retirement Benefits

The Society operated a defined benefit pension scheme until 31 December 2002 when it was substantially closed to the accrual of future benefits and staff were offered alternative pension provision. At the end of 2009 using the appropriate accounting provisions of Financial Reporting Standard 17 'Retirement Benefits', the scheme showed a deficit, net of deferred tax, of £779,000 (2008: £405,000). A funding plan has been put in place to eliminate the deficit progressively over the coming years. Further details are shown in note 21 to the Accounts.

Creditor Payment Policy

The Society's policy with regard to payment of its trade creditors is to pay within the agreed terms of credit, once the supplier has discharged its contractual obligations. At 31 December 2009 the creditor days were 20 (2008: 24).

Principal Risks and Uncertainties

Building societies operate in a competitive environment and are subject to economic uncertainties. The management of risk is therefore central to the continuing success of the Society. The principal risks and the procedures put in place to manage them are as follows:

• Financial Risk Management

The Society manages financial risk by means of a Board approved policy which includes risk limits, reporting lines, mandates and control procedures. The policy and other risk control procedures are reviewed regularly by the Society's Executive Assets and Liabilities Committee, the Audit and Risk Committee and the Board. Further details are included in note 26 to the Accounts.

• Credit Risk

The Group is exposed to credit risk in respect of mortgage customers or treasury counterparties being unable to meet their obligations as they become due:

a) Credit risk relating to mortgages is primarily managed through the Society's Credit Risk Policy and Lending Policy which is regularly reviewed and approved by the Credit Committee under a delegated authority from the Board of Directors. The policy includes limits on the amounts which may be lent within particular risk categories, the amount and quality of security required, and the minimum standards of evidence of the borrower's ability to repay the mortgage.

b) The Financial Risk Management Policy includes limits on credit exposures to individual and groups of counterparties. The policy is reviewed frequently and amendments made to reflect changes in the risk attached to counterparties or particular types of liquidity instrument.

• Liquidity Risk

Liquidity risk is the risk of being unable to meet demands and commitments to provide funds to customers and other third parties. The Group's Financial Risk Management Policy establishes controls that ensure sufficient funds are maintained in liquid form at all times to ensure that the Group can meet its liabilities as they fall due. The Group has established policies and procedures and undertakes regular stress tests to ensure that it can withstand normal and abnormal cash outflows. The Policy is regularly reviewed and approved by the Executive Assets and Liabilities Committee under a delegated authority from the Board of Directors. Such review is increasingly important in the current environment where investor confidence in financial institutions has been weakened by events.

Directors' Report

- **Interest Rate Risk and Basis Risk**

  Interest Rate Risk is the risk of mismatches between the dates on which interest receivable on assets and interest payable on liabilities are reset to market rates, impacting on profitability and the value of the Group's assets and liabilities. This risk is managed using financial instruments (mainly interest rate swaps) where appropriate in accordance with the Financial Risk Management Policy. The use of interest rate swaps may itself create basis risk which, for Teachers' Building Society, is the risk that income from the swap does not match the cost of funding the asset being hedged. Exposures to each of these risks are regularly reviewed and approved by the Executive Assets and Liabilities Committee under a delegated authority from the Board of Directors. A detailed analysis of the Group's interest rate sensitivity at the year end and an explanation of the financial risks and the controls in place to manage them is given in note 26 to the Accounts on pages 24 to 25.

- **Operational Risk**

  Operational risk is the risk of loss arising from inadequate or failed internal processes or systems, human error or external events. The Group has systems in place to identify and record these risks and mitigating controls. The Group's objective is to minimise the impact of operational risk upon its performance.

  The Group's disclosures under the Capital Requirements Directive (the Pillar 3 disclosures), which set out its capital position, risks and risk assessment processes, are available from the Society's website and can also be obtained by writing to the Secretary at our Head Office.

Going Concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Chairman's Statement on page 2, the Chief Executive's Report on page 3 and elsewhere in the Directors' Report on pages 4 to 6. Information concerning the policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities, and its exposures to credit risk and liquidity risk are also included elsewhere in the Directors' Report and in note 26 to the Accounts.

The current economic conditions present increased risks and uncertainties for all businesses. The Directors have carefully considered these risks and uncertainties and the extent to which they might affect the preparation of the Accounts on a going concern basis.

The Group maintains an appropriate level of liquidity, sufficient to meet both the normal demands of the business and the requirements which might arise in stressed circumstances. In particular, the availability and quality of liquid assets are structured so as to ensure funds are available to repay any maturing wholesale funds and exceptional demand from retail investors.

The Group's assets are primarily in the form of mortgages to teachers on residential property. Regular assessment of the recoverability of all mortgage assets is undertaken and provision made where appropriate as described in the Directors' Report.

The Group also holds liquid assets. These assets are principally invested with banks and building societies which meet the requirements of the Group Financial Risk Management Policy. The policy is regularly reviewed and updated to take into account changes to the credit risk assessment of each counterparty and asset type.

The Directors consider that the Group is not exposed to losses on these assets which would affect their decision to adopt the going concern basis.

Reasonable profits need to be maintained in order to keep gross capital at a suitable level to meet regulatory requirements which are documented in the Group's Individual Capital Adequacy Assessment Process which is discussed and developed with the FSA through the Supervisory Review and Evaluation Process. In the current environment profitability is especially reduced because of the effect of low interest rates on net interest receivable. The Group holds capital well in excess of the required level and, having reviewed its plans and forecasts for the coming period, the Directors consider that the Group is able to generate adequate profits to maintain sufficient capital.

The Directors therefore consider that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

Directors

The following persons served as Directors of the Society during the year:

A J Frost (Chairman)

J J Bawa

K A Flaherty (from 1st January 2009)

S E Gorham

M H Percy

M J Reed

K F Richardson

R J Spragg (from 1st January 2009)

At the next Annual General Meeting James Bawa, Michael Percy and Kevin Richardson retire as Directors. All three, being eligible, offer themselves for re-election. Alan Frost will also retire at the Annual General Meeting. Having served nine years as a Director and, in accordance with good corporate governance recommendations, he will not seek re-election.

Directors' responsibilities for preparing annual accounts

The following statement, which should be read in conjunction with the statement of the auditors' responsibilities on page 9, is made by the Directors to explain their responsibilities in relation to the preparation of the Annual Accounts, Annual Business Statement and Directors' Report.

The Directors are required by the Building Societies Act 1986 ("the Act") to prepare, for each financial year, Annual Accounts which give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the affairs of the Group and Society as at the end of the financial year and of the income and expenditure of the Group and Society for the financial year. In preparing those Annual Accounts the Directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed; and
- prepare the Accounts on the going concern basis, unless it is inappropriate to presume that the Group will continue in business.

The Act requires the Directors to prepare for each financial year, in addition to the Accounts, an Annual Business Statement and a Directors' Report, each containing prescribed information relating to the business of the Society and its subsidiary undertakings.

Directors' Report

Directors' responsibilities for accounting records and internal control

The Directors are responsible for ensuring that the Society:

- keeps accounting records in accordance with the Building Societies Act 1986, and
- takes reasonable care to establish, maintain, document and review such systems and controls as are appropriate to its business in accordance with the rules made by the Financial Services Authority under the Financial Services and Markets Act 2000.

The Directors have general responsibility for safeguarding the assets of the Society and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditors

In the case of each of the persons who are Directors of the Society at the date when this report is approved:

- so far as each of the Directors is aware, there is no relevant information of which the Society's auditors are unaware; and
- each of the Directors has taken all the steps that they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the Society's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of S418 of the Companies Act 2006.

A resolution for the reappointment of Deloitte LLP as auditors will be proposed at the forthcoming Annual General Meeting.

Alan Frost
Chairman

23 February 2010

Report of the Directors on Remuneration

Policy on Directors' Remuneration

The Board aims to follow best practice in its remuneration policy for Directors and has adopted the provisions of the 2008 Combined Code on Corporate Governance (The Code) issued by the Financial Reporting Council.

The Board has adopted procedures designed to ensure that Directors' remuneration is sufficient to attract, retain and motivate individuals of sufficiently high calibre to ensure the Society's continuing success. At the forthcoming Annual General Meeting members will be invited to vote on the Remuneration Report.

Executive Directors' Remuneration

Remuneration of executive Directors is reviewed annually by the Remuneration Committee which comprises the Society's Vice-Chairman, Kevin Richardson (who chairs the Committee), the Society's Chairman, Alan Frost, and the non-executive director Martin Reed. Remuneration is assessed by reference to jobs carrying similar responsibilities in comparable organisations, and other criteria such as expertise, experience and contribution to the Society's performance. In addition to salary, benefits may comprise provision of a company car or a car allowance, membership of a healthcare scheme, contributory pension scheme and death-in-service benefits. The Society's Finance Director, Simon Gorham, also has the opportunity to take out a mortgage of up to £100,000 with the Society on terms available to other employees. Executive Directors participate in the performance related pay scheme operated for the majority of the Society's staff. The Board decided at the beginning of 2009 that no bonus would accrue during the year.

Executive Directors' Contractual Terms

The contracts for James Bawa and Simon Gorham include notice periods of 12 months by the Society and 6 months by the employee. Karen Flaherty's contract requires 3 months notice from the employer or the employee. The contracts are available for inspection at the Annual General Meeting.

Non-executive Directors

The remuneration of non-executive Directors is reviewed each year by a committee consisting of the executive Directors and the Chairman, and a recommendation is made to the Board. The committee compares the level of fees to that paid in similar financial services organisations, and considers the responsibilities of each Director and the amount available determined by the Society's rules.

There are no bonus schemes or other benefits for non-executive Directors and they are not entitled to any pension from the Society. Non-executive Directors do not have service contracts.

Non-executive Directors are appointed for an initial term of 3 years and will generally serve 2 further terms of 3 years each, subject to periodic retirement by rotation and re-election by members.

REMUNERATION OF INDIVIDUAL DIRECTORS	2009 £'000	2008 £'000
Fees paid to non-executive Directors		
A J Frost	26	26
M H Percy	19	19
M J Reed	17	17
K F Richardson	20	19
R J Spragg (from 1st January 2009)	17	-
Total	**99**	**81**
Executive Directors' remuneration		
J J Bawa		
Salary	126	125
Car allowance	10	10
Performance related pay	5	5
Pension contributions	12	12
Total	**153**	**152**
K A Flaherty (from 1st January 2009)		
Salary	65	-
Performance related pay	3	-
Total	**68**	-
S E Gorham		
Salary	71	69
Performance related pay	3	3
Pension contributions	14	14
Taxable benefits	5	6
Total	**93**	**92**
Total Directors' remuneration	**413**	**325**

Kevin Richardson
Director
23 February 2010

Report on Corporate Governance

Corporate Governance

The Society considers that it fully complies with the principles of The Code and follows guidance issued by the Financial Services Authority (FSA).

The Board and Committees

Since 20 April 2004 the Board has been chaired by Alan Frost. He joined the Board of Teachers Building Society in 2001 and also holds non-executive directorships of several other organisations including NFU Mutual Insurance Society Limited.

Kevin Richardson is the appointed Senior Independent Director. All of the non-executive Directors are considered by the Board to be free from any business or other relationship which could materially interfere with the exercise of their independent judgement.

Board composition is reviewed at least annually and new Board appointments are made both to reflect the Society's close association with the teaching profession and to ensure that the Society's affairs are directed and overseen with the necessary range of professional skills and business experience.

All Directors are Approved Persons with the Financial Services Authority (FSA) and are required to meet the 'fit and proper' criteria laid down by the FSA and to comply with its Principles for Approved Persons and its Code of Practice. New Board members undergo induction training enabling them to build an understanding of the Society, its history, organisation and business. All Directors are expected to participate in relevant training courses and otherwise to maintain an appropriate level of knowledge, particularly with regard to regulatory matters as they affect the Society.

The Board has established a system of appraisal and review to ensure continuing appropriate Board training and development. Each director undergoes an annual performance review by the Chairman. The Directors also meet annually, without the Chairman, to appraise his performance. The Board reviews its own performance by analysing the results of key decisions and the methodology behind them. Every three years the Board conducts a more formal self appraisal by means of a written questionnaire.

The principal means by which the Directors ensure compliance with the Code is through the work of Board and Committee meetings. At the year-end the Board comprised a Non-executive Chairman, four other Non-executive Directors, the Chief Executive, the Finance Director and the Solicitor and Secretary. The Board meets regularly throughout the year and its principal responsibilities are the business strategy of the Society, the review of the financial results and financial position of the Society, and the authorisation of capital expenditure.

The following three committees of Directors exercise additional control; the Chief Executive and the Society's Solicitor and Secretary attend all Committee meetings except the Remuneration Committee:

- **Audit and Risk Committee**

  This Committee appraises the Society's systems of control and inspection and receives reports from the Internal Auditor and Compliance Officer. The Committee is chaired by Michael Percy and the other members during the year were Martin Reed, Kevin Richardson and Roy Spragg. The Committee formally reviews the work of the internal and external auditors for the preceding year and their plans for the ensuing year, and assesses the overall effectiveness of the Society's control environment. It also reviews the Annual Accounts prior to Board approval. An Executive Risk Management Committee, comprising the Executive Directors and the senior managers of the Society, is responsible for overseeing the principal financial and operational risks of the Society and reports to the Audit and Risk Committee.

- **Remuneration Committee**

  The Committee meets to determine the terms of employment and remuneration of the senior executive team. During the year the members of the Committee were Kevin Richardson (Chairman), Alan Frost and Martin Reed.

- **Nomination Committee**

  The Committee meets at least annually and otherwise as necessary to consider new appointments to the Board. It considers the balance of skills and experience on the Board and the requirements of the business. Candidates for non-executive Directorship are identified in a number of ways including advertisements in relevant publications and external search agencies. Members of the Society have the right under the Society's rules to nominate candidates for election. During the year the Committee members were Alan Frost (Chairman), James Bawa and Kevin Richardson.

Executive Assets and Liabilities Committee

This Committee determines treasury and balance sheet risk management strategies, capital and funding requirements and the content of the Society's Financial Risk Management Policy. It is also responsible for product development and for setting the Society's interest rates. The Committee, which meets monthly, comprises the three Executive Directors, James Bawa (who chairs the meetings), Simon Gorham and Karen Flaherty, and other members of the Society's management team. The Committee reports to the Board which reviews the papers presented to the Committee and the minutes of its meetings on a regular basis and considers and approves changes to the Financial Risk Management Policy.

Re-election to the Board

All Directors submit themselves for re-election at least every three years, subject to continued satisfactory performance.

The Board's policy is that Directors serving beyond a term of 9 years will be subject to annual re-election, but that such instances should be exceptional.

Board Attendance at Meetings

Against each Director's name is shown the number of meetings of the Board and its Committees at which the Director was present and in brackets the number of such meetings that the Director was eligible as a member of the Board or Committee to attend during the year.

Director	Board	Audit & Risk Committee	Nomination Committee	Remuneration Committee
J J Bawa	8 (8)		1 (1)	
K A Flaherty	8 (8)			
A J Frost	8 (8)		1 (1)	2 (2)
S E Gorham	8 (8)			
M H Percy	8 (8)	6 (6)		
M J Reed	7 (8)	4 (6)		2 (2)
K F Richardson	7 (8)	5 (6)	1 (1)	2 (2)
R J Spragg	8 (8)	5 (5)		

Alan Frost
Chairman

23 February 2010

Independent Auditors’ Report

Independent Auditors’ report to the members of Teachers Building Society

We have audited the Group and Society Annual Accounts of Teachers Building Society for the year ended 31 December 2009 which comprise the Group and Society Income and Expenditure Accounts, the Group and Society Statements of Total Recognised Gains and Losses, the Group and Society Balance Sheets and the Group Cash Flow Statement and the related notes 1 to 26. These Accounts have been prepared under the accounting policies set out therein.

We have examined the Annual Business Statement (other than the details of Directors and officers upon which we are not required to report) and the Directors’ Report.

This report is made solely to the Society’s members, as a body, in accordance with section 78 of the Building Societies Act 1986. Our audit work has been undertaken so that we might state to the Society’s members those matters we are required to state to them in an 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 Society and the Society’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

The Directors’ responsibilities for preparing the Annual Report including the Directors’ Report, the Annual Business Statement and the Annual Accounts in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors’ Responsibilities.

Our responsibility is to audit the Annual Accounts in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). We are also responsible for examining the Annual Business Statement (other than the details of Directors and officers) and for reading the information in the Directors’ Report and assessing whether it is consistent with the accounting records and the Annual Accounts.

We report to you our opinion as to whether the Annual Accounts give a true and fair view and whether the Annual Accounts are properly prepared in accordance with the Building Societies Act 1986 and regulations made under it. In addition, we report to you our opinion as to whether certain information in the Annual Business Statement gives a true representation of the matters in respect of which it is given, whether the information in the Directors’ Report is consistent with the accounting records and the Annual Accounts and whether the Annual Business Statement and the Directors’ Report have each been prepared in accordance with the applicable requirements of the Building Societies Act 1986 and the regulations made under it.

We also report to you if, in our opinion, the Society has not kept proper accounting records or if we have not received all the information and explanations that we require for our audit.

We read the other information contained in the Annual Report and consider whether it is consistent with the audited Annual Accounts. The other information comprises only the Chairman’s Statement, Chief Executive’s Report, Report on Corporate Governance and the Report of the Directors on Remuneration. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Annual Accounts, Annual Business Statement and Directors’ Report. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Annual Accounts and the Annual Business Statement. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the Annual Accounts, and of whether the accounting policies are appropriate to the Group’s and Society’s circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Annual Accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the Annual Accounts.

Opinion

In our opinion:

a) the Annual Accounts give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of affairs of the Group and of the Society as at 31 December 2009 and of the income and expenditure of the Group and of the Society for the year then ended;

b) the information given in the Annual Business Statement (other than the details of Directors and officers upon which we are not required to report) gives a true representation of the matters in respect of which it is given;

c) the information given in the Directors’ Report is consistent with the accounting records and the Annual Accounts; and

d) the Annual Accounts, the Annual Business Statement and the Directors’ Report have each been prepared in accordance with the applicable requirements of the Building Societies Act 1986 and regulations made under it.

Simon Cleveland (Senior Statutory Auditor)
For and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditors
Southampton, United Kingdom
24 February 2010

Income and Expenditure Accounts for the Year Ended 31 December 2009

TEACHERS building society

	Note	Group 2009 £'000	Group 2008 £'000	Society 2009 £'000	Society 2008 £'000
Interest receivable and similar income	4	8,083	16,727	8,083	16,727
Interest payable and similar charges	5	(6,024)	(13,489)	(6,024)	(13,489)
Net interest receivable		2,059	3,238	2,059	3,238
Other finance charges	21	(70)	(11)	(70)	(11)
Fees and commissions receivable		428	490	272	352
Fees and commissions payable		(130)	(172)	(129)	(170)
Other operating income	1(m)	107	99	107	99
Total operating income		2,394	3,644	2,239	3,508
Administrative expenses	6	(2,078)	(2,364)	(1,956)	(2,241)
Depreciation	13	(71)	(70)	(71)	(70)
Other operating charges	7	(12)	(55)	(12)	(55)
Operating profit before provisions		233	1,155	200	1,142
Provisions for bad and doubtful debts	8	247	(364)	247	(364)
Provisions for liabilities and charges	20	(60)	(271)	(60)	(271)
Profit on ordinary activities before tax		420	520	387	507
Tax on profit on ordinary activities	9	(114)	(173)	(107)	(170)
Profit for the financial year		**306**	**347**	**280**	**337**

All results arise from continuing operations.
'Profit on ordinary activities before tax' represents operating profit as defined by FRS 3 Reporting Financial Performance.

Statement of Total Recognised Gains and Losses

	Note	Group 2009	Group 2008	Society 2009	Society 2008
Profit for the financial year		306	347	280	337
Actuarial losses recognised in pension scheme	21	(725)	(722)	(725)	(722)
Movement in deferred tax relating to pension scheme		203	202	203	202
Total recognised gains and losses in the year	24	**(216)**	**(173)**	**(242)**	**(183)**

Balance Sheets at 31 December 2009

	Note	Group		Society	
		2009 £'000	2008 £'000	2009 £'000	2008 £'000
ASSETS					
Liquid assets					
Loans and advances to credit institutions	10	29,826	25,675	29,826	25,675
Debt securities	11	27,785	36,705	27,785	36,705
Loans and advances to customers	12				
Loans fully secured on residential property		193,924	210,917	193,924	210,917
Other loans fully secured on land		5,098	6,560	5,098	6,560
Tangible fixed assets	13	457	506	457	506
Other assets	14	273	445	272	444
TOTAL ASSETS		**257,363**	**280,808**	**257,362**	**280,807**
LIABILITIES					
Shares	15	214,369	228,935	214,369	228,935
Amounts owed to credit institutions	16	21,664	28,039	21,664	28,039
Amounts owed to other customers	17	1,127	3,488	1,127	3,488
Other liabilities	18	286	972	430	1,071
Accruals and deferred income	19	782	374	744	355
Provisions for liabilities and charges					
Other provisions	20	248	271	248	271
Net pension liability	21	779	405	779	405
Reserves	24				
Revalution reserve		102	104	102	104
General reserve		18,006	18,220	17,899	18,139
TOTAL LIABILITIES		**257,363**	**280,808**	**257,362**	**280,807**

These accounts were approved by the Board of Directors on 23 February 2010.

Alan Frost, Chairman
Kevin Richardson, Director
James Bawa, Chief Executive

Group Cash Flow Statement for the Year Ended 31 December 2009

TEACHERS building society

	Group 2009 £'000	Group 2008 £'000
Net cash inflow/(outflow) from operating activities (see note 1 below)	4,298	(8,606)
Taxation	3	18
Capital expenditure		
Purchase of tangible fixed assets	(48)	(73)
Disposal of tangible fixed assets	4	-
Increase/(decrease) in cash (see note 2 below)	**4,257**	**(8,661)**

NOTES TO THE CASH FLOW STATEMENT

note 1

Reconciliation of profit on ordinary activities before tax to net cash inflow from operating activities	2009 £'000	2008 £'000
Profit on ordinary activities before tax	420	520
Decrease in prepayments and accrued income	576	131
(Decrease)/increase in accruals and deferred income	(1,161)	495
(Decrease)/increase in provisions for bad and doubtful debts	(304)	360
(Decrease)/increase in other provisions	(23)	271
Non-cash movements in debt securites	3	(9)
Depreciation of tangible fixed assets	71	70
Loss on disposal of fixed assets	22	-
Pension charge less contributions paid	(205)	(287)
Net cash (outflow)/inflow from trading activities	**(601)**	**1,551**
Decrease/(increase) in loans and advances to customers	18,759	(7,511)
(Decrease)/increase in shares	(13,247)	13,096
Decrease in amounts owed to credit institutions and other customers	(8,486)	(3,548)
Decrease in loans and advances to credit institutions	-	3,500
Decrease/(increase) in debt securities	8,569	(15,465)
Decrease in other liabilities	(696)	(229)
Net cash inflow/(outflow) from operating activities	**(4,298)**	**(8,606)**

note 2

Analysis of increase in cash	Note	At 1 January 2009 £'000	Increase during the year £'000	At 31 December 2009 £'000
Loans and advances to credit institutions repayable on demand	10	11,530	4,257	15,787
		11,530	4,257	15,787

Notes to the Accounts

1 ACCOUNTING POLICIES

The Accounts have been prepared in accordance with the Building Societies (Accounts and Related Provisions) Regulations 1998 and applicable United Kingdom accounting standards. The particular accounting policies adopted by the Directors are described below.

a) Accounting convention

The accounts are prepared under the historical cost convention modified to include the revaluation of certain freehold land and buildings.

b) Basis of preparation and consolidation

The Group accounts consolidate the accounts of the Society and its trading subsidiary undertaking. The accounts are made up to 31 December each year. Uniform accounting policies are applied throughout the Group.

c) Income recognition

Interest income is recognised in the income and expenditure account as it accrues. All amounts arise in the UK.

Fees receivable which represent a return for services provided, are credited to income when the related service is performed.

Fees receivable which represent a return for risk borne and which are in the nature of interest, are taken to the income and expenditure account over the period of the loan or on a systematic basis over the expected life of the transaction to which they relate.

d) Debt securities

Liquid assets include debt securities which are shown at their maturity values adjusted for unamortised premiums and discounts. Premiums and discounts are amortised over the period to maturity and the charge or credit is included in 'Interest receivable on debt securities'.

e) Tangible fixed assets and depreciation

Depreciation is not provided on freehold land. On other assets it is provided on cost or revalued amounts using the straight line method so as to write them down to their residual values over the following estimated useful lives:

Freehold buildings – fifty years

Major improvements to buildings – ten years

Computers, electronic equipment and software – two to seven years

Motor vehicles – four years

Fixtures and fittings – four to ten years

f) Taxation

Current tax, including UK Corporation Tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted, or substantively enacted, by the balance sheet date. Deferred taxation is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

g) Provisions

Provisions for losses on advances and loans

Provisions are made to reduce the value of loans and advances to the amount which the Directors consider is likely to be recoverable.

Specific provisions are considered for all mortgage accounts in arrear by one month or more and for accounts where the property has been repossessed. Provision is made to the extent that the proceeds of sale of the property would be insufficient to meet the outstanding debt and related costs of sale.

Accounts in arrears are individually examined and the amount of loss is assessed after consideration of the degree of seriousness of the arrears, the probability of eventual repossession, the value of the property in the event of a forced sale and the costs of sale.

Losses on accounts where the property has been repossessed are provided for after consideration of the likely sale price and costs of sale. Provision is also made against advances in the mortgage portfolio which have not been specifically identified as impaired, but where, taking into account the ratio of the loan to the value of the security, the probability of eventual repossession, the value of the property in the event of a forced sale and the costs of sale together with the general economic climate, losses may ultimately be realised.

Provision for Financial Services Compensation Scheme contribution

The Society has made provision for its expected share of management charges to be levied by the Financial Services Compensation Scheme, based on its liability to contribute for the Scheme years 2010/11 and 2011/12 and by reference to the amount of deposits held by the Society at 31 December 2008 and 31 December 2009.

h) Higher lending charges

Higher lending charges received are credited to an account in the balance sheet and offset against outstanding mortgage balances.

Income is released from this account on a systematic basis over the expected life of the mortgage. On release, it is included in the income and expenditure account in 'Provisions for bad and doubtful debts'.

For further information see note 8 to the accounts.

i) Pensions

The Group operates two pension schemes.

The cost of the defined contribution scheme is charged to the Income and Expenditure Account as contributions become payable.

Assets in the defined benefit scheme are measured using closing market values. Liabilities are measured using the projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability, adjusted to exclude financial institutions.

The net expected return on the scheme's assets and the increase during the period in the present value of the scheme's liabilities are included in 'Other finance income' or 'Other finance charges' as appropriate. Actuarial gains and losses are recognised in the Statement of Total Recognised Gains and Losses.

The actuarial valuations are obtained triennially and are updated at each balance sheet date. The resulting pension asset or liability, net of the related deferred tax, is presented separately on the face of the balance sheet.

Further information concerning pensions is set out in note 21.

j) Hedging instruments

Interest rate contracts are used solely for hedging purposes. Such contracts are valued, and associated income or expenditure recognised, on an equivalent basis to the assets or liabilities that are being hedged.

Gains or losses on hedging instruments are not recognised until the exposure that is being hedged is itself recognised.

k) Incentives to borrowers

The costs of mortgage cashbacks and interest discounts are charged, as incurred, to 'Other operating charges' and 'Interest receivable' respectively.

l) Fees and commissions payable

Valuation fees paid are included in 'Fees and commissions payable'.

m) Other operating income

Other operating income comprises rent and other income receivable from the letting of property and income from administration charges for services provided to the Society's trading subsidiary and to a housing association. Income is included in the accounts on an accruals basis.

Notes to the Accounts

2 DIRECTORS

a) Directors' remuneration

Directors' remuneration totalled £413,000 (2008: £325,000). Full details are given in the Report of the Directors on Remuneration on page 7.

b) Transactions with Directors

At 31 December 2009 two loans totalling £271,201 (2008: two loans totalling £239,012) made in the ordinary course of business and falling within Section 65 of the Building Societies Act 1986 were outstanding to two Directors.

In accordance with Section 68 of the Building Societies Act 1986, particulars of the loans falling within Section 65 of that Act are included in a register maintained for that purpose. These particulars, or a copy of them, will be available for inspection by members on request from the Secretary at the Society's registered office, during the period of fifteen days prior to the Annual General Meeting and at that meeting.

3 EMPLOYEES

	Group		Society	
	2009	**2008**	**2009**	**2008**
Average number of persons employed by the Society	number	number	number	number
Full time	26	28	25	27
Part time	10	9	9	8
	36	**37**	**34**	**35**

4 INTEREST RECEIVABLE AND SIMILAR INCOME

	Group & Society	
	2009 £'000	**2008 £'000**
On loans fully secured on residential property	6,608	12,845
On other loans	312	463
On debt securities	717	1,848
On liquid assets other than debt securities	446	1,571
	8,083	**16,727**

5 INTEREST PAYABLE AND SIMILAR CHARGES

	Group & Society	
	2009 £'000	**2008 £'000**
On shares held by individuals	5,331	11,345
On deposits and other borrowings	693	2,144
	6,024	**13,489**

Notes to the Accounts

6 ADMINISTRATIVE EXPENSES

	Group 2009 £'000	Group 2008 £'000	Society 2009 £'000	Society 2008 £'000
Employee costs				
wages and salaries	1,007	1,040	917	956
social security costs	125	131	115	120
pension costs – defined contribution scheme	66	59	66	59
other pension costs (see note 21)	7	7	7	7
	1,205	**1,237**	**1,105**	**1,142**
Auditors' remuneration for audit work	35	39	33	37
Other expenses	838	1,088	818	1,062
	2,078	**2,364**	**1,956**	**2,241**

7 OTHER OPERATING CHARGES

	Group & Society 2009 £'000	Group & Society 2008 £'000
Other operating charges include:		
Incentives to borrowers	**12**	**55**

8 PROVISIONS FOR BAD AND DOUBTFUL DEBTS

Group & Society

	Loans fully secured on residential property £'000	Loans fully secured on land £'000	Total £'000
At 1 January 2009			
Portfolio provision	600	-	600
Specific provision	352	202	554
	952	**202**	**1,154**
Movements in provisions during the year			
Portfolio provision	(50)	-	(50)
Specific provision	(22)	(202)	(224)
	(72)	**(202)**	**(274)**
At 31 December 2009			
Portfolio provision	550	-	550
Specific provision	330	-	330
	880	**-**	**880**

	Group & Society 2009 £'000	Group & Society 2008 £'000
The (credit)/charge to income and expenditure is made up as follows:		
Movement in provisions as above	(274)	399
Amounts written off during the year	60	5
Recoveries of amounts previously written off	-	(1)
Release of higher lending charges (see note 1(h) and note 12)	(33)	(39)
	(247)	**364**

Notes to the Accounts

9 TAX ON PROFIT ON ORDINARY ACTIVITIES

	Group		Society	
	2009 £'000	2008 £'000	2009 £'000	2008 £'000
Current tax				
UK Corporation tax	13	3	6	-
Total current tax	**13**	**3**	**6**	**-**
Deferred tax				
Origination and reversal of timing differences	45	90	45	90
Other timing differences relating to pension scheme contributions	56	80	56	80
Total deferred tax	**101**	**170**	**101**	**170**
Tax on profit on ordinary activities	**114**	**173**	**107**	**170**

The full rate of corporation tax for the year is 28% (2008: 28%) which is the UK standard rate. The actual tax charge for the current and previous year differs from the standard rate for the reasons set out below:

	Group		Society	
	2009 %	2008 %	2009 %	2008 %
Standard tax rate for period as percentage of profit	28	28	28	28
Effect of:				
Movement in short term timing differences	(2)	(8)	(2)	(8)
Contributions to the pension scheme	(14)	(16)	(15)	(16)
Small companies' tax relief	(1)	-	(1)	-
Taxable losses brought forward	(8)	(4)	(8)	(4)
	3	**-**	**2**	**-**

10 LOANS AND ADVANCES TO CREDIT INSTITUTIONS

	Group & Society	
Loans and advances to credit institutions mature from the date of the balance sheet as follows:	2009 £'000	2008 £'000
– accrued interest	39	145
– repayable on demand	15,787	11,530
– maturing in not more than three months	11,000	12,000
– maturing in more than three months but not more than one year	2,000	2,000
– maturing in more than one year but not more than five years	1,000	-
	29,826	**25,675**

Notes to the Accounts

11 DEBT SECURITIES

	Group & Society	
	2009 £'000	**2008 £'000**
Issued by other borrowers	**27,785**	**36,705**
Debt securities, all of which are unlisted, mature from the date of the balance sheet as follows:		
– accrued interest	36	379
– maturing in not more than one year	20,965	31,045
– maturing in more than one year	6,784	5,281
	27,785	**36,705**
Included in debt securities are:		
– unamortised premiums	**172**	**-**

Liquid assets include debt securities which are held for prudential purposes as part of the day-to-day management of the Society's liquidity which enables it to meet requests for withdrawals from investors, advance money to borrowers and generally fund its business activities. During the year the Society purchased £79.9m of debt securities (2008: £76.5m). £88.5m (2008: £61.1m) of debt securites matured in the year.

12 LOANS AND ADVANCES TO CUSTOMERS

	Group & Society	
	2009 £'000	**2008 £'000**
Loans and advances to customers are repayble from the balance sheet date as follows:		
– maturing in not more than three months	1,991	1,831
– maturing in more than three months but not more than one year	5,535	5,509
– maturing in more than one year but not more than five years	33,742	35,717
– maturing in more than five years	158,676	175,646
	199,944	**218,703**
Less:		
– provisions (see note 8)	(880)	(1,154)
– fees collected and provided against high loan-to-value advances (see note 8)	(42)	(72)
	199,022	**217,477**

Notes to the Accounts

13 TANGIBLE FIXED ASSETS

	Group & Society		
	Freehold land and buildings	Equipment, fixtures, fittings and vehicles	Total
Cost or valuation	£'000	£'000	£'000
At 1 January 2009	629	749	1,378
Additions	-	48	48
Disposals	-	(111)	(111)
At 31 December 2009	**629**	**686**	**1,315**
Accumulated depreciation			
At 1 January 2009	245	627	872
Charge for the year	19	52	71
Eliminated on disposal	-	(85)	(85)
At 31 December 2009	**264**	**594**	**858**
Net book values			
At 31 December 2009	**365**	**92**	**457**
At 31 December 2008	**384**	**122**	**506**

	Group & Society	
Cost or valuation of freehold land and buildings	2009 £'000	2008 £'000
Valuation at 31 December 1983	500	500
Cost	129	129
	629	629

The Society's freehold land and buildings were revalued on 31 December 1983. Transitional rules were applied on the adoption of FRS 15 and there has been no update in the valuation since that date.

The historical cost of the revalued assets is £337,000 (2008: £337,000). The accumulated historical cost depreciation on these revalued assets is £134,000 (2008: £129,000). Included in the total net book value of freehold land and buildings is £125,000 (2008: £125,000) in respect of land on which no depreciation is provided.

14 OTHER ASSETS

	Group		Society	
	2009 £'000	2008 £'000	2009 £'000	2008 £'000
Prepayments and accrued income – due within one year	105	232	104	231
Deferred tax asset (see note 23)	168	213	168	213
	273	**445**	**272**	**444**

Notes to the Accounts

15 SHARES

	Group & Society	
	2009 £'000	**2008 £'000**
Shares, all of which are held by individuals, are repayable from the balance sheet date in the ordinary course of business as follows:		
– accrued interest	1,266	2,585
– on demand	91,838	105,599
– in not more than three months	60,194	75,779
– repayable in more than three months but not more than one year	53,316	43,348
– repayable in more than one year but not more than five years	7,755	1,624
	214,369	**228,935**

16 AMOUNTS OWED TO CREDIT INSTITUTIONS

	Group & Society	
	2009 £'000	**2008 £'000**
Amounts owed to credit institutions are repayable from the balance sheet date in the ordinary course of business as follows:		
– accrued interest	64	239
– repayable in not more than three months	20,600	22,300
– repayable in more than three months but not more than one year	1,000	5,500
	21,664	**28,039**

17 AMOUNTS OWED TO OTHER CUSTOMERS

	Group & Society	
	2009 £'000	**2008 £'000**
Amounts owed to other customers are repayable from the balance sheet date in the ordinary course of business as follows:		
– accrued interest	9	84
– on demand	132	146
– repayable in not more than three months	936	2,258
– repayable in more than three months but not more than one year	50	1,000
	1,127	3,488

18 OTHER LIABILITIES

	Group		Society	
Falling due within one year	**2009 £'000**	**2008 £'000**	**2009 £'000**	**2008 £'000**
Income tax	252	968	252	968
Corporation tax	13	3	6	-
Other creditors				
- Amounts owed to Group undertakings	-	-	152	102
- Other creditors	21	1	20	1
	286	**972**	**430**	**1,071**

19 ACCRUALS AND DEFERRED INCOME

	Group		Society	
Accruals	**2009 £'000**	**2008 £'000**	**2009 £'000**	**2008 £'000**
Other accruals	705	308	687	289
Deferred Income	77	66	57	66
	782	**374**	**744**	**355**

All amounts fall due within one year

Notes to the Accounts

20 OTHER PROVISIONS

Other provisions comprise	Group & Society 2009 £'000	2008 £'000
Provisions for contributions to Financial Services Compensation Scheme (FSCS)	210	271
Other provisions	38	-
	248	**271**
The change to income and expenditure is made up as follows:		
FSCS charge for year	105	271
FSCS adjustment to previous estimate	(83)	-
Other provisions made in year	38	-
	60	**271**
Provisions for contributions to FSCS		
Movement in year		
At 1 January 2009	271	-
Charge for year	105	271
Adjustment to previous estimates	(83)	-
Paid in year	(83)	-
At 31 December 2009	**210**	**271**

Financial Services Compensation Scheme

The Society pays levies to the Financial Services Compensation Scheme (FSCS) to enable the FSCS to meet claims against it. The FSCS levy consists of two parts – a management expenses levy and a compensation levy. The management expenses levy covers the costs of running the scheme and the compensation levy covers the amount of compensation the scheme pays, net of any recoveries it makes using the rights that have been assigned to it.

Since September 2008 claims have been made against the Scheme following the failure of financial institutions such as Bradford & Bingley plc Kaupthing Singer & Friedlander, Heritable Bank Plc, Landsbanki ('Icesave') and London Scottish Bank plc.

The FSCS originally met the claims by way of loans received from the Bank of England, which have since been replaced by a loan from HM Treasury. The FSCS has, in turn, acquired the rights to the realisation of the assets of these banks. The FSCS is liable to pay interest on the loan from the Treasury and may have a further liability in respect of the capital element of this loan if there were to be insufficient funds available from the realisation of the assets of the banks to fully repay the Treasury loan.

To recover the interest cost the FSCS charges a management expense levy to all UK deposit takers, including Teachers Building Society. During 2009, the Society paid £83,000 (against which it had provided £98,000 in the 2008 accounts) in respect of the levy for the 2008/09 scheme year. This amount was based on the Society's deposit balances at 31 December 2007. At 31 December 2008 the Society had also provided £173,000 in respect of the amount due for 2009/10 (which will be based on deposit balances at 31 December 2008).

Based on revised cost estimates issued by the FSA during 2009, the Society now expects to pay £105,000 in respect of the 2009/10 scheme year. In the 2009 accounts it has made provision for both this amount and for an equal amount in respect of the 2010/11 scheme year levy (which will be based on deposit balances at 31 December 2009).

Taking into account the Society's expected market share and the known claims, it is estimated that a further levy is expected to be payable in 2012 in respect of the 2011/12 scheme year. No provision has been made for this amount, nor for any compensation levies that may arise from claims in subsequent years as a result of any shortfall arising on the realisation of the assets acquired by the FSCS.

Notes to the Accounts

21 PENSION COSTS

Defined Benefit Scheme

In addition to a defined contribution scheme, the Group operates a wholly funded defined benefit pension scheme, the assets of which are held in a separate trustee administered fund. The scheme was substantially closed to the accrual of future service years for employees on 31 December 2002 and replaced by the defined contribution scheme.

The most recent full actuarial valuation was at 1 April 2008 and used the projected unit method. The valuation showed that the market value of the scheme's assets at that time was £5.8m and that the actuarial value of those assets represented 74% of the benefits that had accrued to members after allowing for expected future increases in earnings. The trustees of the scheme and the Society have agreed an annual contribution by the Society of £280,000 each year until 30 November 2017.

The full actuarial valuation at 1April 2008 was updated at 31 December 2009 by a qualified independent actuary and showed that the market value of the scheme's assets was £6.7m and that the actuarial value of these assets represented 86% of the benefits that had accrued to members.

	Group & Society	
	2009	**2008**
Key assumptions		
Rate of increase in salaries	4.3%	3.5%
Discount rate	5.4%	6.0%
Inflation rate	3.8%	3.0%
Rate of increase in pensions in payment	5.0%	5.0%
Expected return on assets	6.3%	5.2%
Mortality assumptions appropriate to the membership of the scheme		
Base mortality table	PCA00	PCA00
Mortality projection basis	Long cohort	Long cohort
Life expectancies at age 65		
Male currently aged 65	88.4	88.3
Female currently aged 65	90.7	90.7
Male currently aged 45	89.6	89.5
Female currently aged 45	91.7	91.7
Scheme Assets		
The scheme assets are in the form of an insurance policy with Legal & General invested as follows:		
Equities	61.40%	35.40%
Index-linked gilts	21.20%	26.00%
Corporate bonds	16.70%	-
With-profit policy	-	38.00%
Cash	0.70%	0.60%

TEACHERS building society

21 PENSION COSTS (CONTINUED)

The constituents of the shortfall in the scheme and the net pension asset or liability were:

	Group & Society	
	2009 £'000	2008 £'000
Market value of assets:		
- Insurance policy	-	2,119
- Bank deposits	49	33
- Legal & General funds	6,622	3,423
Total fair value of assets	6,671	5,575
Present value of defined benefit obligations	(7,753)	(6,137)
Shortfall in the scheme	(1,082)	(562)
Related deferred tax asset	303	157
Net pension liability	**(779)**	**(405)**
Analysis of changes in the fair value of scheme assets		
Opening fair value of scheme assets	5,575	5,982
Expected return	291	343
Employer's contributions	282	305
Actuarial gain/(loss)	758	(1,027)
Benefits paid	(235)	(28)
Closing fair value of scheme assets	**6,671**	**5,575**
The value of assets has been taken as the value of units at bid price on 31 December 2009.		
Analysis of changes in the present value of scheme liabilities		
Opening scheme liabilities	6,137	6,109
Current service cost	7	7
Interest cost	361	354
Actuarial loss/(gain)	1,483	(305)
Benefits paid	(235)	(28)
Closing scheme liabilities	**7,753**	**6,137**
Analysis of amount charged to Operating profit		
- Current service cost	7	7
Analysis of amount charged to Other finance charges		
- Expected return on pension scheme assets	291	343
- Interest on pension scheme liabilities	(361)	(354)
	(70)	**(11)**

Actuarial gains and losses have been reported in the statement of total recognised gains and losses.

Notes to the Accounts

21 PENSION COSTS (CONTINUED)

History	2009 £'000	2008 £'000	2007 £'000	2006 £'000	2005 £'000
	Group & Society				
Fair value of scheme assets	6,671	5,575	5,982	4,890	3,360
Present value of scheme liabilities	(7,753)	(6,137)	(6,109)	(6,327)	(6,508)
Deficit	(1,082)	(562)	(127)	(1,437)	(3,148)
Experience adjustments on scheme assets	758	(1,027)	56	76	137
Experience adjustments on scheme liabilities	-	(113)	44	(32)	8

22 INVESTMENTS

The Society has four wholly owned subsidiary companies, all incorporated in the UK:

- TBS Financial Services Limited, which has issued share capital of £1, traded throughout the year. Its principal business was the provision of investment advice and the sale of life assurance and other protection policies.
- Teachers Mortgage Services Limited and Teachers Mortgages Limited, each of which has issued share capital of £100, and TBS Mortgage Services Limited, which has issued share capital of £1, did not trade during the year.

23 DEFERRED TAXATION

	Group & Society 2009 £'000	2008 £'000
(a) Movement in deferred taxation balance in the period At 1 January 2009	213	303
Decrease in asset recognised in the income and expenditure account	(45)	(90)
At 31 December 2009 (see note 14)	**168**	**213**
(b) Analysis of deferred taxation balance		
Depreciation in excess of capital allowances	16	14
Short term timing differences	152	199
	168	**213**

The deferred tax asset has been calculated using the rates appropriate to period in which the timing differences are expected to reverse. The average rate was 26.6% (2008: 28%)

24 RESERVES

	Group General reserve £'000	Society General reserve £'000	Group & Society Revaluation reserve £'000
At 1 January 2009	18,220	18,139	104
Total recognised gains and losses for the financial year	(216)	(242)	-
Transfer to general reserve – depreciation on revaluation surplus	2	2	(2)
At 31 December 2009	**18,006**	**17,899**	**102**

25 FINANCIAL COMMITMENTS

a) Capital commitments

At 31 December 2009 there was no capital expenditure contracted for but not provided in the accounts (2008: £nil).

b) Contingent liabilities

As explained in note 20, the Society has been notified of claims on the Financial Services Compensation Scheme and has made provision in these accounts for that proportion of the amount it expects to be required to contribute in respect of the interest which relates to the current year and the prior year. The Society has a contingent liability in respect of contributions to fund any shortfall that might arise on the realisation of assets acquired by the Scheme as this amount cannot currently be assessed.

Notes to the Accounts

26 FINANCIAL INSTRUMENTS

A financial instrument is a contract that gives rise to a financial asset of one entity and a financial liability of another entity. The Group is a retailer of financial instruments in the form of mortgage and savings products. The Group also uses wholesale financial instruments to invest liquid asset balances, raise funds and manage the risks arising from its operations.

The Group has a formal structure for managing risk, including established risk limits, reporting lines, mandates and other control procedures. This structure is reviewed regularly by the Group's Executive Assets and Liabilities Committee which is responsible for managing and controlling balance sheet exposures and the use of financial instruments for risk management purposes.

Instruments used for risk management purposes include derivative financial instruments ("derivatives"). Derivatives are only used by the Group in accordance with Section 9A of the Building Societies Act 1986 to reduce the risk of loss arising from changes in interest rates or other factors specified in the legislation. Derivatives are not used in trading activity or for speculative purposes.

Liquidity risk

The Group's liquidity policy is to maintain sufficient liquid resources to cover cash flow imbalances and fluctuations in funding, to maintain full public confidence in the solvency of the Group and to meet its financial obligations. This is achieved by maintaining a prudent level of liquid assets, through wholesale funding facilities and through management control of the growth of the business.

Derivatives

The principal derivatives used by the Group in balance sheet risk management are interest rate swaps which are used to hedge exposures arising from fixed rate mortgage lending. The Group's policy on accounting for hedging is detailed in note 1(j) to the Accounts.

During the year ended 31 December 2009 the Group entered into interest rate swaps in connection with fixed rate mortgage products. The table below shows the notional principal amounts, credit risk weighted amounts and replacement costs of derivatives outstanding at the year end. The notional principal amount indicates the volume of business outstanding at the balance sheet date and does not represent the amount at risk. The credit risk weighted amount is calculated in accordance with guidance issued by the Financial Services Authority on the implementation of the Capital Requirements Directive and is based on replacement cost, but also takes into account the extent of potential future exposure and the nature of the counterparty. Replacement cost represents the cost of replacing contracts with positive values, calculated at market rates current at the balance sheet date, and reflects the Group's maximum exposure should all counterparties default.

	Group & Society		
Interest rate contracts:	**Notional principal amount**	**Risk weighted amount**	**Replacement cost**
	£'000	**£'000**	**£'000**
At 31 December 2009			
Interest rate swaps	99,050	59	-
At 31 December 2008			
Interest rate swaps	112,550	97	40

Fair values of financial instruments

Set out below is a comparison of book values and fair values of some of the Group's financial instruments at the year-end. The information excludes certain financial assets and liabilities which are not listed or publicly traded, or for which a liquid and active market does not exist. It therefore excludes items such as mortgages, share accounts and bank deposits.

	Group & Society	
	2009 £'000	**2008 £'000**
Debt securities		
Book value	27,785	36,705
Fair value	27,718	36,425
Interest rate contracts		
Book value	-	-
Fair value	(4,841)	(5,432)

The fair value of interest rate contracts represents unrealised losses at the balance sheet date. As described in note 1(j), gains and losses on interest rate contracts used for hedging purposes are not recognised until the exposure that is being hedged is itself recognised. The Group anticipates no gains or losses will be realised on sale or termination in the forthcoming year.

Notes to the Accounts

26 FINANCIAL INSTRUMENTS (CONTINUED)

Interest rate risk

The Group is exposed to movements in interest rates and manages this exposure on a continuous basis, within limits set by the Board, using both on and off balance sheet instruments. The Directors are satisfied that the Group was within its exposure limits and that assets and liabilities were adequately matched during 2009.

The Group's interest rate exposure was:

At 31 December 2009

Next interest reset date:

	– in not more than three months	– in more than three months but not more than six months	– in more than six months but not more than one year	– in more than one year but not more than five years	Non-interest bearing	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Assets						
Liquid assets	50,368	1,000	3,017	3,151	75	**57,611**
Loans and advances to customers	102,343	13,296	15,348	68,035	-	**199,022**
Other assets including tangible fixed assets	-	-	-	-	730	**730**
Total Assets	152,711	14,296	18,365	71,186	805	**257,363**
Liabilities						
Shares	151,975	18,006	35,360	7,755	1,274	**214,369**
Amounts owed to credit institutions and other customers	21,791	1,000	-	-	-	**22,791**
Other liabilities	-	-	-	-	2,095	**2,095**
Capital	-	-	-	-	18,108	**18,108**
Total Liabilities	173,766	19,006	35,360	7,755	21,477	**257,363**
Off balance sheet items	90,850	(15,250)	(17,000)	(58,600)	-	**-**
Interest rate gap	69,795	(19,960)	(33,995)	4,831	(20,672)	**-**

At 31 December 2008

Next interest reset date:

	– in not more than three months	– in more than three months but not more than six months	– in more than six months but not more than one year	– in more than one year but not more than five years	Non-interest bearing	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Assets						
Liquid assets	56,866	2,000	2,000	991	523	**62,380**
Loans and advances to customers	108,103	11,507	8,095	89,772	-	**217,477**
Other assets including tangible fixed assets	-	-	-	-	951	**951**
Total assets	164,969	13,507	10,095	90,763	1,474	**280,808**
Liabilities						
Shares	183,963	11,658	31,690	1,624	-	**228,935**
Amounts owed to credit institutions and other customers	25,704	4,500	1,000	-	323	**31,527**
Other liabilities	-	-	-	-	2,022	**2,022**
Capital	-	-	-	-	18,324	**18,324**
Total Liabilities	209,667	16,158	32,690	1,624	20,669	**280,808**
Off balance sheet items	109,050	(10,750)	(9,750)	(88,550)	-	**-**
Interest rate gap	64,352	(13,401)	(32,345)	589	(19,195)	**-**

Annual Business Statement

1 STATUTORY PERCENTAGES

	2009	Statutory limit
Lending limit	2.68%	25.00%
Funding limit	9.61%	50.00%

The above percentages have been calculated in accordance with the provisions of the Building Societies Act 1986 as amended by the Building Societies Act 1997.

The lending limit measures the proportion of business assets not in the form of loans fully secured on residential property.

The funding limit measures the proportion of shares and borrowings other than those from individuals.

The statutory limits are the maxima laid down under the Building Societies Act 1986 as amended by the Building Societies Act 1997 and ensure that the principal purpose of a building society is that of making loans which are secured on residential property and that the Society is funded substantially by its members.

2 OTHER PERCENTAGES

	2009	2008
As a percentage of shares and borrowings		
Gross capital	7.64%	7.04%
Free capital	7.67%	7.07%
Liquid assets	24.29%	23.95%
As a percentage of mean total assets		
Profit after tax	0.11%	0.13%
Management expenses	0.80%	0.88%

The above percentages have been prepared from the Group accounts.

'Shares and borrowings' represent the aggregate of shares, amounts owed to credit institutions and amounts owed to other customers.

'Gross capital' comprises reserves and revaluation reserves.

'Free capital' comprises gross capital and general provisions for bad and doubtful debts less tangible fixed assets.

'Liquid assets' represents the total of cash in hand, loans and advances to credit institutions, debt securities and other liquid assets as shown in the Balance Sheet.

'Mean total assets' is the average of the total assets at the beginning and end of the relevant financial years.

'Profit after tax' represents the profit for the financial year as shown in the income and expenditure account.

'Management expenses' represent the aggregate of administrative expenses and depreciation.

Annual Business Statement

3 INFORMATION RELATING TO DIRECTORS AND OTHER OFFICERS

a) At 31 December 2009 the Directors were:

Name	Date of Birth	Occupation	Date of Appointment	Other Directorships
A J Frost	06/10/1944	Company Director	06/03/2001	Bournemouth University
				The Bournemouth University Foundation
				Dorset Opera
				Hamworthy plc
				Invesco Perpetual Life Ltd
				NFU Mutual Insurance Society Ltd
J J Bawa	13/07/1965	Chief Executive	21/05/2002	TBS Financial Services Ltd
				TBS Mortgage Services Ltd
				Teachers Mortgage Services Ltd
				Teachers Mortgages Ltd
K A Flaherty	12/02/1972	Solicitor	01/01/2009	none
S E Gorham	10/07/1957	Finance Director	16/01/2003	TBS Financial Services Ltd
				The Arts University College at Bournemouth
M H Percy	28/09/1949	Company Director	08/04/2004	Stena (UK) Ltd
				Stena Ferries Ltd
				Stena HSS Holdings Ltd
				Stena North Sea Ltd
				Stena Ropax Ltd
M J Reed	04/05/1959	Teacher	25/04/2006	none
K F Richardson	29/04/1953	Company Director	26/11/2003	Exeter Friendly Society Ltd
				TBS Financial Services Ltd
				Vivrymas Ltd
R J Spragg	18/11/1951	Company Director	01/01/2009	Bournemouth University
				TBS Financial Services Ltd

Documents may be served on Directors c/o Deloitte LLP, Chartered Accountants, Mountbatten House, 1 Grosvenor Square, Southampton SO15 2BZ.

At 31 December 2009 none of the Directors had service contracts except the Executive Directors, Mr Bawa, Ms Flaherty and Mr Gorham. Their contracts are dated 7 May 2002, 26 March 2007 and 27 July 1987 respectively and may be terminated by the Society with one year's notice or by the employee with six months' notice in the case of Mr Bawa and Mr Gorham and three months' notice from either the employee or the employer in the case of Ms Flaherty.

b) At 31 December 2009 the other officer was:

Name	Occupation	Directorships
I M Pullen	Internal Audit Manager	none

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