2014

Teachers Building Society

Annual Report and Accounts

For the Year Ended 31 December 2014

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Contents

Directors, Management & Professional Advisors

Directors

R J Spragg, Chairman
J J Bawa, Chief Executive
A L Pike, Non-executive Director
M J Reed, Non-executive Director
A P Lee, Non-executive Director

Solicitor and Secretary

P E Jarman

Auditor

Deloitte LLP, Reading, United Kingdom

Bankers

National Westminster Bank PLC,
7 West Borough, Wimborne, Dorset BH21 1PR

Principal Office

Allenview House, Hanham Road,
Wimborne, Dorset BH21 1AG

Firm Reference Number

156580

Chairman’s Statement

This is my first year of reporting as your Society Chairman, and I am pleased to announce a year in which we have achieved significant growth in the total mortgage advances lent to teachers and customers in the local area. It was our best year of lending since the Society was founded back in 1966. As detailed in previous years, this is a key deliverable in our strategy for “helping our customers own their own homes and save for their futures.”

In the last twelve months, the UK economy has begun to recover from the last period of recession, and the continued UK Government support of the housing market has made for a buoyant year. The Society has been able to achieve good growth by responsible lending to both existing customers and new customers, enabling us to improve our net lending and generate improved profit levels.

There are increasing demands from regulators on all financial institutions, not just building societies, to hold more capital to prevent any need to call on government support in the event of future downturn. Capital protects the Society by providing a cushion to absorb any losses that could arise in a downturn. As a smaller society, we seek to increase capital by generating profits. The Society’s record profits have been added to capital to further protect members. This has enabled the gross reserve ratio to increase to 7.59% in 2014.

The continued participation in the Bank of England’s Funding for Lending Scheme (FLS) has helped to lower the cost of funding and assist in increasing mortgage lending. The FLS is a scheme which enables the Society to access low cost funding. The scheme, together with the government’s Help to Buy scheme, has provided strong stimulus to boost the UK housing market which has continued through 2013 and 2014.

The Society has continued to raise funds from the savings market. In 2014, savings rates, including Teachers’, fell across the sector. However, we remain committed to our members and have sought to retain a competitive product offering to savers. This has been evidenced by being accredited with over 40 mentions in the ‘best buy’ tables, with particular attention being given to our ISA and Premier Saver accounts. Our ISA products remained in the ‘best buy’ tables each and every week during August right through to December.

The commitment to customers and customer satisfaction remains a prime focus of the Board, and we are pleased with the overall 99% satisfaction levels achieved from member surveys in 2014. We are continually seeking ways to improve our service to our customers, and our aims are to provide individual responses to all our member and stakeholder feedback in a positive manner.

The excellent results and customer service this year have only been possible because of the continued support and dedication of our staff, and I would like to take this opportunity to express my gratitude and sincere thanks to them.

As I look to the future, there remains significant uncertainty. It may be that interest rates will start to increase over the next two years, but the result of the impending general election will undoubtedly be a key determinate in future UK economic strategy. Whilst the UK economy continues to improve, this recovery could be weakened by an unstable global economic situation.

Finally, I thank my colleagues on the Board for their support and commitment over the past twelve months. It has been an exceptional year and we look forward with confidence in our ability to meet the challenges that 2015 will undoubtedly bring.

Roy Spragg
Chairman
17 March 2015

Chief Executive's Report

Overview

I am pleased to be able to report on a growing and profitable Society.

Strong growth has arisen from improved mortgage lending and increased liquidity. In April, the Society successfully implemented the Mortgage Market Review and as a result was able to boost lending throughout the year, when some larger lenders had to withdraw temporarily from the market. Our lending was funded by a combination of retail savings and funds from the Bank of England's Funding for Lending Scheme (FLS).

The combined impact of growth in mortgages and a lower cost of funding helped the Society generate improved profits which are held in the Society's reserves to protect members' deposits.

Mortgages

Housing market activity expanded faster than expected in 2014, generating gross mortgage lending at Teachers Building Society of over £53m compared to £48m in 2013. The Society continues to offer mortgages through both the advised direct and the broker-introduced routes.

As part of our commitment to the teaching profession, we developed our mortgage product range during 2014 to ensure that we had deals to suit a wide range of education professionals. As a result, our mortgages are now able to cover a teacher's lifecycle, from the start of their career right through to retirement.

We have also continued to expand our local lending by including Wiltshire in our local geographical market, and we are now pleased to report that in 2014, over 25% (2013: 12%) of our mortgages came from individuals of any profession in the "local" regions.

In order to support these new products, we maintain a personal service by underwriting all cases individually and focusing on the borrower's particular circumstances. This approach helps to ensure that we lend to borrowers only what they can afford to pay, reducing the likelihood of arrears in the future.

Savings

The FLS has had the effect of reducing savings rates in the market. The FLS gives the Society access to lower cost funding for the four-year duration of the Scheme, and, although access to FLS has reduced the need to attract high volumes of retail funds, we have been keen to promote attractive products for both new and existing members, and we have launched over 36 products which have offered a combination of fixed and variable rates to meet customer preferences. However, the Society has continued to promote its 'best buy' products throughout the year to support our members as much as possible in this challenging low interest rate environment. As noted in the Chairman's Statement, the Society featured in the 'best buy' tables for 5 months continuously during 2014, leading to a 14% increase in savings deposits.

Profitability and Capital

The Society's profits increased significantly in the year, largely as a result of government backed initiatives and a more buoyant housing market.

Management expenses as a percentage of total assets have fallen slightly to 1.21% (2013: 1.22%). However, if FLS funding is included in total assets then the management expense ratio falls to 1.09% (2013: 1.16%). This ratio is a key measure of the efficiency of the Society.

Local Building Society

The Society continues to make charitable donations to local and national charities. The Society's staff have raised nearly £1,000 for local causes through fundraising events.

We have continued to support our local schools, providing a career guidance programme and launching a mentoring programme where Society staff visit local schools to aid students with a range of skills, from financial management to interview skills.

Future Development of the Society

Looking forward, it is expected that interest rates will remain at their current level for some time. The Society acknowledges the challenge that a low interest rate environment presents to its objective of offering the best value to its customers. We believe that our personal service and competitive products will continue to meet the needs of our members.

The availability of FLS funds has regrettably led to lower savings rates, a situation that is likely to persist until institutions begin the repayment of FLS funds. The Society has successfully used FLS to reach a wider mortgage market, but during 2015 we will begin the process of paying back this borrowing and will increase our funding from savers.

The last few months of 2014 witnessed a reduction in activity in the mortgage market. This has driven down mortgage rates to unprecedented levels as major lenders look to meet targets in a low demand market. This increased competition for mortgages will continue in the early part of 2015.

The high volume of business in 2014 put pressure on some of our resources and highlighted the need to maintain focus on strengthening our management structure and our decision making processes, and on remaining a prudently run Society. This will be a prime area of focus in 2015.

The forthcoming general election creates a degree of uncertainty, as all such events do, as financial markets in particular consider the effects of the possible changes in government policy. Taken with challenges in the global market, especially the Eurozone, the outlook remains unpredictable.

I would like to thank all of the team at the Society and our business partners for helping to make 2014 one of the most successful years in the history of the Society, and finally I thank our members for their continued support and belief in their Society.

James Bawa
Chief Executive
17 March 2015

Directors' Report

The Directors have pleasure in presenting the Annual Report and Accounts for the year ended 31 December 2014. Having taken into account all the matters considered by the Board and brought to the attention of the Board during the year, we are satisfied that the Annual Report and Accounts, taken as a whole, are fair, balanced and understandable.

Business Objectives and Activities

The Society's main purpose is to raise funds from members in order to provide residential mortgages for teachers and other education professionals as well as borrowers in Dorset, Hampshire and Wiltshire.

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 Society's business and future plans are reviewed by the Chairman and Chief Executive on pages 5 and 6. The Society monitors its performance and development by reference to a range of key performance indicators. For 2014, results in these key areas were:

Key Performance Indicators	2014	2013	2012
Total assets	£244m	£224m	£232m
Mortgage lending	£222m	£205m	£181m
Growth in mortgage assets	7.89%	14.00%	8.74%
Savings balances	£201m	£187m	£196m
Management expenses as % of total assets	1.21%	1.22%	1.18%
Operating profit (before FSCS levy and provisions)	£2.3m	£1.1m	£0.4m
Net profit	£1.8m	£1.0m	£0.2m
Profit as a % of total assets	0.74%	0.42%	0.09%
Gross capital	£17.2m	£15.7m	£19.1m
Free capital	£17.2m	£15.7m	£19.1m

■ Profit and Capital

Net profit after tax for the year of £1.8m (2013: £1.0m) has been transferred to the Society's general reserve. Gross capital (which comprises reserves and evaluation reserves) was £17.18m at the year-end (2013: £15.7m) and represented 7.59% of share and deposit liabilities (2013: 7.55%). Free capital (comprising gross capital and portfolio provisions for bad and doubtful debts less tangible fixed assets) was £17.19m (2013: £15.7m) or 7.60% (2013: 7.53%) of share and deposit liabilities.

■ Assets

Total assets increased by 8.67% from £224.9m to £244.5m. This growth arises from increases in mortgage advances of 7.89% with gross advances totalling £53.4m (2013: £48.4) and an increase in liquid assets.

■ Liquidity

The Society has increased the level of liquidity held on the balance sheet from 8.54% to 9.51% over the year. These percentages do not include £31m of FLS funding which is held off balance sheet but which forms part of the Society's regulatory liquidity. The inclusion of FLS funding within liquidity raises the liquidity ratio to 23.19% (2013: 20.05%). A total of £35m (2013: £28m) has been drawn from the FLS, but only £4m (2013: £4m) of this is held on the balance sheet.

■ Management Expenses

Management expenses totalled £2.9m (2013: £2.8m), reflecting an increase in staff numbers and staff costs. Measured as a percentage of average total assets, management expenses were 1.21% (2013: 1.22%).

■ Mortgage Arrears

Total arrears outstanding on all accounts increased over the course of 2014, rising from £33,687 at 31 December 2013 to £64,097 at 31 December 2014. At the year-end, one account (2013: nil) was 12 months or more in arrears. The balance on this account totalled £8.3k (2013: £nil) and the arrears totalled £3.0k (2013: £nil). 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. Provisions take account of the Society's policy of considering the individual circumstances of borrowers experiencing payment difficulties. The Society ensures that customers are treated fairly and may enter into arrangements with borrowers to allow them to repay only the interest on their mortgage for a period, and then to clear arrears over an agreed period of time. Where appropriate, the Society may delay legal action in order to allow the borrower time to seek debt advice or allow a borrower to remain in a property to allow them to effect a sale of the property themselves. Care is taken to ensure that such forbearance is only offered where it is likely to help borrowers through a difficult period rather than put them in a worse position. With active management of these cases and by offering a range of repayment methods, the number of forbearance cases was reduced from 43 in 2013 to 26 at the end of 2014.

Although actual arrears experience has been good, the level of provisioning, as shown in note 8 to the Accounts, reflects the cautious outlook of the Directors towards the housing market, but also takes account of the protection given by external insurance cover which has been put in place on new, higher loan-to-value mortgages since June 2011. The Society's policy on provisioning is contained in note 1(g) to the Accounts.

Country-by-Country Reporting Regulations

The Capital requirements (Country-by-Country reporting) regulations 2013 introduced reporting obligations for institutions within the scope of the European Union's Capital requirements Directive (CRD IV). All entities and branches within the group are based in the UK, meaning all results disclosed in the accounts are generated from UK operations and all staff are based in the UK.

Fixed Assets

Changes to fixed assets during 2014 are summarised in note 13 to the Accounts.

Asset Encumbrance Policy

The Society's policy is to permit the encumbrance of assets where this is required as a norm of standard market practices, or where it is necessary to obtain central bank funding facilities or liquidity insurance. As a precondition of the Bank of England's Funding for Lending Scheme, the Society positioned a portfolio of residential mortgage loans in 2013 as security with the Bank of England.

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 Board approved policies which include risk limits, reporting lines, mandates and control procedures. The policies and other risk control procedures are reviewed by the Society's Executive Assets and Liabilities Committee, the Executive Committee, the Audit and Risk Committee and the Board. Further details are included in note 26 to the Accounts.

■ Credit Risk

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

- Credit risk relating to mortgages is primarily managed through the Society's Lending Policy which is reviewed by the Credit Committee and approved by the Board. 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.
- The Lending and Liquidity policies include limits on credit exposures to countries, groups and individual counterparties. These limits are also reviewed by the Credit Committee and the Executive Assets and Liabilities Committee, and amendments are made to reflect changes in the risk attached to counterparties which are then reviewed and approved by the Board of Directors.

The risks attached to particular types of liquidity instrument are addressed in the Liquidity Policy.

- Teachers Building Society has no direct exposure to non-UK sovereign debt or to non-UK institutions, but does have some exposure to UK based banks whose ultimate parent is not based in the UK. Based on an assessment of the strength of these banks, the Society does not consider these assets to be impaired. Principal amounts due at the balance sheet date were as follows:

Country	Maturing in 3 months or less	Maturing in 6 to 9 months	Total
Australia	-	£1.0m	£1.0m
France	-	£1.0m	£1.0m

■ 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 Society's Liquidity Policy establishes controls that ensure sufficient funds are maintained in liquid form at all times so that the Society can meet its liabilities as they fall due. The Society has established policies and procedures and undertakes regular stress tests to ensure that it can withstand normal and abnormal cash outflows. The policy is reviewed by the Executive Assets and Liabilities Committee, with any amendments reviewed and approved by the Board of Directors. Such review is increasingly important in the current environment where investor confidence in financial institutions has been weakened by events.

■ Interest Rate Risk and Basis Risk

Interest rate risk is the risk of mismatch between the dates on which interest receivable and interest payable are reset, impacting on profitability and on the value of the Society'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 reviewed and approved by the Executive Assets and Liabilities Committee under a delegated authority from the Board of Directors. A summary of the Society's interest rate exposure 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.

■ Conduct and Operational Risk

Conduct risk is the risk arising from the Society's conduct in its direct relationship with customers, or where the Society has a direct duty to customers. Operational risk is the risk of loss arising from inadequate or failed internal processes or systems, human error or external events. The Conduct and Operational Risk Committee comprises the Society's management team and is chaired by the Society's Chief Executive. The Committee, which meets monthly, oversees the Society's responsibilities in relation to the six Treating Customers Fairly (TCF) outcomes.

It is responsible for ensuring that the Society's culture, governance, and systems and controls enable compliance with its TCF and other conduct obligations, and that financial crime prevention is effective. It also reviews the Society's policies dealing with Data Protection and Data Security and complaints handling. This ensures that operational risks are identified and recorded and that appropriate mitigating controls are in place.

The Society's objective is to minimise the impact of operational risk upon its performance, ensuring that operational risks are identified and recorded and that appropriate mitigating controls are in place.

- **Pillar 3 Disclosures**

The Society'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 be obtained by writing to the Secretary at our Head Office.

Going Concern

The Society'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 5, the Chief Executive's Report on page 6 and elsewhere in the Directors' Report on pages 7 to 9. 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 Directors have considered the risks to the business in the light of the continued uncertain economic outlook. Their review included consideration of likely default rates on loans, house price movements and the Society's capital and liquidity position in stressed conditions.

The Directors are satisfied that the Society has adequate resources for the foreseeable future and, 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:

K F Richardson (until 29 April 2014)
J J Bawa
A Evans (until 20 February 2015)
A L Pike
M J Reed
A P Lee (from 29 April 2014)
R J Spragg

At the next Annual General Meeting in April 2015, Alex Pike and Roy Spragg will retire as Directors by rotation and, being eligible, offer themselves for re-election. Andrew Lee, having been appointed in April 2014, offers himself for election at the Annual General Meeting.

Directors' Responsibilities for Preparing Annual Accounts

The following statement, which should be read in conjunction with the statement of the auditor's responsibilities on page 15, 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 Society as at the end of the financial year, and the income and expenditure of the 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 Society 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.

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 Conduct 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.

Auditor

Deloitte LLP has expressed its willingness to continue in office and, in accordance with Section 77 of the Building Societies Act 1986, a resolution for its re-appointment will be proposed at the Annual General Meeting.

Roy Spragg
Chairman
17 March 2015

Report of the Directors on Remuneration

Unaudited information

Policy on Directors' Remuneration

The Board aims to follow best practice in its remuneration policy for Directors and has regard to the principles in the United Kingdom Corporate Governance Code relating to remuneration.

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 all Non-executive Directors and is chaired by 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. All comparative data is used with caution by the Committee in order to ensure that the level of remuneration is appropriate. In addition to salary, benefits may comprise a car allowance, membership of a healthcare scheme, contributory pension scheme and death-in-service benefits.

Members of the Executive Team, including Executive Directors, were eligible to participate in a medium term performance bonus. This bonus is earned as agreed core objectives are achieved and is capped at 30% of an individual's salary. The bonus is paid over three years. Objectives for mortgage lending, interest margin and customer satisfaction were mostly met in 2014. In 2014, payment was made under the 2012 and 2013 schemes. In April 2015, the final payment under the 2012 scheme will be made, together with payments under the 2013 and 2014 schemes.

Executive Directors' Contractual Terms

The contract for James Bawa has a notice period of 12 months by the Society and 6 months by the employee. Angela Evans had a contract with a notice period of 6 months for both the Society and employee. The contracts are available for inspection at the Annual General Meeting.

Non-executive Directors

The remuneration of Non-executive Directors (other than the Chairman) is reviewed each year by the Executive Directors and the Chairman, and a recommendation is made to the Board. The Chairman's remuneration is reviewed each year by the Remuneration Committee without the Chairman being present. 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 three years and will generally serve two further terms of three years each, subject to periodic retirement by rotation and re-election by members.

Remuneration of Individual Directors

Audited information

	2014 £000	2013 £000
Fees paid to Non-executive Directors		
R J Spragg	25	20
A P Lee (from 29 April 2014)	14	-
M J Reed	18	18
A L Pike	18	18
K F Richardson (until 29 April 2014)	9	28
M H Percy (until 23 April 2013)	-	6
Total	**84**	**90**
Executive Directors' Remuneration		
J J Bawa		
Salary	134	133
Car allowance and taxable benefits	12	12
Performance-related bonus	-	2
Medium term bonus	28	13
Pension contributions	14	14
Total	**188**	**174**
A Evans (from 23 July 2013)		
Salary	100	42
Performance-related bonus	-	1
Medium term bonus	-	-
Pension contributions	10	3
Total	**110**	**46**
S Gorham (until 1 October 2013)		
Salary	-	69
Car allowance and taxable benefits	-	9
Performance-related bonus	-	-
Medium term bonus	-	7
Pension contributions	-	16
Total	**-**	**101**
Total Directors' remuneration	**382**	**411**

Martin Reed
Director
17 March 2015

Report on Corporate Governance

Corporate Governance

The Society has paid due regard to the 2012 UK Corporate Governance Code (the Code). As the Code is addressed to publicly quoted companies, its provisions are not necessarily consistent with the structure of mutual societies. The Building Societies Association (BSA) therefore publishes guidance on the application of the Code to building societies and the Society considers it is compliant with the Code in the manner recommended by the BSA in its guidance.

The Board believes that the disclosures set out on pages 5 to 9 of the annual report provide information necessary for members to assess the Society's performance, business model, and strategy.

The Board and Committees

Kevin Richardson was Chairman until 29 April 2014 when he retired from the Board. Roy Spragg was Senior Independent Director until he succeeded Kevin Richardson as Chairman on 29 April 2014.

Andrew Lee joined the Board on 29 April 2014. Martin Reed succeeded Roy Spragg as Senior Independent Director on the same date. Andrew Lee, Martin Reed and Alex Pike 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. The Code states that the test of independence is not appropriate in relation to the Chairman but he should, on appointment, have met the independence criteria. The Board considers this to have been the case.

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 Prudential Regulation Authority and the Financial Conduct Authority (the regulators) and are required to meet the 'fit and proper' criteria laid down by the regulators and to comply with the Principles for Approved Persons and the 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 as well as conducting more formal annual self-appraisal by means of a questionnaire. From time to time, the Board also seeks an external assessment of its effectiveness; the last such review was undertaken in 2011.

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, three other Non-executive Directors, the Chief Executive, and the Finance and Operations Director. 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 controls:

■ Audit and Risk Committee

This committee appraises the Society's systems of control and inspection and overseas the necessary actions to improve such controls to mitigate the risks faced by the Society, supported by regular reports from the Internal Auditor, Risk Manager and Compliance Officer and external auditor. The Committee, which met on six occasions this year, was, until 26 April 2014, chaired by Roy Spragg and the other members were Alex Pike and Martin Reed. From 26 April, it was chaired by Andrew Lee and the other members were Roy Spragg, Alex Pike and Martin Reed.

The Committee formally reviews the work of the internal and external auditors and their plans for the ensuing year, and assesses the overall effectiveness of the Society's control environment. The Committee reviewed the overall work plan of the external auditor, Deloitte LLP, and approved their remuneration and terms of engagement and considered in detail the results of the audit, Deloitte's performance and independence and the effectiveness of the overall audit process. The Committee recommended Deloitte's reappointment as auditor to the Board, and this resolution will be put to members at the 2015 Annual General Meeting. Deloitte and its predecessor firm have been the Society's auditors for over twenty years and a tender for the appointment was conducted in 2003. The Committee also reviews the Annual Accounts prior to Board approval. It reviewed and challenged relevant accounting policies and significant financial judgements including the level of residential and commercial lending loss provisions, the accounting treatment for the Financial Services Compensation Scheme levy and the Funding for Lending Scheme. In order to address these issues, the Committee sought and received detailed briefings and explanations.

All significant financial judgements are set out in the Accounting Policies in note 1, with further details provided in the Notes to the Accounts, the Chairman's Statement, the Chief Executive's Report and the Directors' Report, where appropriate. The Committee has reviewed the effectiveness of the Society's financial controls and the internal control and risk management systems, compliance with financial services legislation, and has monitored progress to ensure that any required remedial action has been or is being taken on any identified weaknesses.

The Audit and Risk Committee exercises oversight of the executive committees within the Society with specific responsibilities to monitoring and controlling the principal financial, credit and operational risks of the Society (the Executive Assets and Liabilities Committee, the Credit Committee and the Conduct & Operational Risk Committee). Their membership comprises a combination of the Executive Directors and the senior managers of the Society and provides reports of their meetings and activities to the Audit and Risk Committee.

■ Remuneration Committee

The Committee meets to determine the terms of the employment and remuneration of the senior executive team. All Non-executive Directors (except Kevin Richardson and Andrew Lee) were members of the Committee, which was chaired by Martin Reed.

Report on Corporate Governance
Continued...

■ **Nomination Committee**

The Committee meets at least annually and otherwise as necessary to consider new appointments to the Board. At its annual meetings, it assesses the continuing independence and performance of Non-executive Directors and their training and development, and it considers the balance of skills and experience on the Board and the requirements of the business in the context of succession planning and Board composition. Candidates for Non-executive Directorship are identified in a number of ways, including advertisements in relevant publications and external search agencies. Three external search consultancies, none with any other connection to the Society, were used in the recruitment of a Non-executive Director during the year. Members of the Society have the right under the Society's rules to nominate candidates for election. With regard to its composition, the Board has a policy of encouraging diversity and has the objective that each gender should represent at least a third of any short-list for any appointment as Non-executive Director. The Board did not meet this objective in relation to the one appointment that occurred during the year due to the gender balance among applicants. The Committee members during the year were Roy Spragg (Chairman), James Bawa and Alex Pike with Martin Reed joining the Committee in June.

The Executive Committee

The Executive Committee is responsible for:

- developing and implementing the Society's strategy, operational plans, policies, procedures and budgets;
- overseeing and monitoring the key risks to the Society;
- monitoring operating and financial performance and delivery of key projects;
- prioritising and allocating resources; and
- monitoring competition in the Society's areas of operation.

This Committee, during 2014, was chaired by the Chief Executive and comprised the Finance & Operations Director and the Secretary & Solicitor. It received reports from the following committees:

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, Funding Policy and Liquidity Policy. It is also responsible for approving new product developments and for setting the Society's interest rates. The Committee, which meets monthly, comprised in 2014 the Chief Executive (Chairman), the Finance & Operations Director and the Solicitor & Secretary. The Committee also provides reports to the Board's Audit and Risk Committee and considers changes to the financial risk management policies prior to their submission to the Board of Directors for approval.

Conduct & Operational Risk Committee

The Committee monitors, manages and controls the Society's Conduct and Operational Risk, which is defined as any risk arising from the Society's conduct in its direct relationship with customers, or where the Society has a direct duty to customers, and also in relation to its operational environment generally. Its responsibilities include ensuring that the Society's culture, governance, and systems, and controls enable compliance with its 'Treating Customers Fairly' and other conduct obligations. In addition to reporting to the Executive Committee, this Committee provides reports to the Audit and Risk Committee. The Committee, which meets monthly, comprised in 2014 the Chief Executive (Chairman), the Finance & Operations Director and the Solicitor & Secretary.

Credit Committee

The Committee monitors and reviews credit risks relating to the Society's lending to mortgage customers and treasury counterparties. The Committee, which meets monthly, comprised in 2014 the Chief Executive (Chairman), the Finance & Operations Director and the Solicitor & Secretary. The Committee is responsible for the regular review of the Society's Lending Policy and related procedures and making recommendations for change to the Board, subject to approval by the Executive Committee and review by the Audit and Risk Committee.

Operational Risk Management Committee

The Committee, which meets monthly, is chaired by the Society's Risk Manager and also comprises members from the main operations areas of the business. The Committee reviews, identifies and evaluates the key operational risks and the processes and controls designed to reduce or mitigate these risks. It ensures that these are documented and monitored through the Society's risk assessment process, making recommendations for improvements where necessary. The Committee reports to the Conduct & Operational Risk Committee and provides reports to the Audit and Risk Committee.

Re-election to the Board

All Directors submit themselves for re-election at least once every three years, subject to continued satisfactory performance. The Board's policy is that Directors serving beyond a term of nine years will be subject to annual re-election, but that such instances should be exceptional. Martin Reed, having completed nine years on the Board, is due to retire immediately after the AGM on 28 April 2015. A recruitment process to find his replacement is underway but has not yet been completed. This may not occur until shortly after the AGM, in which case Martin Reed will remain on the Board until then. As this will mean extending his membership of the Board by only a matter of weeks past the nine year point, the Board does not feel it is appropriate for him to be subject to re-election at the 2015 AGM and has waived its normal policy in this instance.

Board Attendance at Meetings

Against each Director's name is shown the number of meetings of the Board and its Committee 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 or, in the case of Committees, was invited to attend during the year even if not a member.

Director	Board	Audit & Risk Committee	Nomination Committee	Remuneration Committee
J J Bawa	8 (8)	6 (6)	2 (2)	3 (3)
A Evans	8 (8)	6 (6)	- (-)	- (-)
A P Lee	6 (6)	4 (4)	- (-)	- (-)
A L Pike	8 (8)	6 (6)	2 (2)	3 (3)
M J Reed	8 (8)	6 (6)	- (-)	3 (3)
K F Richardson	2 (2)	2 (2)	- (-)	- (-)
R J Spragg	8 (8)	6 (6)	2 (2)	3 (3)

Roy Spragg
Chairman
17 March 2015

Independent Auditor's Report

Opinion on Financial Statements of Teachers Building Society

In our opinion, the financial statements:

- give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Society's affairs as at 31 December 2014 and of the Society's income and expenditure for the year then ended; and
- have been prepared in accordance with the requirements of the Building Societies Act 1986.

The financial statements comprise Income and Expenditure Account, Balance Sheet, the Cash Flow Statement, the Society Statement of Total Recognised Gains and Losses and the related notes 1 to 26. 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).

Going Concern

We have reviewed the directors' statement contained within the Directors' Report on pages 7 to 9 that the Society is a going concern. We confirm that:

- we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate; and
- we have not identified any material uncertainties that may cast significant doubt on the Society's ability to continue as a going concern.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Society's ability to continue as a going concern.

Our Assessment of Risks of Material Misstatement

The assessed risks of material misstatement described below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.

For all assessed risks described below, we tested the design and implementation of the associated key conrols identified.

Risk	How the scope of our audit responded to the risk
Loan Loss Provisions **The Society holds £648,000 of impairment provisions at year-end (2013: £461,000) against total loans and advances to customers of £222 million (2013: £206 million). Determining impairment provisions against loans to customers is a judgemental area requiring an estimate to be made of the incurred loss within the residential mortgage lending portfolios. This requires the estimation of customer default rates, property values, sales costs, forced sale discounts, likelihood of repossession, and potential impairment indicators all of which may be sensitive to changes in the economic environment. Loan loss provision balances are detailed within Note 8. Management's associated accounting policies are detailed on page 19.**	We challenged the appropriateness of management's key assumptions used in the impairment calculations for loans and receivables, including the impairment trigger point, the estimation of property values, sales costs, forced sale discounts and the likelihood of repossession. This was achieved through benchmarking against internal and external data, undertaking sensitivity analysis, review of credit committee minutes and case files and comparing historical levels of write-offs to provisions. We involved our IT specialists to test the accuracy and completeness of the provision calculation by taking an extraction of source data from the core lending systems and recalculating the provision in accordance with management's approved provisioning policy, including the identification of impaired accounts.
Revenue Recognition **We have identified the key risk as being the accurate calculation of fees and commissions on new mortgage products, n particular that the correct fee has been applied on new mortgages completed in the year. The Society received £8 million (2013: £8 million) of fees and commissions during the year.** **Management's associated accounting policies are detailed on page 19.**	We tested the accuracy of a sample of fees on new mortgages by agreement back to Society policy, bank receipts and the core system. We also performed an analytical review over total revenue. We involved our IT specialists to independently assess the completeness of the fees recognised by taking an extraction of source data from the core lending systems and recalculating the fees.

Independent Auditor's Report
Continued...

Risk	How the scope of our audit responded to the risk
Financial Services Compensation Scheme The Society holds a provision for the Financial Services Compensation Scheme (FSCS) levy of £75,000 at year-end (2013: £135,000). Accounting for the FSCS levy is reliant on data extracted from the core savings system and involves making assumptions regarding the Society's share of industry protected deposits. There is also uncertainty regarding the extent to which additional levies will be raised to cover future capital shortfalls on the loans to HM Treasury and therefore the extent of any contingent liabilities to be disclosed in the financial statements. Management's associated accounting policies are detailed on page 19. Details of the provision are included in Note 20	We challenged the accuracy and completeness of the provision for the FSCS levy by performing an independent calculation of the amount based on information published by the FSCS and internal data from the core savings system. In respect of the deposit balances guaranteed by the FSCS we have tested the extraction of the data from the core savings system. We involved our IT specialists to test the accuracy and completeness of the provision calculation by taking an extraction of source data from the core lending systems and recalculating the provision.
Funding for Lending Scheme The accounting treatment for the Society's participation in the Funding for Lending Scheme requires a skilled input and oversight by management and thorough understanding of the terms of the transaction to ensure appropriate recognition, derecognition and fair value measurement of associated assets and liabilities and disclosure in the accounts. These treasury bills have been retained off balance sheet with the exception of £4m (2013: Nil) that were repossessed during the year.	We independently challenged and reviewed the Society's methodology as set out in note 26 by assessing the key assumptions. We used our financial instruments specialists to generate an independent valuation on a sample basis and compared this with the Society's to assess whether the valuation was appropriate.
Valuation of Derivatives As described in Note 26, the Society uses interest rate derivatives to economically hedge net interest rate risks arising from issuance of fixed interest rate products. The accounting framework applied requires the fair value of such derivatives to be disclosed rather than recognised on the balance sheet. The valuation of derivatives disclosed in Note 26 to the financial statements requires significant judgement to determine appropriate inputs. Such inputs include quoted market prices, but where these are not available, inputs such as interest rates, volatility, exchange rates, counterparty credit ratings and valuation adjustments. There is a risk that appropriate consideration and calculation methodologies are not applied resulting in incorrect valuations of the swaps.	We independently challenged and reviewed the Society's methodology as set out in note 26 by assessing the key assumptions. We used our financial instruments specialists to generate an independent valuation on a sample basis and compared this with the Society's to assess whether the valuation was appropriate.

The description of risks above should be read in conjunction with the significant issues considered by the Audit and Risk Committee discussed on page 11.

The prior year risk in relation to the pension is not relevant for the current year as due to the buy-out there is no pension obligations at year end.

Our audit procedures relating to these matters were designed in the context of our audit of the financial statements as a whole, and not to express an opinion on individual accounts or disclosures. Our opinion on the financial statements is not modified with respect to any of the risks described above, and we do not express an opinion on these individual matters.

Our Application of Materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

The accumulation of profits is critical to maintaining and building capital for regulatory purposes and allowing the Group to invest in activities for its members. We have therefore selected profit before tax as the benchmark for determining materiality. We have determined materiality by applying 7.5% of this benchmark.

We determined planning materiality for the Society to be £152,000 (2013: £147,000) which also represents less than 2% of Revenue (2013: 2%).

We agreed with the Audit and Risk Committee that we would report to the Committee all audit differences in excess of £3,000 (2013: £2,900), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit and Risk Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements

An Overview of the Scope of Our Audit

Our audit scope involved performing a statutory audit on the Society. The Society's subsidiary companies are dormant and thus exempt from statutory audit.

Opinion on Other Matters Prescribed by the Building Societies Act 1986

In our opinion:

- the Annual Business Statement and the Directors' Report have been prepared in accordance with the requirements of the Building Societies Act 1986;
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the accounting records and the financial statements; and
- the information given in the Annual Business Statement (other than the information upon which we are not required to report) gives a true representation of the matters in respect of which it is given.

Opinions on other matters prescribed by the Capital Requirements (Country-by Country Reporting Regulations 2013)

In our opinion, the information given on page 7 for the financial year ended 31 December 2014 has been properly prepared, in all material respects, in accordance with the Capital Requirements (Country-by-Country Reporting) Regulations 2013.

Matters on which we are Required to Report by Exception

Adequacy of explanations received and accounting records

Under the Building Societies Act 1986, we are required to report to you if, in our opinion:

- proper accounting records have not been kept by the Society; or
- the Society's financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations and access to documents we require for our audit.

We have nothing to report in respect of these matters.

Our duty to read other information in the Annual Report

Under International Standards on Auditing (UK and Ireland), we are required to report to you if, in our opinion, information in the annual report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Society acquired in the course of performing our audit; or
- otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the directors' statement that they consider the annual report is fair, balanced and understandable and whether the annual report appropriately discloses those matters that we communicated to the Audit and Risk Committee which we consider should have been disclosed. We confirm that we have not identified any such inconsistencies or misleading statements.

Respective Responsibilities of Directors and Auditor

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of financial statements which 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. We also comply with International Standard on Quality Control 1 (UK and Ireland). Our audit methodology and tools aim to ensure that our quality control procedures are effective, understood and applied. Our quality controls and systems include our dedicated professional standards review team and independent partner reviews.

This report is made solely to the Society's members, as a body, in accordance with section 78 of the Building Societies Act 1986. Our audit work has been undertaken so that we might state to the Society's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Society and the Society's members as a body, for our audit work, for this report, or for the opinions we have formed.

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 Society'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.

Elanor Gill FCA (Senior statutory auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Reading, United Kingdom

17 March 2015

Income and Expenditure Account

For the Year Ended 31 December 2014

	Note	2014 £000	2013 £000
Interest receivable and similar income	4	8,373	7,764
Interest payable and similar charges	5	(3,347)	(3,898)
Net interest receivable		**5,026**	**3,866**
Other finance charges		-	(8)
Fees and commissions receivable		437	455
Fees and commissions payable		(319)	(450)
Other operating income	1(l)	98	91
Total operating income		**5,242**	**3,954**
Administrative expenses	6	(2,745)	(2,728)
Depreciation	13	(105)	(71)
Other operating charges	7	(105)	(43)
Operating profit before provisions		**2,287**	**1,112**
Provisions for bad and doubtful debts	8	(184)	(11)
Provisions for liabilities and charges	20	(89)	(134)
Operating profit and profit on ordinary activities before tax		**2,014**	**967**
Tax on profit on ordinary activities	9	(229)	3
Profit for the financial year		**1,785**	**970**

All results arise from continuing operations.

Statement of Total Recognised Gains and Losses

	Note	2014 £000	2013 £000
Profit for the financial year		1,785	970
Actuarial losses recognised in pension scheme	21	-	(5,146)
Movement in deferred tax relating to pension scheme		(325)	769
Total recognised gains and losses in the year	**24**	**1,460**	**(3,407)**

Balance Sheet

At 31 December 2014

Assets

	Note	2014 £000	2013 £000
Liquid assets			
Loans and advances to credit institutions	10	14,497	9,713
Debt securities	11	7,026	8,055
Loans and advances to customers	12		
Loans fully secured on residential property		218,471	202,051
Other loans fully secured on land		3,351	3,553
Tangible fixed assets	13	449	484
Deferred tax	23	520	974
Other assets	14	147	147
Total assets		**244,461**	**224,977**

Liabilities

	Note	2014 £000	2013 £000
Shares	15	200,724	187,956
Amounts owed to credit institutions	16	10,012	12,510
Amounts owed to other customers	17	15,526	7,628
Other liabilities	18	453	215
Accruals and deferred income	19	474	796
Provisions for liabilities and charges			
Other provisions	20	95	155
Reserves	24		
Revaluation reserve		90	93
General reserve		17,087	15,624
Total liabilities		**244,461**	**224,977**

These accounts were approved by the Board of Directors on 17 March 2015.

Roy Spragg
Chairman

Andrew Lee
Director

James Bawa
Chief Executive

Cash Flow Statement

For the Year Ended 31 December 2014

	2014 £000	2013 £000
Net cash inflow/(outflow) from operating activities	4,861	(14,601)
Tax paid	-	(5)
Capital expenditure		
Purchase of tangible fixed assets	(70)	(134)
Increase/(decrease) in cash	**4,791**	**(14,740)**

Reconciliation of profit on ordinary activities before tax to net cash inflow/(outflow) from operating activities	2014 £000	2013 £000
Profit on ordinary activities before tax	2,014	967
(Increase)/decrease in prepayments and accrued income	(24)	124
(Decrease) in accruals and deferred income	(322)	(331)
Decrease/(increase) in provisions for bad and doubtful debts	200	(40)
(Decrease) in other provisions	(60)	(85)
Non-cash movements in debt securities	(114)	106
Depreciation of tangible fixed assets	105	71
Pension charge less contributions paid	-	(5,267)
Net cash inflow/(outflow) from trading	1,799	(4,455)
(Increase) in loans and advances to customers	(16,418)	(23,615)
Increase/(decrease) in shares	12,768	(8,223)
Decrease in amounts owed to credit institutions and other customers	5,400	4,939
Decrease in loans and advances to credit institutions	7	3,000
Increase in Treasury Bills	-	6,926
Decrease in debt securities	1,143	6,870
Decrease in other assets	27	-
Increase/(decrease) in other liabilities	135	(43)
Net cash inflow/(outflow) from operating activities	**4,861**	**(14,601)**

Analysis of decrease in cash	
Loans and advances to credit institutions repayable on demand (note 10)	£000
At 1 January 2014	8,698
Increase during the year	4,791
At 31 December 2014	**13,489**

Notes to the Accounts

For the Year Ended 31 December 2014

1 Accounting Policies

The Accounts have been prepared in accordance with the Building Societies (Accounts and Relations Provisions) Regulations 1998 and applicable law and United Kingdom Generally Accepted Accounting Practice). 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

The Society's accounts are made up to 31 December each year. As noted on page 9, the Directors are satisfied that the Society has adequate resources to continue in business for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.

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) Treasury Bills and Debt Securities

Liquid assets include Treasury Bills and 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

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 bad and doubtful debts

Provisions are made to reduce the value of loans and advances to the amount which the Directors consider is likely to be recoverable. The Society uses forbearance techniques to help some borrowers through periods where their finances have become stretched and where servicing of the normal mortgage repayment has become difficult. The Society ensures that the level of provisioning set covers this forbearance risk.

Specific provisions are considered for all mortgage accounts in arrears 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 costs of sale. Losses on accounts where the property has been repossessed are provided for after consideration of the likely sale price and the 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.Provisions for Financial Services Compensation Scheme Contribution

Provisions for Financial Services Compensation Scheme Contribution

The Society has made provision for its expected share of the shortfall on loans made to the FSCS by HM Treasury to be levied by the Financial Services Compensation Scheme for the Scheme years 2014/2015 by reference to the amount of deposits held by the Society at 31 December 2014.

Notes to the Accounts

For the Year Ended 31 December 2014

1 Accounting Policies (continued)

h) Pensions

The Society operates a defined contribution pension scheme, the cost of which is charged to the Income and Expenditure Account as contributions become payable.

In 2013, the Society closed its defined benefit scheme. The principal asset of this pension scheme was a purchased annuity policy in the name of the trustees. The asset was taken into account as the actuarial value of the liabilities at the balance sheet date. Liabilities were 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 were included in 'Other finance income' or 'Other finance charges' as appropriate. Actuarial gains and losses were recognised in the Statement of Total Recognised Gains and Losses. The actuarial valuations were obtained triennially and were updated at each balance sheet date. The resulting pension asset or liability, net of the related deferred tax, was presented separately on the face of the Balance Sheet.

Further information concerning pensions is set out in note 21.

i) 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. All hedging instruments are held off balance sheet and there were no realised gains or losses during the period.

j) Incentives to Borrowers

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

k) Fees and Commissions Payable

Mortgage indemnity guarantee premiums and valuation fees paid are included in 'Fees and Commissions Payable' and are charged against profit as incurred.

l) Other Operating Income

Other operating income comprises rent and other income receivable from the letting of property and administration charges for a housing association. Income is included in the accounts on an accrual basis.

m) Funding for Lending Scheme (FLS)

The Society participates in the Funding for Lending Scheme (FLS), which provides Treasury Bills in return for eligible collateral including approved mortgage portfolios. FLS transactions do not involve the transfer of risk on the collateral. Therefore, for accounting purposes, the underlying collateral is retained on balance sheet and the Treasury Bills are not recognised on the balance sheet. When a Treasury Bill is sold or repo'd in the market, the net proceeds are recognised on the balance sheet together with a corresponding liability. The liability is measured as the par value of the Treasury Bill sold. Any premium or discount arising on the sale of Treasury Bills is amortised to the income and expenditure account over the life of the scheme.

2 Directors

(a) Directors' Remuneration

Directors' remuneration totalled £382,000 (2013: £411,000). Full details are given in the Report of the Directors on Remuneration on page 10.

(b) Transactions with Directors

At 31 December 2014 one loan totalling £174,632 (2013: one loan totalling £154,237) made in the ordinary course of business and falling within Section 65 of the Building Societies Act 1986 was outstanding to one (2013: one) Director.

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

Average number of persons employed by the Society	2014 Number	2013 Number
Full-time	31	29
Part-time	14	11
	45	40

4 Interest Receivable and Similar Income

	2014 £000	2013 £000
On loans fully secured on residential property	8,065	7,293
On other loans	174	212
On debt securities	58	94
On liquid assets other than debt securities	76	165
	8,373	7,764

5 Interest Payable and Similar Charges

	2014 £000	2013 £000
On shares held by individuals	3,180	3,809
On deposits and other borrowings	167	89
	3,347	3,898

6 Administrative Expenses

Employee costs	2014 £000	2013 £000
Wages and salaries	1,535	1,418
Social security costs	149	155
Pension costs - defined contribution scheme	68	83
Other pension costs	-	5
	1,752	1,661
Auditor's remuneration for audit work	49	44
Other expenses	944	1,023
	2,745	2,728

The Society's external auditor Deloitte LLP provided audit services in connection with the Society's use of the Funding for Lending Scheme. During 2014 additional consultancy support was also provided. The total value for these services was £14,000 (2013: £9,000).

Notes to the Accounts

For the Year Ended 31 December 2014

Continued...

7 Other Operating Charges

	2014 £000	2013 £000
Other operating charges include: Incentives to borrowers	105	43

8 Provisions for Bad and Doubtful Debts

	Loans fully secured on residential property £000	Loans fully secured on land £000	Total £000
At 1 January 2014			
Portfolio provision	440	-	440
Specific provision	21	-	21
	461	**-**	**461**
Movements in provisions during the year			
Portfolio provision	19	-	19
Specific provision	181	-	181
	200	**-**	**200**
At 31 December 2014			
Portfolio provision	459	-	459
Specific provision	202	-	202
	661	**-**	**661**

The charge to income and expenditure is made up as follows:

	2014 £000	2013 £000
Movement in provisions as above	200	(40)
Amounts written off during the year	-	52
Recoveries of amounts previously written off	(16)	(1)
	184	**11**

9 Tax on Profit on Ordinary Activities

	2014 £000	2013 £000
Current tax		
UK Corporation tax	(100)	-
Total current tax	**(100)**	-
Deferred tax		
Origination and reversal of timing differences (note 23)	(129)	3
Total deferred tax (charge)/credit	**(129)**	3
Total tax on profit on ordinary activities	**(229)**	**3**

The average full rate of corporation tax for the year was 20.00% (2013: 21.62%).
The actual tax charge for the current and previous year differs from the standard rate as set out below.
The main difference is due to tax relief on pension contributions.

	2014 %	2013 %
Standard tax rate for period as percentage of profit	21	23
Effect of:		-
Tax relief on pension scheme contributions	(13)	(20)
Loss relief brought forward	(1)	-
Small companies' tax relief	(1)	(3)
	6	**0**

10 Loans and Advances to Credit Institutions

	2014 £000	2013 £000
Loans and advances to credit institutions mature from the date of the balance sheet as follows:		
- accrued interest	8	15
- repayable on demand	13,489	8,698
- maturing in more than three months but not more than one year	1,000	1,000
	14,497	**9,713**

Notes to the Accounts

For the Year Ended 31 December 2014

Continued...

11 Debt Securities

	2014 £000	2013 £000
Issued by other borrowers	7,026	8,055
Debt securities, all of which are unlisted, mature from the date of the balance sheet as follows:		
- accrued interest	22	39
- maturing in not more than one year	6,000	6,016
- maturing in more than one year	1,004	2,000
	7,026	**8,055**
Included in debt securities are: - unamortised premiums	4	33

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 £5.0m of debt securities (2013: £25.0m) and sold £1.0m (2013: £5.8m). £5.0m (2013: £37.8m) of debt securities matured in the year.

12 Loans and Advances to Customers

	2014 £000	2013 £000
Loans and advances to customers are repayable from the balance sheet date as follows:		
- maturing in not more than three months	2,262	2,529
- maturing in more than three months but not more than one year	6,352	5,599
- maturing in more than one year but not more than five years	35,635	33,994
- maturing in more than five years	178,234	163,943
	222,483	**206,065**
Less:		
provisions (see note 8)	(661)	(461)
	221,822	**205,604**

13 Tangible Fixed Assets

Cost or valuation	Freehold land and buildings £000	Equipment, fixtures, fittings and vehicles £000	Total £000
At 1 January 2014	629	911	1,540
Additions	-	70	70
Disposals	-	(31)	(31)
At 31 December 2014	**629**	**950**	**1,579**
Accumulated depreciation			
At 1 January 2014	337	719	1,056
Charge for the year	11	94	105
Eliminated on disposal	-	(31)	(31)
At 31 December 2014	**348**	**782**	**1,130**
Net book values			
At 31 December 2014	**281**	**168**	**449**
At 31 December 2013	**292**	**192**	**484**

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

	2014 £000	2013 £000
Cost or valuation of freehold land and buildings		
Valuation at 31 December 1983	500	500
Cost of freehold improvements	129	129
	629	**629**

The historical cost of the revalued assets is £337,000 (2013: £337,000). The accumulated historical cost depreciation on these re-valued assets is £160,000 (2013: £154,000). Included in the total net book value of freehold land and buildings is £125,000 (2013: £125,000) in respect of land on which no depreciation is provided.
Two thirds of the freehold land and buildings included in Tangible Fixed Assets are let to third parties, on commercial terms, on leases of less than five years' duration.

14 Other Assets

	2014 £000	2013 £000
Prepayments and accrued income – due within one year	147	147
	147	**147**

Notes to the Accounts

For the Year Ended 31 December 2014

Continued...

15 Shares

	2014 £000	2013 £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	1,021	1,144
- on demand	93,352	82,812
- in not more than three months	61,772	62,987
- repayable in more than three months but not more than one year	28,452	32,647
- repayable in more than one year but not more than five years	16,127	8,366
	200,724	**187,956**

16 Amounts Owed to Credit Institutions

	2014 £000	2013 £000
Amounts owed to credit institutions are repayable from the balance sheet date in the ordinary course of business as follows:		
- accrued interest	13	21
- repayable in not more than three months	4,000	8,000
- repayable in more than three months but not more than one year	5,999	4,489
	10,012	**12,510**

17 Amounts Owed to Other Customers

	2014 £000	2013 £000
Amounts owed to other customers are repayable from the balance sheet date in the ordinary course of business as follows:		
- accrued interest	16	1
- on demand	120	122
- repayable in not more than three months	12,471	7,505
- repayable in more than three months but not more than one year	2,919	-
	15,526	**7,628**

18 Other Liabilities

	2014 £000	2013 £000
Falling due within one year		
- Income tax	191	209
- Corporation tax	103	-
- Other creditors	159	6
	453	**215**

19 Accruals and Deferred Income

	2014 £000	2013 £000
Accruals all amounts fall due within one year		
Other accruals	429	739
Deferred income	45	57
	474	**796**

20 Other Provisions

	2014 £000	2013 £000
Other provisions comprise		
Provisions for contributions to the Financial Services Compensation Scheme (FSCS)	75	135
Other provisions	20	20
	95	**155**
The charge to income and expenditure is made up as follows:		
FSCS charge for year	89	134
	89	**134**
Provisions for contributions to FSCS		
Movement in year:		
At 1 January	135	146
Charge for year	89	134
Paid in year	(149)	(145)
At 31 December	**75**	**135**

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 and Bingley plc, Kaupthing Singer and Friedlander, Heritable Bank Plc, Landbanki ('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 has notified firms that a further liability exists in respect of the expected shortfall in the capital element of the loan following the realisation of the assets of the banks.

To recover the interest cost the FSCS charges a management expense levy to all UK deposit takers, including Teachers Building Society. During 2014 the Society paid £149,000 (for which £135,000 had been provided in the 2013 accounts) in respect of the levy for the 2013/2014 scheme year. This amount was based on the Society's deposit balances at 31 December 2012. At 31 December 2014 the Society provided £75,000 in respect of the amount due for 2014/15 (based on deposit balances at 31 December 2013) and which will be paid in 2015. This amount is based on the most recent estimates of the increase in contribution rate requested by HM Treasury and includes an estimate of the first of three payments the Society will be required to make towards the shortfall in the assets of the failed banks.

Notes to the Accounts

For the Year Ended 31 December 2014

Continued...

21 Pension Costs

Defined Contribution Scheme

The amount charged to the Income and Expenditure Account in respect of contributions for the stakeholder pension arrangements is the amount payable in the year. The total pension cost amounted to £68,000 (2013: £83,000).

Defined Benefit Scheme

The defined benefit scheme was closed to accrual of future service years for employees on 31 December 2002 and was replaced by the defined contribution scheme.

During 2013, at the Society's request, the trustees agreed to match members' liabilities by purchasing an appropriate deferred annuity policy, to provide members with greater financial security and to remove the continuing effect of the defined benefit scheme on the Society's financial position.

The Society made special contributions to the scheme in 2013 amounting to £5.2m. The scheme assets are held as an insurance policy in the name of the trustees.

During the year to 31 December 2014, the Society carried out the final stage of the process of a full buy-out, with Aviva issuing individual annuities to each pension scheme member, in the name of each member. At this point, the pension plans obligations transferred out in full to the insurer and the trustees wound up the pension plan.

The following disclosures are made purely in respect of the 2013 year:

The most recent full actuarial valuation was at 1 April 2011 and used the projected unit method. The valuation showed that the market value of the scheme's assets at that time was £7.8m and that the actuarial value of those assets represented 90% of the benefits that had accrued to members after allowing for expected future increases in earnings.

A valuation was carried out each year-end by an independent actuary in accordance with the requirements of FRS17, as at 31 December 2013 this showed the value of the scheme assets was £10.154m (2012: £9.4m) and that the actuarial value of these assets represented 100% (2012: 96%) of the benefits that had accrued to members.

	2014	2013
Key assumptions		
Rate of increase in salaries	-	0.0%
Discount rate	-	4.6%
Inflation rate RPI	-	3.7%
Inflation rate CPI	-	2.7%
Rate of increase in pensions in payment	-	5.0%
Expected return on assets	-	4.6%
Mortality assumptions appropriate to the membership of the scheme		
Base mortality table Mortality projection basis	PCMA00/PCFA00 CMI 2010	PCMA00/PCFA00 CMI 2010
Life expectancies at age 65		
Male currently aged 65	-	88.8
Female currently aged 65	-	89.9
Male currently aged 45	-	91.1
Female currently aged 45	-	91.5
Scheme Assets		
The scheme assets were mainly in the form of an insurance policy with Legal & General and were invested as follows:		
Annuity policies	-	100%

21 Pension Costs (Continued)

	2014 £000	2013 £000
The constituents of the scheme and the net pension asset or liability were:		
Market value of assets:		
Annuity policies	-	(10,154)
Total fair value of assets	-	(10,154)
Present value of defined benefit obligations	-	(10,154)
Shortfall in the scheme	-	-
Net pension liability	**-**	**-**
Analysis of changes in the fair value of scheme assets		
Opening fair value of scheme assets	-	9,352
Expected return	-	533
Employer's contribution	-	5,146
Actuarial loss	-	(4,786)
Benefits paid	-	(91)
Closing fair value of scheme assets	**-**	**10,154**
The value of assets has been taken as the value of units at bid price on 31 December 2013.		
Analysis of changes in the present value of scheme liabilities		
Opening scheme liabilities	-	9,743
Current service cost	-	9
Interest cost	-	427
Actuarial loss	-	66
Benefits paid	-	(91)
Closing scheme liabilities	**-**	**10,154**
Analysis of amount charged to operating profit		
- Current service cost	-	(9)
Analysis of amount charged to other finance charges		
- Expected return on pension scheme assets	-	533
- Interest on pension scheme liabilities	-	(427)
- Scheme expenses paid	-	(98)
	-	**8**

Actuarial gains and losses have been reported in the Statement of Total Recognised Gains and Losses.

Notes to the Accounts

For the Year Ended 31 December 2014

Continued...

21 Pension Costs (Continued)

History	2014 £000	2013 £000	2012 £000	2011 £000	2010 £000
Fair value of scheme assets	-	10,154	9,352	8,237	7,717
Present value of scheme liabilities	-	(10,154)	(9,743)	(8,664)	(8,023)
Deficit	-	-	(391)	(427)	(306)
Experience adjustments on scheme assets	-	(4,830)	424	(145)	394
Experience adjustments on scheme liabilities	-	(132)	-	336	(42)

22 Investments

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

Teachers Mortgage Services Limited and Teachers Mortgages Limited, each of which has issued share capital of

£100, TBS Mortgage Services Limited and TBS Financial Services Limited, each of which has issued share capital of £1. None of the above companies traded during the year or the preceding year.

23 Deferred Taxation

	2014 £000	2013 £000
Movement in deferred taxation balance in the period		
At 1 January	974	114
(Decrease)/Increase in asset recognised	(454)	860
At 31 December	**520**	**974**
(b) Analysis of deferred taxation balance		
Depreciation in excess of capital allowances	24	16
Short-term differences (less than 3 years)	93	101
Deferred tax on pension contributions	403	728
Tax losses carried forward	-	129
	520	**974**

24 Reserves

	General Reserve £000	Revaluation Reserve £000
At 1 January 2014	15,624	93
Total recognised gains and losses for the financial year	1,460	-
Transfer to general reserve - depreciation on revaluation surplus	3	(3)
At 31 December 2014	**17,087**	**90**

25 Financial Commitments

a) Capital Commitments

At 31 December 2014, there was no capital expenditure contracted for but not provided in the accounts (2013: £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.

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 Society is a retailer of financial instruments in the form of mortgage and savings products. The Society uses wholesale financial instruments to invest liquid asset balances, raise funds and manage the risks arising from its operations.

The Society has a formal structure for managing risk, including established risk limits, reporting lines, mandates and other control procedures.

The structure is reviewed regularly by the Society'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 Society in accordance with Section 9A of the Building Society 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 Society'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 Society 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. All liquid assets are unencumbered.

Derivatives

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

During the year ended 31 December 2014, the Society entered into interest rate swaps in connection with fixed rate mortgage and savings 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 nominal value of contracts 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 Prudential Regulation 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 Society's maximum exposure should all counterparties default.

The net cost of hedging is deducted from 'interest receivable and similar income' shown in the Income and Expenditure Account on page 16.

Interest rate contracts:	Notional principal amount £100	Risk weighted amount £100	Replacement cost £100
At 31 December 2014			
Interest rate swaps	60,600	124	8
At 31 December 2013			
Interest rate swaps	59,950	379	194

Notes to the Accounts

For the Year Ended 31 December 2014

Continued...

Fair Values of Financial Instruments

Set out below is a comparison of book values and fair values of some of the Society'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.

	2014 £000	2013 £000
Debt securities		
Book value	7,026	8,055
Fair value	7,028	8,021
Interest rate contracts		
Book value	-	-
Fair value	(346)	(74)

The fair value of interest rate contracts represents unrealised losses at the balance sheet date. As described in note 1(i), 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 Society anticipates no gains or losses will be realised on sale or termination in the forthcoming year.

Interest Rate Risk

The Society is exposed to movements in interests 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 Society was within its exposure limits and that assets and liabilities were adequately matched during 2014. The Society's interest rate exposure was:

At 31 December 2014

	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	15,489	3,000	2,000	1,004	30	**21,523**
Loans and advances to customers	155,761	2,600	11,342	52,119	-	**221,822**
Other assets including tangible fixed assets	-	-	-	-	1,116	**1,116**
Total assets	**171,250**	**5,600**	**13,342**	**53,123**	**1,146**	**244,461**
Liabilities						
Shares	152,207	12,333	19,038	16,127	1,021	**200,726**
Amounts owed to credit institutions and other customers	19,010	1,500	4,999	-	29	**25,538**
Other liabilities	-	-	-	-	1,020	**1,020**
Capital	-	-	-	-	17,177	**17,177**
Total Liabilities	**171,217**	**13,833**	**24,037**	**16,127**	**19,247**	**244,461**
Off balance sheet items	49,850	(500)	(9,300)	(40,050)	-	-
Interest rate gap	**49,883**	**(8,733)**	**(19,995)**	**(3,054)**	**(18,101)**	**-**

At 31 December 2013

	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	11,699	3,015	3,001		53	**17,768**
Loans and advances to customers	136,527	3,659	13,208	52,210	-	**205,604**
Other assets including tangible fixed assets	-	-	-	-	1,605	**1,605**
Total assets	**148,226**	**6,674**	**16,209**	**52,210**	**1,658**	**224,977**
Liabilities						
Shares	145,799	12,365	20,282	8,366	1,144	**187,956**
Amounts owed to credit institutions and other customers	15,627	500	-	3,988	23	**20,138**
Other liabilities	-	-	-	-	1,166	**1,166**
Capital	-	-	-	-	15,717	**15,717**
Total Liabilities	**161,426**	**12,865**	**20,282**	**12,354**	**18,050**	**224,977**
Off balance sheet items	51,350	(4,000)	(10,250)	(37,100)	-	-
Interest rate gap	**38,150**	**(10,191)**	**(14,323)**	**2,756**	**(16,392)**	**-**

Annual Business Statement

For the Year Ended 31 December 2014

1 Statutory Percentages

	2014	Statutory Limit
Lending limit	1.80%	25.00%
Funding limit	11.29%	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

	2014	2013
As a percentage of shares and borrowings		
Gross capital	7.59%	7.55%
Free capital	7.60%	7.53%
Liquid assets	9.51%	8.54%
As a percentage of mean total assets		
Profit after tax	0.76%	0.42%
Management expenses	1.21%	1.22%

The above percentages have been prepared from the Society's 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.

3 Information Relating to Directors and Other Officers

a) At 31 December 2014 the Directors were:

Name	Date of Birth	Occupation	Date of Appointment	Other Directorships
J J Bawa	13/07/1965	Chief Executive	21/05/2002	TBS Financial Services Ltd
A Evans	20/11/1963	Finance & Operations Director	15/07/2013	None
A P Lee	14/08/1963	Director	29/07/2014	Solihull Masonic Temple Ltd
A Pike	15/09/1963	Director	01/11/2012	B H Live Royal Bournemouth & Christchurch Hospital NHS Foundation Trust Simply Health Ltd
M J Reed	04/05/1959	Teacher	25/04/2006	None
R J Spragg	18/11/1951	Director	01/01/2009	None

Documents may be served on Directors c/o Deloitte LLP, Chartered Accountants, Abbots House, Abbey Street, Reading, West Berkshire, RG1 3BD

At 31 December 2014, none of the Directors had service contracts except the Executive Directors, Mr Bawa and Mrs Evans. Their contracts are dated 7 May 2002 and 15 July 2013 respectively. Mr Bawa's contract may be terminated by the Society with one year's notice, and Mrs Evans with six months' notice, or by either of the directors providing six months' notice to the Society.

b) At 31 December 2014 the other officers were:

Name	Occupation	Directorships
P E Jarman	Solicitor and Secretary	None
I M Pullen	Internal Audit Manager	None

Teachers Building Society

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