2015

Annual Report and Accounts
For the year ended 31 December 2015

Teachers Building Society

Teachers Building Society

Annual Report and Accounts

For the Year Ended 31 December 2015

Contents

Directors, Management & Professional Advisors

Directors

R J Spragg, Chairman
J J Bawa, Chief Executive
A L Pike, Non-Executive Director
I Grayson, Non-Executive Director
A P Lee, Non-Executive Director
D Fensome, Finance Director
P E Jarman, Legal Director and Secretary

Auditor

Deloitte LLP, Reading

Internal Auditor

RSM Risk Assurance Services LLP, Leeds

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

I am pleased to report that the Society maintained a healthy level of profitability in 2015 which enabled us to strengthen our capital resources at a time of fierce competition in the mortgage lending market. At the same time, the Society has experienced an improvement in arrears which are now at a historic low, reflecting our individual underwriting of mortgages and the current low interest rate environment.

Economic Background and Performance

2015 saw an improvement in consumer confidence and some growth in the UK economy coupled with falling unemployment and low inflation. Against this background, we have experienced intensified competition in the residential mortgage market over the last year as larger lending institutions have become much more aggressive on pricing in a bid to gain market share. Increased competition resulted in a reduction in new mortgage lending rates despite no reduction in the Bank of England base rate. A reduction in mortgage rates has as a consequence resulted in a lowering of rates paid to savers.

Following a period of strong growth in 2013 and 2014 we have sought to maintain the strength and stability of the Society in the face of this intense competition. Careful financial management has allowed us to increase capital strength and improve our liquidity position, with gross capital increasing to £19.2m (2014: £17.6m) and on-balance sheet liquid assets increasing to £43.6m (2014: £21.5m). Despite the competitive mortgage market, we have continued our policy of assessing each applicant on an individual basis for credit risk and affordability to maintain credit quality with the aim of ensuring our members do not become overstretched. We have also invested in our business to develop our people, technology and processes to improve service and deliver sustainable value for our members. Further investment in these areas will be made in 2016.

Regulatory Developments

These accounts for 2015 have been prepared on the basis of Financial Reporting Standard (FRS) 102. This new requirement is based on the International Accounting Standards Board's International Financial Reporting Standard (IFRS) for small and medium-sized entities. As a result of this change in accounting for the year end 2015, the 2014 financial statements have been restated on a comparative basis and full details are disclosed in these accounts.

Board Composition and Corporate Governance

We strengthened the Board with the appointment of two new executive directors, Patrick Jarman as Legal Director in May 2015 and Dean Fensome as Finance Director in September 2015. Patrick has been with the Society since 2011 and Dean joined us last year bringing with him a wealth of financial experience. Martin Reed retired from the Board at the last AGM and I extend my thanks to him for his invaluable contribution over the years in his role as non-executive director. I am also delighted to welcome to the Board Ian Grayson who joined us as a non-executive director in July 2015 as a replacement for Martin. Ian brings an extensive insight into the teaching profession with over 25 years experience as a secondary school teacher in Newcastle upon Tyne as well as being an active member of the National Union of Teachers (NUT).

Looking Forward

This year we do not anticipate maintaining the level of profit seen in recent years as competition continues to keep interest rates down for both mortgage borrowers and savers. There remains significant uncertainty over the future economic outlook including the impending referendum on Britain's membership of the EU. The Society's strong financial position provides the base to support our plan to continue to invest in the business to deliver long-term sustainable growth and to realise the economies of scale necessary to improve cost efficiency.

As we celebrate our 50th anniversary this year, we will continue to give value to all our members by offering excellent service and providing attractive savings and mortgage products to support home ownership in the teaching profession and for our local customers.

Finally, on behalf of the Board, I would like to thank all our staff for their hard work and dedication and to thank our members for their continued support.

Roy Spragg
Chairman
14 March 2016

Chief Executive's Report

Overview

As noted in the Chairman's statement, this year's results have been prepared under the new accounting standard FRS102. I am pleased to report that the Society has maintained a good level of profitability in 2015 with a profit after tax of £1.6m (2014: £1.4m) which was achieved in the face of intense competition which has reduced mortgage pricing and savings rates. This has resulted in an improvement in the Society's core equity tier 1 capital ratio to 20.2% (2014: 17.4%) and ensures a strong future for the Society. We also strengthened our liquidity position with a total liquid asset ratio (including off-balance sheet FLS) of 24.6% (2014: 20.4%).

As part of our ongoing investment programme we re-launched our website under our new brand proposition of "Surprisingly Different". The new site places our members and prospective members at the heart of the website 'journey' and is aimed at making it easier for customers to find the information they need. We aim to make further enhancement to our online capability in the future to improve our digital service to members.

Mortgages (lending to customers)

It has been more competitive in 2015 than in the last few years as large lending institutions have been aggressively pricing for business. The Society continues to offer mortgages through both the advised direct and the broker-introduced routes. In 2015, the Society experienced a reduction in mortgage volumes in the first half of the year, in the run-up to the general election, before sales began to recover towards the end of 2015. Overall, loans and advances to customers reduced by 5.4% to £210m in 2015 (2014: £222m).

A key focus has been the development of specialist mortgage products aimed at helping teachers to buy a home or remortgage from the start of their careers into retirement. This is a long-term strategy to support teachers 'underserved' by the wider mortgage market because such teachers will benefit more from the individual, tailored products and service we provide. Our personal service and approach of individually assessing all mortgage applications for credit quality and affordability has continued to ensure that our mortgage arrears remain low for the building society sector and the industry as a whole.

Savings and Funding

Despite the low interest rate environment I am pleased to report that shares and deposits increased to £223m (2014: £216m) in 2015 as we continued to offer attractive rates to our members. This contributed to an improvement in our liquidity position. During this period we also repaid £12m of funds from the Bank of England's Funding for Lending Scheme ('FLS') as part of a phased repayment plan ahead of the FLS coming to an end in 2018.

We are committed to providing the best rates we possibly can to our members and are proud to confirm that we had at least one savings account in the Moneyfacts 'best buy' chart throughout 2015, and this helped towards an increase in shares and deposits made by nearly 3%.

Serving our Community

We have continued to give something back to the local community by supporting local schools, providing a career and GCSE options guidance programme and mentoring students at local schools to help them understand their strengths and values and make the most of their education.

In 2015, under the "My Life" Programme, many of our staff volunteered as mentors, working alongside staff from Destination Education and AFCB Community Trust. The programme supports local schools and teachers in a practical way, by providing students with the opportunity to explore their future life and employment choices and inspire them to fulfil their ambitions. I am proud that our staff made a big difference to nearly 300 students who participated in the scheme and in recognition the Society won the East Dorset Business Supporting Community Award in January 2016.

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

Future Development

The Society is profitable and well capitalised with a strong liquidity position which provides a firm foundation for growth and investment in the business. We plan to continue to develop the business by upgrading and updating our systems and processes in 2016. Our investment programme is a key element in our strategy for the future to deliver long-term sustainable growth and realise greater economies of scale as we seek to improve efficiency and deliver value for our members.

Under the Society's banner of "Surprisingly Different" we want to deliver a truly exceptional service to our members. We aim to build on our reputation for providing a distinctly personal and friendly service communicating with our members openly and honestly, based on our core values of respect, integrity, fairness and teamwork.

Finally, I would like to thank the Teachers team for delivering another successful year for the Society and its members.

James Bawa
Chief Executive
14 March 2016

Strategic Report

The Directors have pleasure in presenting the Strategic Report for the year ended 31 December 2015.

Business Objectives

The Society's core purpose is to provide residential mortgages that meet the needs of teachers and other education professionals in England and Wales. To achieve this, the Society provides investing members with secure and competitive savings products nationally. To support the core purpose, the Society also engages in other mortgage lending to Wessex residents.

The Society operates through a centralised operating model based in Wimborne which provides an efficient, convenient and personal service to customers via the internet, telephone and post. Mortgages are originated through both the advised direct and the intermediary-introduced routes.

The Society intends to remain an independent, mutual building society generating sustainable value for our members.

Review of the business

The Society's business and future plans are reviewed by the Chairman and Chief Executive on pages 5 and 6.

Key performance indictators

The Society monitors its performance and development by reference to a range of Key Performance Indicators ('KPIs'). For 2015, the results for the primary KPIs used by the Board were:

Key Performance Indicators	2015	2014
Profit after tax for the year (£000s)	1,585	1,449
Net interest margin as a % of mean total assets	1.85%	2.13%
% change in mortgage lending	-5.4%	+8.0%
Core equity tier 1 capital ratio	20.2%	17.4%
Operating costs a % of operating income	61.8%	56.4%
Liquid assets (including FLS) as a % of shares and borrowings	24.6%	20.4%
Mortgages more than 3 months in arrears as % of total mortgages	0.23%	0.44%

Note: 2014 KPI figures have been restated for FRS102 transitional changes and mean total assets have been calculated by adjusting 2013 total assets on to a comparable basis to the restated 2014 position.

■ Profit after Tax

The Society aims to manage the level of profit to ensure that capital strength is preserved to protect the Society against the risk of losses and to support balance sheet growth.

Profit after tax for the year of £1.6m (2014: £1.4m) has been transferred to the Society's general reserve.

■ Net Interest Margin

This is the difference between the average rate the Society receives on its lending and the average rate it pays on its shares and deposits. This needs to be sufficient to generate enough income to cover the operating costs of the Society and to make an appropriate profit to support capital strength and expected business growth.

The net interest margin reduced from 2.13% to 1.85% in 2015. Market pressure drove a reduction in the average rate charged on new mortgage lending which was not fully offset by a decrease in the average rate paid on shares and deposits as we did not pass-on the full effect to investing members.

Mortgage Lending

The change in mortgage lending is significantly affected by economic and market conditions and the level of repayments of existing loans. The Society's long-term goal is to grow steadily by providing attractive residential mortgage products, primarily to the teaching community. While the Society has been successful in retaining 66% of loans coming to the end of deal periods in 2015, new lending volumes were lower than in 2014. Overall, total mortgage lending decreased by 5.4% from £222m to £210m.

Capital Adequacy Ratio

This is one of the primary metrics used by regulators to measure the capital strength of a bank or a building society. Core tier 1 equity ('CET1') capital is composed of the highest quality capital of an institution and in the case of the Society this represents the majority of its available capital resources. CET1 capital is expressed as a percentage of the regulatory risk weighted assets ('RWAs') of the Society. RWAs are calculated by applying a standardised regulatory risk factor or weighting to its assets for credit risks as well as including an add-on for operational risk.

The CET1 ratio in 2015 was 20.2% (2014: 17.4%) which continues to provide an excellent level of security to the Society's members.

Cost Income Ratio

This ratio is a broad indicator of the efficiency of the Society, by expressing operating expenditure as a percentage of net operating income, it shows how much of the income generated is consumed by the cost base. For 2015 this was 61.8% (2014: 56.4%) which reflects a reduction in net operating income from £5.1m to £5.0m and an increase in operating expenses from £2.9m to £3.1m driven by an increase in staff and higher investment expenditure.

Liquidity Ratio

This ratio measures the level of liquidity resources that the Society has available to draw upon and is expressed as a percentage relative to total shares deposits and loans ('SDL'). The Society holds liquidity to ensure it has sufficient access to funds to meet its obligations as they fall due under normal operating conditions as well as during periods of stress.

The Society has increased the level of liquidity held on the balance sheet resulting in an increase in the liquidity ratio from 20.4% to 24.6% over the year. These percentages include £19m of off-balance sheet FLS funding that can be drawn upon and which form part of the Society's available liquidity resources. A total of £24m (2014: £35m) has been drawn from the FLS, but only £5m (2014: £4m) of this is held on the balance sheet.

Mortgage Arrears

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 percentage of mortgage arrears reduced to 0.23% (2014: 0.44%) during the course of 2015. Total arrears outstanding fell from £64k at 31 December 2014 to £21k at 31 December 2015. At the year-end, 2 accounts (2014: 1) were 12 months or more in arrears. The mortgage balance outstanding on these accounts totalled £122k (2014: £8k) and the arrears totalled £9k (2014: £3k). The number of forbearance cases was reduced from 31 in 2014 to 10 at the end of 2015.

Although actual arrears experience has been good, the level of provisioning, as shown in note 9 to the accounts, reflects the conservative 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(k) to the Accounts.

Strategic Report

Continued...

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 29 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 and Funding 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 Treasury Policy.

The 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.

■ Liquidity and Funding Risk

Liquidity risk is the risk of being unable to meet demands and commitments to provide funds to customers and other third parties and maintain public and member confidence. Funding risk is the risk that the Society is unable to realise assets or otherwise raise funds on economic terms and/or within reasonable timescales. The primary regulatory measure of liquidity adequacy is the Liquidity Coverage Ratio (LCR) which measures the amount of high-quality liquid assets relative to estimated net stressed cash outflows within a 30 calendar day period. The Society maintains an LCR significantly in excess of the minimum regulatory requirement.

The Society's Treasury and Liquidity and Funding Policies establish 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 as part of the Individual Liquidity Adequacy Assessment (ILAA) process. Details of liquidity risk exposure are shown in Note 29(e) to the accounts.

■ 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 Treasury Policy. The use of interest rate swaps may itself create basis risk which, for the 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. Details of the Society's interest rate risk exposure are given in note 29(f) to the accounts.

■ Solvency Risk

The Society holds capital to protect its depositors and to provide a cushion for unexpected events. The Society manages its capital to ensure that it meets regulatory requirements at all times. The level of capital adequacy is determined based on the Society's risk appetite in the context of the material risks to which it is exposed and this is an integral part of the Society's corporate planning process. Closely linked to the corporate plan is the Internal Capital Adequacy Assessment Process ('ICAAP'), which is a formal process which considers the Society's capital requirement in normal and stressed conditions.

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 www.teachersbs.co.uk, or can be obtained by writing to the Secretary at our Head Office.

■ 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 such as cyber based attacks or the failure of a key supplier. 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.

The Conduct and Operational Risk Committee 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.

■ Strategic Risk

Strategic risk is the risk that the Society's business model and corporate plan fail to adapt, or respond quickly enough, to external developments. Strategic risks could include the pace of technological development, new market entrants, major economic events or significant regulatory changes. The Board and executive management are responsible for considering major, longer term risks that could become a material issue for the Society.

On behalf of the Board

Roy Spragg
Chairman
14 March 2016

Directors' Report

The Directors have pleasure in presenting the Annual Report and Accounts for the year ended 31 December 2015. 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 Review

A review of the Society's business, its objectives, activities and future plans is contained in the accompanying Chairman's Statement, Chief Executive's Report and Strategic Report.

The Strategic Report also contains the Directors' report on the Society's principal risks and uncertainties, key performance indicators and other important information relating to its business.

Creditors' Payment Policy

The Society's policy is to settle the terms of payment when agreeing the terms of each transaction and to ensure that those suppliers are made aware of the terms of payment. It is also the Society's policy to pay suppliers within the agreed terms providing the supplier performs according to the terms of the contract. In 2015, the average number of days which the Society took to settle amounts owing to trade creditors was 13 (2014: 14).

Donations

The Society made donations to two charities in the year: Life Education Wessex (£440) and Macmillan Cancer Support (£630). It is the Society's policy not to make political donations, and none were made.

Events since the year end

The Directors do not consider that any event since the year end has had a material effect on the position of the Society.

Country-by-Country Reporting

Under Article 89 of the Capital Requirements Directive (CRD), the Society is required to disclose the following information:

Location of operations	United Kingdom
Nature of activities	Deposit taking, mortgage lending
Turnover*	£5,002k
Average number of employees	39
Profit before tax	£1,814k
Cash tax paid in 2015	£136k
Public subsidies	£nil

*Note: Turnover is stated as Net Operating Income taken from the Society's Income statement on page 30.

International Swaps and Derivatives Association (ISDA) agreements

The Society uses standardised ISDA agreements to enter into bilateral interest rate swap contracts with other financial institutions in order to hedge interest rate risk. The ISDA contracts grant legal rights of set off for derivative transactions with the same counterparty. This can reduce the potential credit risk where the derivative contracts may be for offsetting values.

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.

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.

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 accompanying Chairman's Statement, the Chief Executive's Report, and the Strategic Report. 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 Strategic Report and in note 29 to the Accounts. The Directors have considered the prospects of the Society in the light of the current position and risks to the business. 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 to continue in business for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Annual Report and Accounts.

Directors

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

Non-Executive Directors

R J Spragg	Chairman
I Grayson (from 08.07.15)	
A L Pike	Senior independent director
M J Reed (until 30.06.15)	
A P Lee	

Executive Directors

J J Bawa	Chief Executive
A Evans (until 20.02.15)	
D Fensome (from 24.09.15)	Finance Director
P Jarman (from 11.05.15)	Legal Director

At the next Annual General Meeting in April 2016, James Bawa will retire as a Director by rotation and, being eligible, offers himself for re-election. Patrick Jarman, Ian Grayson, and Dean Fensome having been appointed in May, July and September 2015 respectively, offer themselves 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 29, 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.

Directors' Report

Continued...

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.

On behalf of the Board

Roy Spragg
Chairman
14 March 2016

Report of the Directors on Remuneration

Unaudited information

Policy on Directors' Reumuneration

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 only Non-executive Directors and is chaired by Ian Grayson.

Remuneration is assessed by reference to roles 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, death-in-service benefits and, for new appointees, relocation allowance.

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. Objectives are set over a three year period and include targets for interest margin, customer satisfaction, employee engagement and mortgage lending. In 2015 these objectives were met with the exception of the mortgage lending target and, consequently, reduced bonus payments reflecting the partial achievement of objectives will be made in April 2016.

The UK Corporate Governance Code 2014 includes guidance that schemes should include provisions that would enable the employer to recover sums paid or withhold the payment of any sum. Whilst the Remuneration Committee has the absolute discretion under the scheme rules to withhold any payment under it where it feels it is appropriate in all the circumstances to do so, the rules do not include the ability to recover sums already paid. Under the Remuneration Code issued by the Prudential Regulation Authority and the Financial Conduct Authority and the related Financial Conduct Authority General Guidance on Proportionality, the Society's regulators have stated that it will normally be appropriate for firms of the size of the Society not to follow such guidance. The Board has adopted this position.

Executive Directors' Contractual Terms

The contract for James Bawa has a notice period of 12 months to be given by the Society and 6 months by the employee. Angela Evans had and Dean Fensome has a contract with a notice period of 6 months for both the Society and employee. Patrick Jarman has a contract with a notice period of 4 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)*

	2015	2014
Fees paid to Non-Executive Directors		
R J Spragg	30	25
A P Lee	22	14
M J Reed (until 30.06.15)	9	18
A L Pike	19	18
I Grayson (from 08.07.15)	9	-
K F Richardson (until 29.04.14)	-	9
Total	**89**	**84**
Executive Directors' Remuneration		
J J Bawa		
Salary	134	134
Car allowance and taxable benefits	13	12
Medium term bonus	28	28
Pension contributions	14	14
Total	**189**	**188**
A Evans (until 20.02.15)		
Salary	62	100
Medium term bonus	-	-
Pension contributions	6	10
Total	**68**	**110**
D Fensome (from 24.09.15)		
Salary	36	-
Relocation allowance	2	-
Medium term bonus	4	-
Pension contributions	-	-
Total	**42**	**-**
P E Jarman (from 11.05.15)		
Salary	42	-
Medium term bonus	14	-
Pension contributions	-	-
Total	**56**	**-**
Total Directors' remuneration	**444**	**382**

Ian Grayson
Director
14 March 2016

Report on Corporate Governance

Corporate Governance Code

Although the UK Corporate Governance Code (the Code), issued by the Financial Reporting Council and last updated in 2014, does not directly apply to mutual organisations, the Society has regard to its principles. The Code has been written with publicly quoted companies in mind, and some of its provisions are not necessarily consistent with the structure of building societies and the legal framework within which they operate. The Building Societies Association (BSA) has published 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 in the accompanying Chairman's Statement, Chief Executive's Report, Directors' Report and Strategic Report provide information necessary for members to assess the Society's performance, business model, and strategy.

The Board and Committees

Roy Spragg was Chairman throughout the year and Martin Reed was Senior Independent Director until his retirement from the Board on 30 June 2015, when Alex Pike succeeded him in that role.

The Code specifies that the Board should identify in the annual report each Non-executive Director it considers to be independent and the Board has determined that the following should be so designated: Andrew Lee, Alex Pike, and Ian Grayson. The Board considers that, prior to his retirement, Martin Reed was independent notwithstanding that he had been a Director for more than nine years from his first election. The Code specifies that where a Director has served more than nine years the Board should state its reason for believing the Director continues to be independent. Martin Reed exceeded the nine year period by only two months and the Board, therefore, do not believe that this was a material issue in assessing his independence. 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" under the rules of the Prudential Regulation Authority and the Financial Conduct Authority (the regulators). This means that they were approved for appointment by the regulators (or their predecessor, the Financial Services Authority) prior to joining the Board, that they must continue to meet criteria intended to ensure that they are "fit and proper" for the role and that they must comply with the regulators' rules and Codes of Conduct. 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 Chairman's own annual performance is reviewed by the Senior Independent Director, after having solicited feedback from the other Directors. The Board reviews its own performance conducting a 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, the Finance Director and the Legal Director. The Board meets regularly throughout the year and its principal responsibilities consist of determining the business strategy of the Society, reviewing the financial results and financial position of the Society, and authorising 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 oversees 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 five occasions in 2015, was chaired by Andrew Lee and the other members throughout the year were Roy Spragg and Alex Pike. Martin Reed was a member until 30 June 2015 and Ian Grayson was a member from 8 July 2015.

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 2016 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 Society plans to invite tenders for the appointment in the latter part of 2016 for the 2017 year end. 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 lending loss provisions. 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 2, with further details provided in the Notes to the Accounts, the Chairman's Statement, the Chief Executive's Report, the Strategic 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 for 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 the senior managers of the Society, including the Executive Directors, 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 Andrew Lee) were members of the Committee, which was chaired by Martin Reed until 30 June 2015 and thereafter by Alex Pike. After the 2015 year end, Ian Grayson became chairman of the committee.

Nomination Committee

The Committee meets at least annually and otherwise as necessary to consider new appointments to the Board. At its annual meeting, 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 appointments 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 being a member until his retirement from the Board in June.

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 area of operation.

This Committee, during 2015, was chaired by the Chief Executive and included the Finance Director, the Legal Director and, from February, the Service Delivery Executive Manager. Each month, the members of the Executive Committee also meet as the following committees, all of which are chaired by the Chief Executive:

Executive Assets and Liabilities Committee

This Committee determines treasury and balance sheet risk management strategies, capital and funding requirements and proposes changes to the content of the Society's financial risk management, solvency, funding and liquidity polices. It is also responsible for setting the Society's interest rates.

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.

Credit Committee

The Committee monitors and reviews credit risks relating to the Society's lending to mortgage customers and treasury counterparties. 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.

Product Governance Committee

The Committee reviews and approves proposals to change the pricing or other features of the Society's existing products, and reviews and approves any new products prior to their launch.

Risk Management

The Board regularly carries out robust assessments of the principal risks facing the Society, including those that would threaten its business model, future performance, solvency or liquidity. Relevant risks are described in the Strategic Report, together with descriptions of how they are managed or mitigated.

Re-election of 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, was due to retire immediately after the 2015 AGM but remained on the Board for an additional two months. This was because the recruitment process to find his successor had not yet been completed. As it was not a material extension of his time as a Director, the Board did not feel it would have been appropriate for him to be subject to re-election at the 2015 AGM, waiving its normal policy in this instance. This decision was reported in last year's annual report.

Board Attendance at Meetings

Attendance of Directors at the Board and its committees during 2015 is shown in the accompanying table, with the total number of meetings each Director was eligible to attend shown in brackets.

Director	Board	Audit & Risk Committee	Nomination Committee	Remuneration Committee
J J Bawa	9 (9)		1 (1)	
A Evans	1 (1)			
D Fensome	3 (3)			
I Grayson	4 (4)	2 (2)		1 (1)
P Jarman	5 (6)			
A P Lee	9 (9)	5 (5)		
A L Pike	8 (9)	4 (5)	1 (1)	3 (3)
M J Reed	5 (5)	3 (3)		2 (2)
R J Spragg	9 (9)	5 (5)	1 (1)	3 (3)

On behalf of the Board

Roy Spragg
Chairman
14 March 2016

Independent Auditor's report to the members of Teachers Building Society

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 including FRS 102 "The Financial Reporting Standard applicable in the UK and Repubilc of Ireland", of the state of the Society's affairs as at 31 December 2015 and of the Society's income and expenditure for the year then ended;
- have been prepared in accordance with the requirements of the Building Societies Act 1968.

The financial statements comprise the Income Statement, the Statement of Changes in Members' Interests, the Statement of Financial Position, the Statement of Cash Flows and the related notes 1 to 30. 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), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

Going concern

We have reviewed the directors' statement regarding the appropriateness of the going concern basis of accounting on page 16 of the financial statements.

We have nothing material to add or draw attention to in relation to:

- the directors' statement to the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the Society's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- the director's explanation as to how they have assessed the prospects of the Society, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Society will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We agreed with the directors' adoption of the going concern basis of accounting and we did not identify any such material uncertainties. 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.

Independence

We are required to comply with the Financial Reporting Council's Ethical Standards for Auditors and we confirm that we are independent of the Society and we have fulfilled our other ethical responsibilities in accordance with those standards. We also confirm we have not provided any of the prohibited non-audit services referred to in those standards.

Our assessment of risk 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.

Last year our report included two other significant risks which are not included in our report this year: Financial Services Compensation Scheme Levy, and Funding for Lending Scheme. Given the methodology of both calculations has not changed in the year, and no concerns were expected in our testing, these have not been included as significant risks in the current year.

The description of risks above should be read in conjunction with the significant issues considered by the Audit Committee discussed on page 12.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these 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 Society to invest in activities for its members. For public interest entities, profit before tax from continuing operations is considered an appropriate benchmark of the financial statements because that is typically what users of the financial statements primarily focus on. We have therefore selected profit before tax as the benchmark for determining materiality. This resulted in materiality for the Society to be £91,900, which is 5% of pre-tax profit.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £1,800 (2014: £3,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

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.

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

In our opinion the information given on page 13 for the financial year ended 31 December 2015 has been properly prepared, in all material respects, in accordance with the Capital Requirements (Country-by-Country Reporting) Regulations 2013.

Risk	How the scope of our audit responded to the risk
Loan Loss Provisions The Society holds £514,000 of impairment provisions at year-end (restated 2014: £610,000) against total loans and advances to customers of £210 million (2014: £222 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, discounted cashflow 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 10. Management's associated accounting policies are detailed on in note 1 and 2.	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, recalculating the discounted cashflow rates, undertaking sensitivity analysis and recalculating the specific and collective provision figures. 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. We also performed operating effectiveness testing over manual lending and provisioning controls.
Revenue Recognition Total mortgage interest income is £8 million (2014: £8 million). We have identified the key risk as being the accurate calculation and application of mortgage fee income under the new Financial Reporting Standard 102 ("FRS 102"), in particular that the correct fee has been applied on new mortgages completed in the year. Income recognition using the effective interest rate ("EIR") method requires the exercise of judgement in the assessment of future cash flows and expected product lives. Management's associated accounting policies are detailed in note 2, with reconciliation of interest receivable in note 5.	We developed an expectation of mortgage interest income, using substantive analytical techniques. We recalculated the expected loan product lives, and carried out tests of detail on the underlying loan book and interest rate data used in these calculations, including the key inputs of the cash inflows and outflows associated with the model. This included verifying fee payments to supporting documentation. We assessed the reasonableness of the behavioural life used in the EIR assessment in recognising the initial product life as the behavioural life of the product. We involved our IT specialists to test the general IT controls over the data generated from the mortgage and fee income system.
Valuation of Derivatives The Society uses hedge accounting to manage interest rate risk arising on fixed rate mortgage and savings products. At year end the fair value of derivatives (interest rate swaps) was £59,000 (2014: £13,000) held within assets and £220,000 held in liabilities (2014: £352,000). With the application of FRS 102 derivative financial instruments are required to be disclosed at fair value. There is a risk that appropriate consideration and calculation methodologies are not applied resulting in incorrect valuations. Hedge accounting is a complex area and strict criteria relating to the eligibility of hedged items, documentation and testing of effectiveness must be met before hedge accounting may be applied. This is the Society's first year of disclosing derivatives on balance sheet and applying hedge accounting with the introduction of FRS 102. Management's associated accounting policies are detailed in note 2 and a reconciliation of financial instruments provided on note 29.	We challenged the valuations provided by management by independently valuing a sample of derivative fair values produced by the Society's treasury software, ALMIS, using the assistance of our financial instrument specialists and independent soft ware tool. We assessed the hedge construction by assessing the Society's hedge effectiveness testing methodologies and calculations, and tested the accurate measurement of resulting hedge effectiveness. We also reviewed the appropriateness of the application of hedge accounting, in line with the application criteria.

Independent Auditor's report to the members of Teachers Building Society

Continued...

Matters on which we are required to report by exception

Adequacy of explanations received and account 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 the Society; or
- the Society's financial statements are not in agreement with the account records; or
- we have not received all the finromation and explanations and access to documents we require for 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 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). 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 or 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 (ACA) (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Reading, United Kingdom

Income Statement of the Society

For the Year Ended 31 December 2015

	Notes	2015 £000	2014 Restated £000
Interest receivable and similar income	5	7,855	8,349
Interest payable and similar charges	6	(3,219)	(3,347)
Net interest income		**4,636**	**5,002**
Fees and commissions receivable		294	437
Fees and commissions payable		(211)	(390)
Net fee and commission income		**83**	**47**
Other operating income	1(j)	92	98
Other fair value gains/(losses)	7	191	(50)
Net operating income		**5,002**	**5,097**
Administrative expenses	8	(2,994)	(2,745)
Depreciation and amortisation	16-17	(88)	(97)
Other operating charges	9	(11)	(34)
Operating expenses		**(3,093)**	**(2,876)**
Impairment provision for losses on loans and advances	10	5	(133)
Provision for other liabilities and charges	24	(100)	(89)
Operating profit		**1,814**	**1,999**
Taxation expense	11	(229)	(550)
Total profit for the year		**1,585**	**1,449**

All results arise from continuing operations.
The Society had no other comprehensive income.

Statement of Financial Position of the Society

At 31 December 2015

Assets	Note	2015 £000	2014 Restated £000
Liquid assets			
Cash in hand and balances with the Bank of England		23,459	200
Loans and advances to credit institutions	12	11,125	14,297
Debt securities	13	9,038	7,028
		43,622	**21,525**
Loans and advances to customers			
Loans fully secured on residential property		207,179	218,583
Other loans fully secured on land		2,849	3,351
	14	**210,028**	**221,934**
Derivative financial instruments	15	59	13
Intangible fixed assets	16	74	51
Property, plant and equipment	17	185	201
Investment property	18	1,005	914
Deferred tax assets	27	261	430
Other assets	19	25	-
Prepayments and accrued income		134	147
Total assets		**255,393**	**245,215**

Liabilities	Note	2015 £000	2014 £000
Shares	20	209,594	200,728
Deposits and debt securities:			
Amounts owed to credit institutions	21	12,516	10,012
Amounts owed to other customers	22	13,010	15,526
		25,526	**25,538**
Derivative financial instruments		220	352
Current tax liabilities		28	103
Provisions for liabilities and charges	25	64	95
Accruals and deferred income	24	535	474
Other liabilities	23	266	350
Total liabilities		236,233	227,640
Total equity attributable to members		19,160	17,575
Total equity and liabilities		**255,393**	**245,215**

These accounts were approved by the Board of Directors on 14 March 2016.

Roy Spragg	James Bawa	Dean Fensome
Chairman	Chief Executive	Finance Director

Statement of Changes in Members' Interests

At 31 December 2015

	Revaluation Reserve £000	General Reserves £000	Total equity attributable to members £000
At 1 January 2015	756	16,819	17,575
Profit for the year		1,585	1,585
Transfer to general reserve - depreciation on revaluation surplus	(2)	2	-
At 31 December 2015	**754**	**18,406**	19,160

At 31 December 2014

	Revaluation Reserve £000	General Reserves £000	Total equity attributable to members £000
At 1 January 2014 (restated)	759	15,367	16,126
Profit for the year		1,449	1,449
Transfer to general reserve - depreciation on revaluation surplus	(3)	3	-
At 31 December 2014 (restated)	**756**	**16,819**	17,575

Statement of Cash Flows of the Society

For the year ended 31 December 2015

	2015 £000	2014 Restated £000
Net cash inflow/(outflow) from operating activities (see below)	17,169	3,881
Cash flows from investing activities		
Purchase of intangible assets and property, plant and equipment	(95)	(70)
Purchase of investment securities	(11,000)	(5,004)
Proceeds from sale and maturity of investment securities	9,000	5,984
Increase in cash and cash equivalents	15,074	4,791
Cash and cash equivalents at beginning of year	13,489	8,698
Cash and cash equivalents at end of year	**28,563**	**13,489**
Represented by:		
Cash and balances with the Bank of England	23,452	200
Loans and advances to credit institutions repayable on demand	5,111	13,289
	28,563	**13,489**

Net cash inflow from operating activities	2015 £000	2014 Restated £000
Profit after taxation	1,585	1,449
Adjusted for:		
Depreciation and amortisation	88	97
Impairment losses on loans and advances to customers	(5)	133
Changes in fair values	(191)	50
Taxation charge	229	550
Non-cash movement in debt securities	(8)	13
Other non-cash movements (Unamortised mortgage fees and interest)	(47)	24
Changes in net operating assets		
(Increase)/decrease in loans and advances to credit institutions	(13)	7
Decrease/(increase) in loans and advances to customers	11,958	(16,465)
(Increase) in other assets	(25)	-
Decrease in prepayments and accrued income	13	-
Change in derivative financial instruments	(79)	96
Increase in shares	8,854	18,172
(Increase) in deposits	(5,000)	-
(Decrease)/increase in other liabilities	(84)	137
(Decrease) in provisions for liabilities	(31)	(60)
Increase/(decrease) in accruals and deferred income	61	(322)
Taxation paid	(136)	-
	17,169	**3,881**

Notes to the Accounts

For the year ended 31 December 2015

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 Financial Reporting Standard 102 (FRS 102). 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 certain items at fair value, and in accordance with the FRS 102 issued by the Financial Reporting Council.

The prior year financial satatements were restated for material adjustments on adoption of FRS 102 in the current year. For more information, see note 29.

b) Basis of Preparation

The Society's accounts are made up to 31 December each year. As noted on page 14, 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) Tangible Fixed Assets and Depreciation

Depreciation is not provided on freehold land or investment property. 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 building - fifty years

Major improvements to buildings - ten years

Computers and electronics equipment - two to seven years

Fixtures and fittings - four to ten years

d) Intangible Fixed Assets and Depreciation

Intangible assets consist of computer software which is currently depreciated on a straight line basis over two to seven years.

e) Investment properties

Investment property is measured at fair value annually with any change recognised through the income statment. The revaluation movement and the related deferred tax will both be reflected in the income statement for the year. The Society's policy is to have an independent market valuation every three years and the next formal valuation is due in 2016. As at 31 December 2014 and 31 December 2015, the property was revalued by the directors at best estimate based on local commercial property prices and informal guidance from the Society's chartered surveyors.

f) Derivative financial instruments and hedge accountings

In accordance with Section 9A of the Building Societies Act 1986, the Society only uses derivatives to reduce the risk of loss arising from changes in interest rates. Such instruments are not therefore used in trading activity, or for speculative purposes.

Currently, the Society only uses derivatives to hedge interest rate risk through interest rate swap agreements. These are commitments to exchange one set of cash flows for another. No exchange of principal takes place. Interest rate swaps are recorded on the statement of financial position at fair value to the extent that the swaps are ineffective, with any valuation movements being taken to the income statement.

If it can be proven that there is a qualifying hedge relationship with the underlying items being hedged then the fair value of those underlying items is offset in the Income Statement. However, income statement volatility may still arise to the extent that these hedge relationships are ineffective, or because hedge accounting is not achievable.

Such volatility is therefore primarily attributable to accounting rules which may not fully reflect the economic reality of the Society's hedging strategy.

g) 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 substantially enacted, by the statement of financial position 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 crystalise based on current tax rates and law. Timing differences arise from the inclusion of terms 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.

h) Revenue recognition

The Society uses the EIR method to recognise income for certain financial instruments held at amortised cost. To calculate the appropriate EIR, the Society makes assumptions of the expected lives of financial instruments and the anticipated level of early redemption charges.

i) Fees and Commissions Payable

Mortgage Indemnity Guarantee premiums and Valuation fees paid are included in 'Fees and commissions payable' and are charged against income as incurred.

j) Other Operating Income

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

Notes to the Accounts

For the year ended 31 December 2015

1. Accounting Policies (continued)

k) Impairment provision for losses on loans and advances

The Society reviews its loan portfolios to assess whether an impairment loss should be recorded in the income statement where objective evidence exists that a loss has been incurred. The loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The amount charged in the income statement represents the net change in the ongoing provision, after allowing for losses written off in the year and bad debt recoveries. Provisions for bad and doubtful debts re deducted from loans and advances to customers in the balance sheet. Suspended interest is credited to an interest susepnse account, the balance of which is deducted from loans and advances to customers in the statement of financial position.

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 reflects the higher probability of default in forbearance cases.

Individual provisions are considered for all mortgage accounts in arrears by one month, or more, and for accounts where the property is in possession and there is objective evidence that all cash flows will not be received.

Provisions are 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 default are individually assessed and the amount of loss is determined using historical default and loss experience and applying judgement requiring the estimation of forced sale discounts, likelihoood and repossession, and the impact of macro economic factors such as house price volatility, interest rate expectations and unemployment rates. Losses on accounts where the property has been repossessed are provided for after consideration of the likely sale price and the costs of sale.

A collective provision is made against loans and advances which have not been specifically identified as impaired, but where the Society's experience would indicate that losses may ultimately be realised. The impairment value is calculated by applying various factors to each loan. These factors take into account the ratio of the loan to the value of the security, the probability of eventual repossession based on external market data, the value of the property in the event of a forced sale and the costs of sale together with the general economic climate, which may ultimately result in a loss being realised.

i) Incentive to borrowers

The costs of mortgage cash backs are charged to 'Other operating charges as incurred'.

Interest rate dicounts are recognised through 'interest receivable' over the expected lives of the mortgage accounts in accordance with the effective interest rate (EIR) method. See note 2 (iii).

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 balance sheet together with a coreesponding liability. The liability is measured as the value of the Treasury Bill sold. Any premium or discount arising on the sale of Treasury Bills is amortised to the income statement over the life of the scheme.

n) Employee benefits

Pensions

The Society's defined benefit scheme was closed to accrual of future service years in 2002 and was replaced by a defined contribution scheme. A full buy-out of the Society's defined benefit scheme was completed in 2014 when the pension plan's obligations transferred out in full by the Society purchasing a deferred annuity policy from Aviva and the trustees wound-up the pension plan.

The Society operates a defined contribution arrangement whereby the Society, and the employee, pay fixed contributions, without any further obligation to pay additional contributions. Payments to defined contribution schemes are charged to the income statement as they arise.

Other long term employee benefits

The cost of bonuses payable after the end of the year in which they are earned is recognised in the year in which the employees render the related service and when there is an obligation to pay a bonus under the terms of the scheme.

Short term employee benefit

The cost of short term employee benefits, including wages and salaries, social security costs and healthcare for current employees, is recognised in the eyar of service.

Termination benefits, such as payments in lieu of notice and for redundancy, are charged to the income statement as they fall due.

2. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Society's accounting policies, which are described in note 1, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods.

The following are critical judgements and estimations that the directors have made in the process of applying the Society's accounting policies and that have the most significant effect on the amounts recognised in the financial statements:

I. Impairment provision on loans and advances: Key assumptions included in the measurement of the incurred loss include data regarding the probability of any account going into default, the probability of defaulted accounts progressing to possession and the eventual loss incurred in the event of forced sale or write-off. The House Price Index (HPI) and the discount applied on forced sale are key assumptions on the residential mortgage books. These assumptions are based on observed historical data and updated as management considers appropriate to reflect current and future conditions. The accuracy of the impairment provision would therefore be affected by unexpected changes in the above assumptions. Collateral values are updated at the date of each statement of financial position based on the best information publicly available.

   To the extent the HPI movements were to differ from current observations by 1%, the impact on provisions would be £7k. The impact of a 1% change in the forced sale discounts currently being experienced would impact provisions by £51k.

II. Fair value of derivatives: Derivative financial instruments are valued by using market prices or prices obtained from counterparties. In cases where market prices are not available, discounted cash flow models are used. The Society applies fair value hedge accounting which relies on a number of assumptions, the most significant of which relates to estimates in respect of loan prepayments.

III. Effective interest rate (EIR): The Society uses the EIR method to recognise income for certain financial instruments held at amortised cost. To calculate the appropriate EIR, the Society makes assumptions of the expected lives of financial instruments and the anticipated level of early redemption charges. The impact of a 10% change in the expected lives of financial instruments would result in an increase/decrease in the value of the loans in the statement of financial position by £117k/£1k respectively. The impact of a 10% change in the anticipated level of early redemption would result in an increase/decrease in the value of the loans in the statement of financial position by £9k/(£9k) respectively.

IV. Investment property: The fair value of the investment property is measured annually with the movements recognised in the income statement. The Society's policy is to have a formal valuation every three years, with the valuation changes for the years between being the best estimate of the directors.

Notes to the Accounts

For the year ended 31 December 2015

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3. Directors

a) Directors' Remuneration

Directors' remuneration totalled £444,000 (2014: £382,000). Full details are given in the Report of the Directors on Remuneration on page 19.

b) Transactions with Directors

At 31 December 2015, one loan totalling £214,449 (2014: one loan totally £174,632) made in the ordinary course of business and falling within Section 65 of the Building Socities Act 1986 were outstanding to one (2014: 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.

4. Employees

Average number of persons employed by the Society	2015 Number	2014 Number
Full time	29	31
Part time	10	14
	39	**45**

5. Interest receivable and similar income

	2015 £000	2014 Restated £000
On loans fully secured on residential property	7,886	8,393
On other loans fully secured on land	159	174
On debt securities	67	58
On other liquid assets	128	76
On derivative financial instruments	(385)	(352)
	7,855	**8,349**

6. Interest payable and similar charges

	2015 £000	2014 £000
On shares held by individuals	3,066	3,210
On deposits and debt securities	175	167
On derivative financial instruments	(22)	(30)
	3,219	**3,347**

7. Fair value gains and losses

Fair value movements through the income statement	2015 £000s	2014 £000s
Hedging and derivatives	98	(95)
Investment property	91	43
Debt securities	2	2
Other fair value gains/(losses)	**191**	**(50)**
Effective interest rate accounting	47	(24)
Total fair value gains/(losses)	**238**	**(74)**

8. Administrative expenses

	2015 £000s	2014 £000s
Employee costs		
Wages and salaries	1,548	1,535
Social security costs	161	149
Pension costs - defined contribution scheme	65	68
	1,774	1,752
Auditor's remuneration from audit work	50	49
Other expenses	1,170	944
	2,994	**2,745**

The Society's external auditor Deloitte LLP, have in the past provided non-audit services. The total value of these services during 2015 was £nil (2014: £14,000)

9. Other operating charges

	2015 £000	2014 Restated £000
Other operating charges include:		
Incentives to borrowers	11	34

Other operating charges have been restated in 2014 to adjust an allocation error. The net impact to profit is £nil.

10. Impairment provisions for losses on loans and advances to customers.

As at 31 Dec 2015

	Loans fully secured on residential property	Loans fully secured on land	Total
At 1 January 2015 (Restated)	£000	£000	£000
Collective provision	503	-	503
Specific provision	107	-	107
	610	**-**	**610**
Movements in provisions during the year			
Collective provision	5	-	5
Specific provision	(101)	-	(101)
	(96)	**-**	**(96)**
At 31 December 2015			
Collective provision	508	-	508
Specific provision	6	-	6
	514	**-**	**514**

Notes to the Accounts
For the year ended 31 December 2015
Continued...

As at 31 December 2014 (Restated):

At 1 January 2014	Loans fully secured on residential property £000	Loans fully secured on land £000	Total £000
Collective provision	400	-	400
Specific provision	61	-	61
	461	**-**	**461**
Movements in provisions during the year			
Collective provision	103	-	103
Specific provision	46	-	46
	149	**-**	**149**
At 31 December 2014			
Collective provision	503	-	503
Specific provision	107	-	107
	610	**-**	**610**

The charges (credit) to income and expenditure is made up as follows:

	2015 £000	2014 Restated £000
Movements in provisions as above	(96)	149
Amounts written off during the year	91	-
Recoveries of amounts previously written off	-	(16)
	(5)	133

11. Tax on profit on ordinary activities

	2015 £000	2014 Restated £000
Current tax:		
UK Corporation Tax	60	100
Deferred tax:		
Origination and reversal of timing differences (note 27)	169	450
Total charge on profit on ordinary activities	**229**	**550**

The statutory rate of corporation tax was reduced to 20% from 1 April 2015. The effective rate of corporation tax applicable to the Society for the year was 16.71% (2014: 20.02%) primarily as a result of tax relief on pension contributions.

A change in the UK standard rate of corporation tax from 21% to 20% became effective from 1 April 2015. Where appropriate, current tax has been provided at the blended rate of 20.25%. A further reduction in the rate of corporation tax to 19% will become effective from April 2017, reducing again to 18% effective from April 2020. These changes were substantively enacted on 18 November 2015. Deferred tax has been provided at an average rate of 20.08% (2014: 21.02%).

The estimated movement on deferred tax in 2016 is £271k resulting in a deferred tax liability of £10k.

	2015 £000	2014 Restated £000
Tax charged on profit at the average standard rate	367	430
Effects of:		
Depreciation in exess of capital allowances	-	6
Change in collective provision	14	18
Tax relief on pension sheme contributions	(122)	20
Loss relief brought forward claimed against current period	-	99
Marginal relief	(13)	(10)
FRS102 transition	(5)	(24)
Fair value adjustments	(16)	9
Other	4	2
	229	**550**

12. Loans and advances to credit institutions

Loans and advances to credit institutions mature from the date of the balance sheet as follows:	2015 £000	2014 Restated £000
Accrued interest	14	8
Repayable on demand	5,111	13,289
Maturing in not more than three months	3,000	-
Maturing in more than three months but not more than one year	3,000	1,000
	11,125	**14,297**

13. Debt securities

	2015 £000	2014 Restated £000
Issued by Supranational entities	1,004	3,006
Issued by other borrowers and unlisted	8,034	4,022
	9,038	**7,028**

Debt securities are held as available-for-sale assets and carried at their fair value.

The debt securities set out above are repayable from the date of the statement of financial position in the ordinary course of business as follows:

	2015 £000	2014 Restated £000
Less than three months	4,014	2,000
Between three months and one year	5,024	4,023
Between one year and five years	-	1,005
	9,038	**7,028**

Notes to the Accounts

For the year ended 31 December 2015

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Debt securities (continued)

The movement in available-for-sale debt securities is summarised as follows:	2015 £000	2014 Restated £000
At 1 January	7,028	8,021
Additions	11,000	5,004
Disposals and maturities	(9,000)	(5,984)
Gains/(losses) from changes in fair value	10	(13)
At 31 December	**9,038**	**7,028**

14. Loans and advances to customers

Loans and advances to customers are repayable from the balance sheet date as follows:	2015 £000	2014 Restated £000
Maturing in not more than three months	2,140	2,262
Maturing in more than three months but not more than one year	5,912	6,352
Maturing in more than one year but not more than five years	34,227	35,635
Maturing in more than five years	168,249	178,234
	210,528	222,483
Less:		
Impairment provisions (see note 9)	(514)	(610)
Unamortised loan origination fees	(129)	(176)
Add:		
Fair value adjustment	143	237
	210,028	**221,934**

15. Derivative financial instruments

Derivatives are only used by the Society in accordance with the Building Societies Act 1986. This means that such instruments are not used in trading activity, or for speculative purposes, and are only used to reduce the risk of loss on fluctuations in interest rates. Interest rate swaps are used to hedge the Society's exposures arising from fixed rate mortgage lending and savings products. The Society's primary goal is to manage risk within its risk tolerance, irrespective of the accounting treatment.

The following table summarises the derivative financial instruments held at the year end and the hedged items in place at that date, together with the net adjustment taken to the income statement.

Financial instruments measured at fair value	2015 Assets £000s	2015 Liabilities £000s	2014 Assets £000s	2014 Liabilities £000s
Interest rate swaps in an effective hedging relationship	59	220	13	352
Fixed rate mortgages	143	-	237	-
Fixed rate savings	-	(10)	-	4
Total hedged position	**202**	**210**	**250**	**356**
Hedge ineffectiveness gain/(loss)	-	(8)	-	(106)
	202	202	250	250

Interest rate swaps are valued at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates.

Hedge ineffectiveness resulted in a gain of £98k (2014: loss of £95k) which was recognised in the income statement.

16. Intangible fixed assets

	Computer software £000	Total £000
Cost or valuation at 1 January 2015	527	527
Additions	59	59
Revaluation	-	-
Disposals	(68)	(68)
At 31 December 2015	**518**	**518**
Accumulated depreciation at 1 January 2015	476	476
Charge for the year	34	34
Eliminated on disposal	(66)	(66)
At 31 December 2015	**444**	**444**
Net book values		
At 31 December 2015	**74**	74
At 31 December 2014 (Restated)	**51**	**51**

17. Tangible fixed assets

	Freehold land and buildings £000	Equipment, fixtures, fittings, and vehicles £000	Total £000
Cost or valuation at 1 January 2015	189	423	612
Additions	-	38	38
Revaluation	-	-	-
Disposals	-	(155)	(155)
At 31 December 2015	**189**	**306**	**495**
Accumulated depreciation at 1 January 2015	105	306	411
Charge for the year	2	52	54
Eliminated on disposal	-	(155)	(155)
At 31 December 2015	**107**	**203**	**310**
Net book values			
At 31 December 2015	**82**	**103**	**185**
At 31 December 2014 (Restated)	**84**	**117**	**201**

Cost or valuation of freehold land and buildings	2015 £000	2014 £000
Valuation at 31 December 1983	150	150
Cost of freehold improvements	39	39
	189	189

The historical cost of the revalued assets is £101,100 (2014: £101,100). The accumulated historical cost of depreciation on these re-valued assets is £48,600 (2014: £48,000). Included in the total net book value of freehold land and buildings is £37,500 (2014: £37,500) in respect of land on which no depreciation is provided.

Notes to the Accounts
For the year ended 31 December 2015
Continued...

18. Investment property

	Investment property
Fair value at 1 January 2015	914
Additions	-
Revaluations	91
Disposals	-
At 31 December 2015	**1,005**

Investment property represents two thirds of the head office building which are let to third parties, on commercial terms, leases of less than five years' duration. This proportion of the building is held at fair value.

19. Other assets

	2015 £000	2014 £000
Rents receivable from investment property	25	-
	25	-

20. Shares

Shares, all of which are held by individuals, are payable from the balance sheet date in ordinary course of business as follows:	2015 £000	2014 £000
Accrued interest	899	1,021
On demand	103,292	93,352
In not more than three months	61,166	61,776
Repayable in more than three months but not more than one year	34,298	28,452
Repayable in more than one year but not more than five years	9,939	16,127
	209,594	**200,728**

21. Amounts owed to credit institutions

Amounts owed to credit institutions are payable from the balance sheet date in the ordinary course of business as follows:	2015 £000	2014 £000
Accrued interest	20	13
Repayable in not more than three months	3,000	4,000
Repayable in more than three months but not more than one year	9,496	5,999
	12,516	**10,012**

22. Amounts owed to other customers

Amounts owed to other customers are repayable from the balance sheet date in the ordinary course of business as follows:	2015 £000	2014 £000
Accrued interest	13	16
On demand	194	120
Repayable in not more than three months	9,789	12,471
Repayable in more than three months but not more than one year	3,014	2,919
	13,010	**15,526**

23. Other liabilities

	2015 £000	2014 £000
Falling due within one year		
Income tax	189	191
Other creditors	77	159
	266	**350**

24. Accruals and deferred income

	2015 £000	2014 £000
Accruals	482	429
Deferred income	53	45
	535	**474**

All amounts fall due within one year.

25. Other provisions

Other provisions comprise:	2015 £000	2014 £000
Provisions for contributions to Financial Services Compensation Scheme (FSCS)	64	75
Other provisions	-	20
	64	**95**
The change to income and expenditure is made up as follows:		
FSCS charge for year	120	89
Release of mortgage payment protection insurance provision	(20)	-
	100	**89**
Provisions for contributions to FSCS Movement in year		
At 1 January	75	135
Charge for year	120	89
Paid in year	(131)	(149)
As at 31 December	**64**	**75**

Other provisions
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 laon 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 relations 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 2015, the Society paid £131,000 (for which £75,000 had been provided in the 2014 accounts) in respect of the levy for the 2014/2015 scheme year. This amount was based on the Society's deposit balances at 31 December 2013. At 31 December 2015, the Society provided £65,000 in respect of the amount due for 2015/16 (based on deposit balances at 31 December 2014) and which will be paid in 2016.

26. Investments

The Society had one wholly-owned subsidiary company, incorporated in the UK and dormant:

The Financial Services Limited, which had issued share capital of £1 and did not trade during the year or the preceding year. It was dissolved on 12th January 2016.

Notes to the Accounts

For the year ended 31 December 2015

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27. Deferred Taxation

	2015 £000	2014 Restated £000
Movement in deferred taxation balance in the period at 1 January 2015	430	880
(Decrease)/increase in asset recognised	(169)	(450)
At 31 December 2015	**261**	**430**
Analysis of deferred taxation balance:		
Depreciation in excess of capital allowances	24	20
Collective loss provision	68	83
Short term differences (less than 3 years)	1	2
Deferred tax on pension contributions	259	403
FRS102 transition adjustments	47	57
Fair value of investment property	(138)	(135)
	261	**430**

28. Financial Commitments

(a) Capital commitments
At 31 December 2015, there was £23,486 capital expenditure contracted for but not provided in the accounts (2014: £nil).

(b) Contingent liabilities

As explained in note 29, 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.

29. Financial instruments

(a) Categories of financial instruments

The following table analyses the financial assets and liabilities in the statement of financial position by the class of instrument to which they are assigned and by the measurement basis.

As at 31 December 2015	At amortised cost £000	Loans and receivables £000	Available -for-sale £000	Fair value through IS £000	Total
Assets					
Cash in hand and balnces with the Bank of England	23,459	-	-	-	23,459
Loans and advances to credit instituions	-	11,125	-	-	11,125
Debt securities	-	-	9,038	-	9,038
Derivative financial instruments	-	-	-	59	59
Loans and advances to customers	-	210,028	-	-	210,028
Total financial assets	**23,459**	**221,153**	**9,038**	**59**	**253,709**
Total non-financial assets					1,684
Total assets					**255,393**
Liabilities					
Shares	209,594	-	-	-	209,594
Amounts owed to credit institutions	12,516	-	-	-	12,516
Amounts owed to other customers	13,010	-	-	-	13,010
Derivative financial instruments	-	-	-	220	220
Total financial liabilities	**235,120**	**-**	**-**	**220**	**235,340**
Total non-financial liabilities					893
General reserve and other reserves					19,160
Total reserves and liabilities					**255,393**

As at 31 December 2014	At amortised cost £000	Loans and receivables £000	Available -for-sale £000	Fair value through IS £000	Total
Assets					
Cash in hand and balnces with the Bank of England	200	-	-	-	200
Loans and advances to credit instituions	-	14,297	-	-	14,297
Debt securities	-	-	7,028	-	7,028
Derivative financial instruments	-	-	-	13	13
Loans and advances to customers	-	221,934	-	-	221,934
Total financial assets	**200**	**236,231**	**7,028**	**13**	**243,472**
Total non-financial assets					1,743
Total assets					**245,215**
Liabilities					
Shares	200,728	-	-	-	200,728
Amounts owed to credit institutions	10,012	-	-	-	10,012
Amounts owed to other customers	15,526	-	-	-	15,526
Derivative financial instruments	-	-	-	352	352
Total financial liabilities	**226,266**	**-**	**-**	**352**	**226,618**
Total non-financial liabilities					1,022
General reserve and other reserves					17,575
Total reserves and liabilities					**245,215**

(b) Carrying values and fair values

The table below shows the fair values of the Society's financial instruments by type, including a note of the method used to determine the fair value.

	Note	2015 £000	2014 £000
Assets			
Cash in hand and balnces with the Bank of England		23,459	200
Loans and advances to credit instituions	i.	11,125	14,297
Debt securities	ii.	9,038	7,028
Derivative financial instruments	iii.	59	13
Loans and advances to customers	iv.	210,028	221,934
Total financial assets		**253,709**	**243,472**
Liabilities			
Shares		209,594	200,728
Amounts owed to credit institutions	i.	12,516	10,012
Amounts owed to other customers	i.	13,010	15,526
Derivative financial instruments	iii.	220	352
Total financial liabilities		**235,340**	**226,618**

The fair value is the amount for which an asset could be exchanged, or liability settled, between knowledgeable, willing parties in an arm's length transaction.

i. The carrying value is assumed to be the fair value.

ii. Debt securities are measured at fair value by reference to market prices.

iii. Derivatives are used for economic hedging purposes and are determiend by reference to market prices.

iv. The fair value represents the discounted amount of estimated future cash flows after allowing for expected impairment provisions and early repayment charges discounted at current market rates.

Provisions take account of the Society's policy of considering the individual circumtances of borrowers' experiencing payment difficulties. The Society ensures that customers are treated fairly and may enter into arrangements with borrowers which may include granting a revised repayment schedule, interest only concessions, arrangements for the borrower to under pay and term extensions. 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 31 in 2014 to 10 at the end of 2015.

Notes to the Accounts

For the year ended 31 December 2015

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(c) Credit risk: loans and advances to customers

The Society is exposed to credit risk relating to loans and advances to customers and this is detailed below:

	2015 £000	2015 %	2014 £000	2014 %
Loans fully secured on residential property	207,179	98.6	218,583	98.5
Other loans fully secured on land	2,849	1.4	3,351	1.5
	210,028		221,934	
Provision for impairment losses	514		610	
Unamortised loan origination fees	129		176	
Fair value adjustments	(143)		(237)	
	210,528		**222,483**	

The Society's exposure to credit risk relating to loans and advances to customers can be broken down by customer segment as follows:

	2015 £000	2015 %	2014 £000	2014 %
Residential	207,822	98.7	219,369	98.6
Non-residential	2,849	1.4	3,351	1.5
Fair value adjustments	(143)	(0.1)	(237)	(0.1)
Loans and advances to customers	**210,528**	**100.0**	**222,483**	**100.0**

Credit risk: risk concentrations

Loan-to-Value (LTV) is one of the primary factors used to assess the credit quality of secured lending. Index-linked LTV by banding is shown below:

	2015 Residential %	2015 Non-residential %	2014 Residential %	2014 Non-residential %
Less than 70%	67.3	100.0	65.3	73.3
More than 70% but less than 80%	19.0	0.0	19.8	26.7
More than 80% but less than 90%	11.5	0.0	12.3	0.0
More than 90% but less than 100%	2.2	0.0	2.5	0.0
More than 100%	0.0	0.0	0.1	0.0
	100.0	**100.0**	**100.0**	**100.0**

The table below provides a breakdown of secured lending by payment due status:

	2015 Residential %	2015 Non-residential %	2014 Residential %	2014 Non-residential %
Current	99.4	100.0	99.2	100.0
Past due up to 3 months	0.4	0.0	0.5	0.0
Past due 3 months up to 6 months	0.0	0.0	0.1	0.0
Past due 6 months up to 12 months	0.1	0.0	0.2	0.0
Past due over 12 months	0.1	0.0	0.0	0.0
Possessions	**0.0**	**0.0**	**0.0**	**0.0**
	100.0	**100.0**	**100.0**	**100.0**

The Society provides secured loans to retail and commercial customers across England and Wales. The Socieyt only lends to non-residential customers in the South West region. The Society has a geographical concentration in the South West region around its office in Dorset.

	2015 £000	2015 %	2014 £000	2014 %
Region				
South West	49,636	24	51,916	24
Greater London	28,234	13	28,874	13
Outer Metropolitan	21,838	10	23,563	11
South East/East of England	29,380	14	32,119	14
Midlands	28,941	14	29,736	13
North West/North of England	42,999	20	45,469	20
Wales and Scotland	9,501	5	10,806	5
	210,529	**100.0**	**222,483**	**100.0**

Collateral values are updated at the date of each statement of financial position by reference to the Nationwide house price index (HPI). Based on these indexed valuations, the total collateral held against lending secured against land and residential property is estimated to be £591m (2014: £597m). Any collateral surplus on the sale of repossessed properties, after the deuction for cost incurred in relation to the sale would be returned to the borrower.

(d) Credit risk: treasury financial instruments

The Society is exposed to Treasury credit risk in respect of loans and advances to credit institutions, debt securities and financial derivatives. The credit risk exposure to Treasury Instruments equates to their carrying amount recognised in the statement of financial position. The following table shows the Society's maximum credit risk.

	2015 £000	2014 £000
UK government securities and amounts held with central banks	23,459	200
UK financial securities	19,159	20,320
Supranational securities	1,004	1,005
	43,622	**21,525**

The following table shows exposure broken down by Fitch ratings:

	2015 £000	2014 £000
AAA to AA-	24,464	4,212
A+ to A-	10,021	16,311
BBB+ to BBB-	5,129	1,002
Unrated	4,008	-
	43,622	**21,525**

The geographical distribution of these exposures is as follows:

	2015 £000	2014 £000
UK	42,618	20,520
Multinational Development Banks	1,004	1,005
	43,622	**21,525**

(e) Liquidity risk

The following tables analyse the gross contractual principal cash flows payable under financial liabilities, excluding accrued interest and fair value adjustments. These balances will not agree directly to the balance in the statement of financial position as the table incorporates only principal amounts and does not reflect accrued interest or fair value adjustments.

2015	Total	Less than 3 months	Between 3 months and 1 year	Between 1 year and 5 years	More than 5 years
Non-derivative liabilities					
Shares	208,696	167,354	31,403	9,939	-
Amounts owed to credit institutions	12,496	3,000	4,500	4,996	-
Amounts owed to other customers	12,997	9,983	3,014	-	-
	234,189	**180,337**	**38,917**	**14,935**	**-**
Derivative liabilities					
Interest rate swaps	612	90	230	292	-

2014	Total	Less than 3 months	Between 3 months and 1 year	Between 1 year and 5 years	More than 5 years
Non-derivative liabilities					
Shares	199,702	155,043	28,532	16,127	-
Amounts owed to credit institutions	9,999	3,500	2,500	3,999	-
Amounts owed to other customers	15,510	12,591	2,919	-	-
	225,211	**171,134**	**33,951**	**20,126**	**-**
Derivative liabilities					
Interest rate swaps	320	66	154	100	-

Amounts payable in less than 3 months includes amounts repayable on demand.

(f) Interest rate risk

The Society is exposed to interest rate risk which primarily arises from market changes in interest rates which affect the interest rate margin generated from lending and borrowing activities. One aspect of interest rate risk to which the Society is also exposed is basis risk. This arises where assets and liabilities re-price with reference to differing interest rate bases, principally Bank of England base rate and three month LIBOR.

To reduce the impact of an adverse change in interest rates on the Society's net interest income the net exposure (i.e. after offsetting assets and liabilities internally) is hedged using interest rate swaps within parameters set by the ALCO in accordance with the Society's risk appetite. Basis risk is mitigated by managing the exposure within risk limits set by the ALCO.

By way of illustration, based on a static balance sheet, a 2% parallel upward shift in interest rates would have a favourable impact on net interest income of £598k (2014: £592k) over a one year period.

30 Explanation of transition to FRS102

This is the first year that the Society has presented its financial statements under Financial Reporting Standard 102 (FRS 102) issued by the Financial Reporting Council. The following disclosures are required in the year of transition. The last financial statements under previous UK GAAP were for the year ended 31 December 2014 and the date of transition to FRS 102 was therefore 1 January 2014. As a consequence of adopting FRS 102, a number of accounting policies have changed to comply with that standard.

	At 1 January 2014 £000s	At 31 December 2014 £000s
Reserves reported under previous UK GAAP	15,717	17,177
Adjustments to reserves on trasition to FRS 102:		
Fair value adjustment to investment property	-	43
Depreciation adjustment to PPE following reclassification of property	-	8
Effective interest rate accounting adjustment	(152)	(176)
Fair value of debt securities	-	2
Fair value of derivative financial instruments	(11)	(106)
Adjustment to collective impairment provisions	(40)	(44)
Adjustment to specific impairment provisions	40	95
Revaluation of proportion of builidng reclassified as investment property	666	666
Deferred tax adjustment as a result of the above	(94)	(90)
Reserves reported under FRS 102	**16,126**	**17,575**

	£000s
Total comprehensive income for the year ended 31 December 2014 under previous UK GAAP	1,460
Adjustments to profit under FRS 102:	
Fair value adjustment to investment property	43
Depreciation adjustment to PPE following reclassification of property	8
Effective interest rate accounting adjustment	(24)
Fair value of debt securities	2
Fair value of derivative financial instruments	(95)
Adjustment to mortgage impairment provision	51
Deferred tax adjustment as a result of the above	4
Total comprehensive income for the year ended 31 December 2014 under FRS 102	**1,449**

Fair value adjustment to investment property:

The proportion of the head office building which is not occupied by the Society but rented out (including the roof space), is classified under FRS 102 as investment property and held at fair value.

The proportion of the head office building which is not occupied by the Society but rented out (including the roof space), is classified under FRS 102 as investment property and held at fair value. The investment property was valued at 1 January 2014 on transition to FRS 102 giving rise to an increase in value of £666k and this is all allocated to reserves in the prior period. Any subsequent change in fair value during the year is recognised through the income statement.

The value of the investment property is based on a market valuation by an independent valuer who holds a recognised and relevant professional qualification and has recent experience in the location and class of the investment property being valued. The basis of the market valuation is an estimation for which the property would be exchanged between a willing buyer and a willing seller in an arm's length transaction, after proper marketing and where the parties had each acted knowledgably, prudently and without compulsion. It assumes that the property is free from structural or other defects that would materially affect the market value. The comparative investment method of valuation has been used which is based on current rents and capitalisation yields in the area where the property is located.

Depreciation adjustment to plant, property and equipment (PPE) following reclassification:

As a result of investment property now being held at fair value, no depreciation is charged. This has resulted in an add back of depreciation charged during the year under the previous UK GAAP.

Unamortised loan fees and interest:

Under FRS 102, fees and interest charged on a mortgage account are no longer recognised when they are received. They are now spread over the expected life of the loan using the effective interest rate method.

Fair value of debt securities:

FRS 102 requires debt securities to be disclosed at fair value rather than cost. This will give rise to fair value gains and losses which are now recognised through the income statement.

Fair value of derivative financial instruments:

Derivative financial instruments which are held to mitigate interest rate risk were historically held off-balance sheet and disclosed separately within the notes to the financial statements. Under FRS 102, these are now required to be reported in the financial statements.
The Society adopts IAS39 hedge accounting, which allows fair values of derivatives to be excluded to the extent they match fair value movements in the mortgages or savings balances they are hedging. The figure disclosed in the financial statements therefore reflects fair value changes in excess of the hedged assets and liabilities.

Adjustment to mortgage impairment provision:

The calculation of the impairment provision has changed to comply with the conditions of FRS 102 which require that there is objective evidence that a loan is impaired, or it is probable that a loan is likely to become impaired, and losses may ultimately be realised as a result. Further details are including in note 1 to the accounts.

Annual Business Statement

For the Year Ended 31 December 2015

1 Statutory Percentages

	2015	Statutory Limit
Lending limit	1.6%	25%
Funding limit	10.9%	50%

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

	2015	2014 Restated
As a percentage of shares and borrowings		
Gross capital	8.1%	7.8%
Free capital	7.9%	7.5%
Liquid assets	18.6%	9.5%
As a percentage of mean total assets		
Profit after tax	0.63%	0.62%
Management expenses	1.23%	1.21%

The above percentages have been prepared from the Society's accounts.
Shares and borrowings represents the aggregate of shares, amounts owed to credit institutions and amounts owed to other customers.
'Gross capital' comprises reserves and revaluations reserves.
'Free capital' comprises gross capital and collective provisions 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 shown as in the statement of financial position.
'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 statement.
'Management expenses' represent the aggregate of administrative expenses and depreciation and amortisation costs.

3 Information Relating to Directors and Other Officers

a) At 31 December 2015, 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
D Fensome	19/11/1959	Finance Director	24/09/2015	
				Mayford Consultants Ltd
I Grayson	07/10/1963	Teacher	08/07/2015	
				None
P E Jarman	29/02/1964	Legal Director	11/05/2015	
				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
R J Spragg	18/11/1951	Director	01/01/2009	
				None

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

At 31 December 2015 none of the Directors has service contracts except the Executive Directors, Mr Bawa, Mr Jarman and Mr Fensome. Their contracts are dated 7 May 2002, 6 December 2011 and 18 May 2015 respectively. Mr Bawa's contract may be terminated by the Society with one year's notice. Mr Fensome has a six month notice period. Either director may provide six months notice to the Society. Mr Jarman has a four month notice period and he may provide four months notice to the Society.

Teachers Building Society

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