2013

Teachers Building Society

Annual Report and Accounts

For the Year Ended 31 December 2013

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Contents

Directors, Management and Professional Advisors

Directors

K F Richardson, Chairman
J J Bawa, Chief Executive
A Evans, Finance & Operations Director
A L Pike, Non-executive Director
M J Reed, Non-executive Director
R J Spragg, Non-executive Director

Solicitor and Secretary

P E Jarman

Auditors

Deloitte LLP, Southampton, United Kingdom

Bankers

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

Principal Office

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

FSA Firm Reference Number

156580

Chairman's Statement

I am delighted to report a record year at Teachers Building Society. We have experienced good growth, improved our net lending and improved the operating profit. Building on the success of 2012, we have further developed our mortgage introducer business which, together with an increased number of members that have approached us directly, has enabled growth in mortgage assets of 14%.

This growth has been helped by the participation in the Bank of England's Funding for Lending Scheme (FLS). The FLS is a scheme which enables the Society to access low cost funding. This scheme, together with the Government's Help to Buy Scheme, has provided excellent stimulus to boost the UK Housing Market. I hesitate to predict the end of one of the worst recessions in living memory, however green shoots are appearing as unemployment starts to fall and the economy shows signs of sustained growth. These early indications make me optimistic for the future.

The new management team is now in place and I would like to welcome Angela Evans to the Board as the Society's Finance and Operations Director. She brings a wealth of experience in the financial services sector. There were other important changes at management level in Marketing and Distribution and those members who attend the AGM will have the opportunity to meet with them, as well as the Directors.

I am encouraged by the management team's focus on delivering our strategy and making our mission of "helping our customers own their own homes" a reality. Our plans are challenging and require the entire team at the Society to remain focused and diligent on all aspects of our business and the market. Our size enables us to react quickly to market developments within the constraints of regulatory requirements which is something we must always capitalise on.

I am confident that with our strong management team, enthusiastic staff and the very good foundations that have been built over recent years, our members can look forward to a bright and sustainable future for the Society.

This will be the last time I will write the Chairman's Statement. After ten years on the Board, of which four were as Chairman, I will retire after this year's AGM. It has been an honour to be Chairman. I have enjoyed the last ten years, guiding the organisation along the path that an increasingly regulated financial services organisation must tread. I look forward to continuing to watch its development and wish the Board success in their future endeavours.

I am now handing the reins over to Roy Spragg, who has been a Non-executive Board member for over five years. Roy has extensive experience in financial services and is a strong advocate of the mutual sector. I wish him the best of luck in his new role.

I must thank the staff for their continued support and dedication in delivering excellent service to our customers. This has been recognised by being awarded the "Best Local Building Society" award from "What Mortgage" magazine for the third year in succession. Well done to every one of them for achieving this hat trick.

Finally, I thank my colleagues on the Board for their support and commitment over the past twelve months. I leave the Board, and Society, with great memories as well as great expectations.

Thank you.

Kevin Richardson
Chairman
4 March 2014

Chief Executive's Report

Overview

2013 has seen a significant change in activity at Teachers Building Society. We can look back and see the strong growth and improved profitability, which is helping to build a sustainable Society for the future. As a mutual, the Society does not seek to maximise profits but rather focuses on delivering long term value to our members.

We have invested heavily in technology this year. As a result of these changes we have been able to launch our new internet savings account and have just completed a new online broker solution. These changes have been made based on feedback from our customers, as well as an understanding of the changing marketplace.

Mortgages

Housing market activity has grown from a slow start resulting in better than anticipated gross mortgage lending of over £48m (compared to £38m in 2012). This has been generated from both the direct and broker introduced channels. The overall average Loan to Value of 41% shows the high quality of the loan book. We maintain a personal service by underwriting all cases individually and focussing on the individual circumstances. This is supported by the low level of arrears with no cases with greater than 12 months in arrears and no properties in possession at the end of the year.

Our main target market has traditionally been the educational sector and the local market. Over the last year we have been able to expand the local areas from Dorset to Hampshire and in 2014 we plan to include Wiltshire. We are now pleased to report that in 2013 12% of our mortgages came from the 'local' regions.

Savings

The Funding for Lending Scheme has had the effect of reducing the savings rates in the market. This is something we have continued to lobby Bank of England officials on behalf of hard pressed savers. However, the Society has continued to promote 'best buy products' throughout the year to support our members as much as possible in this challenging low interest rate environment.

Profitability and Capital

The Society has been able to significantly improve the margin and profits in the year, as a result of Government initiatives and a more buoyant housing market. The Bank of England's Funding for Lending Scheme (FLS) gives the Society access to lower cost funding for the four year duration of the Scheme. Despite not needing to attract high volumes of retail funds, we have been keen to promote attractive products for both new and existing members – and we have launched over 28 products which have offered a combination of fixed and variable rates to meet customer preferences.

Management expenses ratio has risen slightly in the year to 1.22% due to staff restructuring costs. These costs are one off costs totalling £75,000. However, the inclusion in total assets of the off balance sheet FLS funding causes the management expense ratio to fall further to 1.16%. This ratio is a key measure of the efficiency of the Society.

Pension Scheme

In the recent past the investment markets and pension funds have suffered significant fluctuations in their valuation, which has been a continual cost for the Society. It was with this in mind that the Directors requested the Trustees of the Scheme to purchase an appropriate annuity policy, the effect of which is to provide greater pension security for scheme members and to remove future pension risks from the balance sheet. Further details are provided in the Directors Report on page 7 and in note 23 to the accounts.

Local Building Society

The Society continues to make charitable donations to local and national charities. The Society's staff raised over £2,000 for local causes through fund-raising events.

We were pleased to be awarded What Mortgage? Magazine's "Best Local Building Society" award for the third year running. To receive this award consistently over a three year period reflects the high service standards all at Teachers continually strive to deliver and it is rewarding that this has been acknowledged.

We have continued to support our local schools providing a money education programme and mentoring school children.

Future Development of the Society

Looking forward, it is anticipated that interest rates will remain at current levels for the next 12 months. The FLS will continue to push down savings rates in the short term. The Scheme has a four year duration and it is uncertain as to whether this will have the effect of reducing rates over the medium term. The last few months of 2013 have seen activity in the mortgage market pick up. It is anticipated that the re-entry into the mortgage market of some key major players will increase competition for mortgages.

In April 2014 the Mortgage Market Review will be fully implemented. This new regulation introduces requirements around assessing mortgage applicants' ability to pay, ensuring all regulated mortgage sales are normally accompanied by advice and the use of forbearance for borrowers in distress. The Society will operate under a dual mortgage channel, offering mortgages through both the advised direct and broker-introduced routes. The Society is well ahead in its implementation of the new rules and does not anticipate any significant issues.

The Society is well placed to provide customers with an attractive offering in a highly competitive market. We acknowledge the challenge that a low interest rate environment presents and the pressing need to keep costs under control whilst offering the best value to our customers.

I would like to thank all of the team at the Society and our business partners for making 2013 a successful year, and finally our members for their continued support and belief in their Society.

James Bawa
Chief Executive
4 March 2014

Directors' Report

The Directors have pleasure in presenting the Annual Report and Accounts for the year ended 31 December 2013. Having taken into account all the matters considered by the Board and brought to the attention of the Board during the year, we are satisfied that the Annual Report and Accounts, taken as a whole, are fair, balanced and understandable.

Business Objectives and Activities

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

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

Business Review and Performance

The Group's business and future plans are reviewed by the Chairman and Chief Executive on pages 5 to 6. The Society monitors its performance and development by reference to a range of key performance indicators. For 2013 results in these key areas were:

Key Performance Indicators	2013	2012	2011
Total assets £'m	£224	£232	£223
Mortgage lending £'m	£205	£181	£167
Growth in mortgage assets	14.00%	8.74%	6.81%
Savings balances £'m	£187	£196	£189
Management expenses as % of total assets	1.22%	1.18%	1.05%
Operating profit (before FSCS levy and provisions) £'000	£1,112	£406	£761
Net profit £'000	£970	£211	£487
Profit as a % of total assets	0.42%	0.09%	0.21%
Gross capital £'m	£15.7	£19.1	£19.0
Free Capital £'m	£15.7	£19.1	£19.1

▪ Profit and Capital

Net profit after tax for the year of £970k (2012: £211k) has been transferred to the Group general reserve. Gross capital (which comprises reserves and revaluation reserves) was £15.7m at the year-end (2012: £19.1m) and represented 7.55% of share and deposit liabilities (2012: 9.00%). Free capital (comprising gross capital and portfolio provisions for bad and doubtful debts less tangible fixed assets) was £15.7m (2012: £19.1m) or 7.53% (2012: 9.01%) of share and deposit liabilities. The reduction in capital is as a result of pension contributions made in the year (see note 25).

▪ Assets

Total assets decreased by 3.25% from £232.2m to £224.9m.

However this consists of a significant growth in mortgage advances of 14% from gross advances totalling £48.4m (2012: £38.0) and a sizeable reduction in liquidity. The reduction in liquidity has arisen as the Society has taken part in the Funding for Lending Scheme. This scheme enables Treasury bills to be drawn from the Bank of England to be held as part of the Society's liquidity. A total of £28m has been drawn but only £4m of this is held on the balance sheet.

▪ Management Expenses

Group management expenses were £2.8m (2012: £2.6m) reflecting the investment made in staff development, the costs of reorganisation and an increase in staff numbers and costs.

Measured as a percentage of average total assets management expenses were 1.22% (2012: 1.18%).

▪ Mortgage Arrears

Total arrears outstanding on all accounts improved again over the course of 2013, falling from £41,400 at 31 December 2012 to £33,687 at 31 December 2013. Although the numbers remain small, there was an improvement in more serious arrears: at the year-end no accounts (2012: 2) were 12 months or more in arrears. The balances on these accounts totalled £nil (2012: £146,000) and the arrears totalled £nil (2012: £10,000). The Society closely monitors accounts in arrears and the recoverability of amounts outstanding. It is satisfied that appropriate action is taken to control the risk of loss, whilst ensuring the fair treatment of customers in arrears.

The Society continues to apply a consistent provisioning methodology against potential mortgage losses including those arising from high loan-to-value advances. Provisions take account of the Society's policy of considering the individual circumstances of borrowers experiencing payment difficulties. The Society ensures that customers are treated fairly and may enter into arrangements with borrowers to allow them to repay only the interest on their mortgage for a period, and then to clear arrears over an agreed period of time. Where appropriate, the Society may delay legal action in order to allow the borrower time to seek debt advice or allow a borrower to remain in a property to allow them to effect a sale of the property themselves. Care is taken to ensure that such forbearance is only offered where it is likely to help borrowers through a difficult period rather than put them in a worse position. At the year-end, the number of accounts in forbearance was not material.

Although actual arrears experience has been good, the level of provisioning as shown in note 9 to the Accounts reflects the cautious outlook of the Directors towards the housing market, but also takes account of the protection given by external insurance cover which has been put in place on new higher loan-to-value mortgages since June 2011. The Society's policy on provisioning is contained in note 1(g) to the Accounts.

Fixed Assets

Changes to fixed assets during 2013 are summarised in note 15 to the Accounts.

Retirement Benefits

The Society operated a defined benefit pension scheme until 31 December 2002 when it was closed to the accrual of future benefits, and staff were offered alternative pension provision. With effect from 8 October 2013, salary-linking for in-service members ceased and all the liabilities of the Scheme were secured through the purchase of a bulk annuity contract held in the name of the Trustees. This required an additional contribution of £5.2m in order to remove the future pension risk from the balance sheet. This action ensures that no further contributions by the Society to the defined benefit scheme will be necessary.

At the end of 2013 using the appropriate accounting provisions of Financial Reporting Standard 17 'Retirement Benefits', the Scheme showed a £nil position as a result of the above transactions. Further details are shown in note 23 to the Accounts.

Directors' Report
Continued...

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 prepositioned a portfolio of residential mortgage loans in 2013 with the Bank of England via its Discount Window Facility.

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 28 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, with all changes 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 Treasury Investment Policies include limits on credit exposures to countries, groups and individual counterparties. This aspect of the policies is 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 Investment Policy.
- Teachers Building Society has no direct exposure to non-UK sovereign debt or to non-UK institutions, but does have some exposure to UK based banks whose ultimate parent is not based in the UK. Based on an assessment of the strength of these banks the Society does not consider these assets to be impaired. Principal amounts due at the balance sheet date were as follows:

Country	Maturing in 3 months or less	Maturing in 6 to 9 months	Total
France	£1.0m	£1.0m	£2.0m

▪ Liquidity Risk

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

▪ Interest Rate Risk and Basis Risk

Interest rate risk is the risk of mismatches between the dates on which interest receivable on assets and interest payable on liabilities are reset to market rates, impacting on profitability and the value of the Society's assets and liabilities. This risk is managed using financial instruments (mainly interest rate swaps) where appropriate in accordance with the Financial Risk Management Policy. The use of interest rate swaps may itself create basis risk which, for Teachers Building Society, is the risk that income from the swap does not match the cost of funding the asset being hedged. Exposures to each of these risks are reviewed and approved by the Executive Assets and Liabilities Committee under a delegated authority from the Board of Directors. A summary of the Society's interest rate exposure at the year end and an explanation of the financial risks and the controls in place to manage them is given in note 28 to the Accounts.

▪ Conduct and Operational Risk

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

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

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

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

Going Concern

The Society's business activities, together with the factors likely to affect its future development, performance and position are set out in the Chairman's Statement on page 5, the Chief Executive's Report on page 6 and elsewhere in the Directors' Report on pages 7 to 9. Information concerning the policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities, and its exposures to credit risk and liquidity risk are also included elsewhere in the Directors' Report and in note 28 to the Accounts. The Directors have considered the risks to the business in the light of the continued uncertain economic outlook. Their review included consideration of likely default rates on loans, house price movements and the Society's capital and liquidity position in stressed conditions.

The Directors are satisfied that the Society has adequate resources for the foreseeable future and accordingly, they continue to adopt the going concern basis in preparing the Annual Report and Accounts.

Directors

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

K F Richardson
J J Bawa
A Evans (from 23 July 2013)
S E Gorham (until 1 October 2013)
M H Percy (until 23 April 2013)
A L Pike
M J Reed
R J Spragg

At the next Annual General Meeting, in April 2014, James Bawa and Martin Reed will retire as Directors by rotation and, being eligible, offer themselves for re-election. Angela Evans having been appointed to the Board in July 2013 offers herself 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 auditors' responsibilities on page 13, is made by the Directors to explain their responsibilities in relation to the preparation of the Annual Accounts, Annual Business Statement and Directors' Report.

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

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

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

Directors' Responsibilities for Accounting Records and Internal Control

The Directors are responsible for ensuring that the Society:

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

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

Auditor

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

Kevin Richardson
Chairman
4 March 2014

Report of the Directors on Remuneration

Unaudited information

Policy on Directors' Remuneration

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

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

Executive Directors' Remuneration

Remuneration of Executive Directors is reviewed annually by the Remuneration Committee, which comprises all Non-executive Directors and is chaired by Martin Reed. Remuneration is assessed by reference to jobs carrying similar responsibilities in comparable organisations, and other criteria such as expertise, experience and contribution to the Society's performance. All comparative data is used with caution by the Committee in order to ensure that the level of remuneration is appropriate. In addition to salary, benefits may comprise a car allowance, membership of a healthcare scheme, contributory pension scheme and death-in-service benefits.

Executive Directors participate in the performance-related pay scheme operated for the majority of the Society's staff. Under the provisions of this scheme, a bonus will be paid in April 2014, based on performance in 2013.

Since 2012 members of the Executive Team, including Executive Directors, were eligible to participate in a medium term performance bonus. This bonus is earned as agreed core objectives are achieved and is capped at 30% of an individual's salary. The bonus is paid over three years. Objectives for mortgage lending, interest margin, customer satisfaction and regulatory and compliance record were met in 2012 and 2013. The first payment under the 2012 scheme was paid in April 2013 with the remainder due to be paid in 2014 and 2015. The 2013 scheme bonus has been accrued in these accounts and will become payable in April 2014, 2015, and 2016.

Executive Directors' Contractual Terms

The contract for James Bawa has a period of 12 months by the Society and 6 months by the employee. Angela Evans has a contract with six month notice period 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 3 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

	2013 £'000	2012 £'000
Fees paid to Non-executive Directors		
K F Richardson	28	27
R J Spragg	20	17
M J Reed	18	17
A L Pike	18	3
M H Percy (until 23 April 2013)	6	20
Total	**90**	**84**
Executive Directors' remuneration		
J J Bawa		
Salary	133	129
Car allowance and taxable benefits	12	11
Performance-related bonus	2	1
Medium term bonus	13	5
Pension contributions	14	12
Total	**174**	**158**
A Evans (from 23 July 2013)		
Salary	42	-
Performance-related bonus	1	-
Pension contributions	3	-
Total	**46**	**-**
S Gorham (until 1 October 2013)		
Salary	69	73
Car allowance and taxable benefits	9	9
Performance-related bonus	-	1
Medium term bonus	7	3
Pension contributions	16	15
Total	**101**	**101**
Total Directors' remuneration	**411**	**343**

Martin Reed
Director
4 March 2014

Report on Corporate Governance

Corporate Governance

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

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

The Board and Committees

Kevin Richardson was Chairman throughout the year. Kevin joined the Board of Teachers Building Society in November 2003 and also holds a Non-executive directorship of Exeter Friendly Society, where he is chairman of the audit committee.

Roy Spragg is the appointed Senior Independent Director. He, Alex Pike and Martin Reed are considered by the Board to be free from any business or other relationship which could materially interfere with the exercise of their independent judgement. The Code states that the test of independence is not appropriate in relation to the Chairman but he should, on appointment, have met the independence criteria. The Board considers this to have been the case.

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

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

The Board has established a system of appraisal and review to ensure continuing appropriate Board training and development. Each Director undergoes an annual performance review by the Chairman. The Directors also meet annually, without the Chairman, to appraise his performance. The Board reviews its own performance by analysing the results of key decisions and the methodology behind them as well as conducting a more formal annual self appraisal by means of a questionnaire. From time to time the Board also seeks an external assessment of its effectiveness; the last such review was undertaken in 2011.

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

The following three committees of Directors exercise additional control:

■ Audit and Risk Committee

This Committee appraises the Society's systems of control and inspections and oversees the necessary actions to improve such controls and 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 during the year, was chaired by Roy Spragg during the year and the other members were Michael Percy and Kevin Richardson (until April 2013) and Alex Pike (from April 2013) and Martin Reed (for the full year). The Society's chairman, Kevin Richardson, remained a member of the Committee for a part of the year as is permitted by the Code in the case of smaller companies provided the Chairman was considered to be independent at the time of his appointment as Chairman. In accordance with BSA Guidance on the Code, the Society considers itself to be the equivalent of a smaller company and that Kevin Richardson was independent at the time of his appointment as Chairman.

The Committee formally reviews the work of the internal and external auditors for the preceding year and their plans for the ensuing year, and assesses the overall effectiveness of the Society's control environment. The Committee reviewed the overall work plan of the external auditors, 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 2014 Annual General Meeting. Deloitte and its predecessor firm have been the Society's auditor for twenty years and a tender for the appointment was conducted in 2003. The Committee also reviews the Annual Accounts prior to Board approval. It reviewed and challenged relevant accounting policies and significant financial judgements including the level of residential and commercial lending loss provisions, the accounting treatment for the Financial Services Compensation Scheme levy and the Funding for Lending Scheme. In order to address these issues the Committee sought and received detailed briefings and explanations from the Finance & Operations Director.

All significant financial judgements are set out in note 1, with further details provided in the Notes to the Accounts, the Chairman's Statement, the Chief Executive's Report and the Directors' Report, where appropriate. The Committee has reviewed the effectiveness of the Group's financial controls and the internal control and risk management systems, compliance with financial services legislation and regulations, 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 a combination of the Executive Directors and the senior managers of the Society and provides reports of their meetings and activities to the Audit and Risk Committee.

■ Remuneration Committee

The Committee meets to determine the terms of employment and remuneration of the senior executive team. All Non-executive

Report on Corporate Governance
Continued...

Directors (except Kevin Richardson from April 2013) were members of the Committee, which was chaired by Martin Reed.

- **Nomination Committee**

The Committee meets at least annually and otherwise as necessary to consider new appointments to the Board. At its annual meetings it assesses the continuing independence and performance of Non-executive Directors and their training and development. 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. An applicant has been selected and regulatory approval has been sought but not yet received. 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. Although Angela Evans was appointed as an Executive Director during the year, the Board did not meet its objective in relation to Non-executive Director shortlists due to the gender balance among applicants. Members of the Society have the right under the Society's rules to nominate candidates for election. The Committee members to April 2013 were Kevin Richardson (Chairman), James Bawa and Roy Spragg, and thereafter were Roy Spragg (Chairman), James Bawa and Alex Pike.

The Executive Committee

The Executive Committee is responsible for:

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

This Committee, which is chaired by the Chief Executive and comprises the Finance & Operations Director and the Secretary & Solicitor, receives reports from the following committees:

Executive Assets and Liabilities Committee

This Committee determines treasury and balance sheet risk management strategies, capital and funding requirements and the content of the Society's Financial Risk Management Policy, Funding Policy and Treasury Investment Policy. It is also responsible for approving new product developments and for setting the Society's interest rates. The Committee, which meets monthly, comprises the Chief Executive (Chairman), the Finance & Operations Director and the Solicitor & Secretary. The Committee also provides reports to the Board's Audit and Risk Committee and considers changes to the financial risk management policies prior to their submission to the Board of Directors for approval.

Conduct & Operational Risk Committee

This 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 TCF and other conduct obligations. In addition to reporting to the Executive Committee, this Committee provides reports to the Audit and Risk Committee. The Committee, which meets monthly, comprises the Solicitor & Secretary (Chairman), the Finance & Operations Director and the Chief Executive.

Credit Committee

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

Operational Risk Management Committee

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

Re-election to the Board

All Directors submit themselves for re-election at least once every three years, subject to continued satisfactory performance. The Board's policy is that Directors serving beyond a term of nine years will be subject to annual re-election, but that such instances should be exceptional.

Board Attendance at Meetings

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

Director	Board	Audit & Risk Committee	Nomination Committee	Remuneration Committee
J J Bawa	8 (8)	5 (5)	2 (2)	3 (3)
A Evans	4 (4)	2 (2)	- (-)	- (-)
S E Gorham	6 (6)	4 (4)	- (-)	- (-)
M H Percy	1 (8)	1 (2)	- (-)	1 (1)
A L Pike	7 (8)	3 (3)	- (-)	2 (2)
M J Reed	8 (8)	5 (5)	- (-)	3 (3)
K F Richardson	7 (8)	4 (5)	2 (2)	2 (3)
R J Spragg	8 (8)	5 (5)	2 (2)	3 (3)

Kevin Richardson
Chairman
4 March 2014

Independent Auditor's Report

Opinion on Financial Statements of Teachers Building Society

In our opinion the financial statements:

- give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Group's and the Society's affairs as at 31 December 2013 and of the Group's and the Society's income and expenditure for the year then ended; and
- have been prepared in accordance with the requirements of the Building Societies Act 1986.

The financial statements comprise the Group and Society Income and Expenditure Accounts, the Group and Society Statements of Total Recognised Gains and Losses, the Group and Society Balance Sheets, the Group Cash Flow Statement and the related notes 1 to 28. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Going Concern

We have reviewed the Directors' statement contained within the Directors' Report on page 7 that the Group and Society is a going concern. We confirm that:

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

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

Our Assessment of Risks of Material Misstatement

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

Risk	How the scope of our audit responded to the risk
Loan Loss Provisions **Determining provisions for bad and doubtful debts against loans to customers is judgemental, requiring an estimate to be made of the likely loss within the mortgage portfolio. This requires estimation of future customer default rates, house price movements, sales costs, forced sale discounts and the likelihood of repossession, all of which may be sensitive to changes in the economic environment.**	We assessed the appropriateness of the key assumptions used by management in the impairment calculations for loans and receivables, including the estimation of house price movements, sales costs, forced sale discounts and the likelihood of repossession. We did this by benchmarking against internal and external data and by testing the underlying controls in place around the provisioning process. We also tested 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.
Financial Services Compensation Scheme **The calculation of the Financial Services Compensation Scheme ('FSCS') levy provision is based on data extracted from the core savings system and involves making assumptions regarding the Group and Society's share of industry protected deposits. There is also uncertainty regarding the extent to which additional levies will be raised to cover future capital shortfalls on the loans to HM Treasury and therefore the extent of any contingent liabilities to be disclosed in the financial statements.**	We challenged the accuracy of management's provision for the FSCS levy by performing an independent calculation of the amount based on information published by the FSCS and internal data from the core savings system. In respect of the deposit balances guaranteed by the FSCS we have tested the extraction of the data from the core savings system and have reviewed the key controls which aim to ensure that the underlying data is complete and accurate.
Funding for Lending Scheme **The accounting treatment for the Group and Society's participation in the Bank of England's Funding for Lending Scheme requires significant skilled input and oversight by management and a thorough understanding of the terms of each transaction to ensure appropriate recognition, derecognition and fair value measurement of the associated assets and liabilities.**	We challenged management's accounting treatment including confirmation to supporting documentation including original contracts and cash receipts. We also reviewed the disclosure of such transactions in the annual report.

Independent Auditor's Report
Continued...

Risk	How the scope of our audit responded to the risk
Revenue Recognition The recognition of revenue on fees and commissions received for the sale of mortgage products involves a manual process which increases the risk of recording the revenue in the incorrect accounting period.	We performed focused testing of management's controls over appropriate cut-off of fees and commissions, and tested a sample of fees and commissions recognised pre and post year-end to ensure that they had been recorded in the correct accounting period.
Accounting for Pension Scheme Obligations The calculation of the present value of the retirement benefit obligations requires significant judgment in the selection of key assumptions and is highly sensitive to such assumptions. Management make significant judgments in respect of mortality, price inflation, discount rates, pension increases and earnings growth. Of these inputs, discount rate, general price inflation and mortality rates all have a significant impact of the pension liability balance sheet value.	We challenged the appropriateness of management's assumptions in deriving the defined benefit pension balance by benchmarking the assumptions in respect of the discount rate, inflation and mortality assumptions to those used in the market at 31 December 2013. We have also assessed the relevant accounting considerations and disclosures to be included in the Group and Society's financial statements set out in note 23, in relation to the buy-in and the financial position of the pension scheme at the year end.
Valuation of Derivatives The valuation of derivatives disclosed in the notes to the financial statements requires significant judgment to determine the appropriate inputs. Such inputs include quoted market prices, but where these are not available, inputs such as interest rates, volatility, exchange rates, counterparty credit ratings and valuation adjustments are applied.	We considered the appropriateness of valuation techniques as set out in note 28 used to calculate the fair values of derivatives including recalculating a sample of valuations.

The Audit Committee's consideration of these risks is set out on page 11.

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

Our Application of Materiality

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

We determined materiality for the Group and Society to be £147,000.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £2,900, 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.

An Overview of the Scope of Our Audit

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

Opinion on Other Matters Prescribed by the Building Societies Act 1986

In our opinion:

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

Matters on Which we are Required to Report by Exception

Adequacy of explanations received and accounting records

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

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

We have nothing to report in respect of these matters.

Our duty to read other information in the Annual Report

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

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group and 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 within the Directors' Report, the directors are responsible for the preparation of financial statements which give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors. We also comply with International Standard on Quality Control 1 (UK and Ireland). Our audit methodology and tools aim to ensure that our quality control procedures are effective, understood and applied. Our quality controls and systems include our dedicated professional standards review team, and independent partner reviews.

This report is made solely to the Group and 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 Group and 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 Group and 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 Group and 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.

Simon Cleveland FCA (Senior statutory auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Southampton, United Kingdom
19 March 2014

Income and Expenditure Accounts

For the Year Ended 31 December 2013

	Note	Group		Society	
		2013 £'000	2012 Restated £'000	2013 £'000	2012 Restated £'000
Interest receivable and similar income	4	7,764	7,388	7,764	7,388
Interest payable and similar charges	5	(3,898)	(4,555)	(3,898)	(4,555)
Net interest receivable		**3,866**	**2,833**	**3,866**	**2,833**
Other finance charges	23	(8)	-	(8)	-
Income from investments	6	-	-	-	212
Fees and commissions receivable		455	488	455	361
Fees and commissions payable		(450)	(302)	(450)	(301)
Other operating income	1(l)	91	106	91	117
Total operating income		**3,954**	**3,125**	**3,954**	**3,222**
Administrative expenses	7	(2,728)	(2,624)	(2,728)	(2,515)
Depreciation	15	(71)	(67)	(71)	(67)
Other operating charges	8	(43)	(28)	(43)	(28)
Operating profit before provisions		**1,112**	**406**	**1,112**	**612**
Provisions for bad and doubtful debts	9	(11)	54	(11)	54
Provisions for liabilities and charges	22	(134)	(147)	(134)	(147)
Operating profit and profit on ordinary activities before tax		**967**	**313**	**967**	**519**
Tax on profit on ordinary activities	10	3	(102)	3	(101)
Profit for the financial year		**970**	**211**	**970**	**418**

All results arise from continuing operations.
For details of the restatement refer to note 22.

Statement of Total Recognised Gains and Losses

Profit for the financial year		**970**	**211**	**970**	**418**
Actuarial losses recognised in pension scheme	23	(5,146)	(303)	(5,146)	(303)
Movement in deferred tax relating to pension scheme		769	63	769	63
Total recognised gains and losses in the year	**26**	**(3,407)**	**(29)**	**(3,407)**	**178**

Balance Sheets

At 31 December 2013

Assets

	Note	Group		Society	
		2013 £'000	2012 Restated £'000	2013 £'000	2012 Restated £'000
Liquid assets					
Treasury Bills and other eligible bills	11	-	6,926	-	6,926
Loans and advances to credit institutions	12	9,713	27,465	9,713	27,465
Debt securities	13	8,055	15,050	8,055	15,050
Loans and advances to customers	14				
Loans fully secured on residential property		202,051	177,209	202,051	177,209
Other loans fully secured on land		3,553	4,741	3,553	4,741
Tangible fixed assets	15	484	421	484	421
Deferred Tax	25	974	114	974	114
Other assets	16	147	237	147	237
Total assets		**224,977**	**232,163**	**224,977**	**232,163**

Liabilities

Shares	17	187,956	196,568	187,956	196,568
Amounts owed to credit institutions	18	12,510	10,030	12,510	10,030
Amounts owed to other customers	19	7,628	5,179	7,628	5,179
Other liabilities	20	215	261	215	261
Accruals and deferred income	21	796	528	796	528
Provisions for liabilities and charges					
Other provisions	22	155	166	155	166
Net pension liability	23	-	305	-	305
Reserves	26				
Revaluation reserve		93	95	93	95
General reserve		15,624	19,031	15,624	19,031
Total liabilities		**224,977**	**232,163**	**224,977**	**232,163**

These accounts were approved by the Board of Directors on 4 March 2014.

Kevin Richardson
Chairman

Roy Spragg
Director

James Bawa
Chief Executive

Group Cash Flow Statement

For the Year Ended 31 December 2013

	Group 2013 £'000	Group 2012 £'000
Net cash (outflow)/inflow from operating activities	(14,601)	8,020
Tax paid	(5)	(95)
Capital expenditure		
Purchase of tangible fixed assets	(134)	(47)
(Decrease)/Increase in cash	**(14,740)**	**7,878**

Reconciliation of profit on ordinary activities before tax to net cash (outflow)/inflow from operating activities	2013 £'000	2012 £'000
		Restated
Profit on ordinary activities before tax	967	313
(Decrease)/increase in prepayments and accrued income	123	(147)
(Decrease)/increase in accruals and deferred income	(331)	233
(Decrease)/increase in provisions for bad and doubtful debts	(40)	(98)
(Decrease)/increase in other provisions	(85)	72
Non-cash movements in debt securities	106	(103)
Depreciation of tangible fixed assets	72	67
Pension charge less contributions paid	(5,267)	(294)
Net cash (outflow)/inflow from trading	(4,455)	43
Increase in loans and advances to customers	(23,615)	(14,537)
(Decrease)/increase in shares	(8,223)	7,318
Increase in amounts owed to credit institutions and other customers	4,939	769
Decrease in loans and advances to credit institutions	3,000	7,000
Increase/(decrease) in Treasury Bills	6,926	(930)
Decrease in debt securities	6,870	8,337
(Decrease)/increase in other liabilities	(43)	20
Net cash (outflow)/inflow from operating activities	**(14,601)**	**8,020**

Analysis of decrease in cash	
Loans and advances to credit institutions repayable on demand (note 12)	£'000
At 1 January 2013	23,438
Decrease during the year	(14,740)
At 31 December 2013	**8,698**

Notes to the Accounts

For the Year Ended 31 December 2013

1 Accounting Policies

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

a) Accounting Convention

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

b) Basis of Preparation and Consolidation

The Society's accounts consolidate the accounts of the Society and it's subsidiary undertaking in 2012 only. The accounts are made up to 31 December each year. Uniform accounting policies are applied throughout the Group. As noted on page 9, the Directors are satisfied that the Group 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) Prior Year Restatement

The 2012 Income and Expenditure Account, Balance Sheet and associated notes have been restated to reflect a change in accounting policy relating to the recognition of liabilities to the Financial Services Compensation Scheme. Liabilities to the Scheme were historically calculated based on the Society's share of protected Scheme deposits at the preceding calendar year-end. Liabilities to the Scheme for any particular fiscal year are now calculated based on the Society's share of protected Scheme deposits at the start of the respective fiscal year.

d) Income Recognition

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

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

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

e) Treasury Bills and Debt Securities

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

f) Tangible Fixed Assets and Depreciation

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

Freehold buildings – fifty years

Major improvements to buildings – ten years

Computers, electronic equipment and software – two to seven years

Fixtures and fittings – four to ten years

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 substantively enacted, by the balance sheet date.

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

h) Provisions

Provisions for bad and doubtful debts

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

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

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

Losses on accounts where the property has been repossessed are provided for after consideration of the likely sale price and costs of sale.

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

Provision for Financial Services Compensation Scheme Contribution

The Society has made provision for its expected share of the shortfall on loans made to the FSCS by HM Treasury to be levied by the Financial Services Compensation Scheme for the Scheme years 2013/14 by reference to the amount of deposits held by the Society at 31 December 2013. This represents a change in policy from the previous Financial Year.

Change in Accounting Policy

The following standard has been adopted in the year:

IFRIC 21 Levies
The interpretation clarifies the accounting for government imposed Levies in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets. Although the Society reports under UK GAAP, it has followed best practice in adopting this standard early. This has resulted in a prior year adjustment. The impact of the change has been to increase reserves by £9K. The impact of the restatement is detailed in note 22.

Pensions

The Society operates two pension schemes.

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

The principal asset of the Society's closed defined benefit pension scheme is a purchased annuity policy in the name of the trustees. The asset is taken into account as the actuarial value of the liabilities at the balance sheet date. Liabilities are measured using the projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability, adjusted to exclude financial institutions.

The net expected return on the scheme's assets and the increase during the period in the present value of the scheme's liabilities are included in 'Other finance income' or 'Other finance charges' as appropriate. Actuarial gains and losses are recognised in the Statement of Total Recognised Gains and Losses. The actuarial valuations are obtained triennially and are updated at each balance sheet date. The resulting pension asset or liability, net of the related deferred tax, is presented separately on the face of the balance sheet.

Further information concerning pensions is set out in note 23.

i) Hedging Instruments

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

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

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

j) Incentives to Borrowers

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

k) Fees and Commissions Payable

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

l) Other Operating Income

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

m) Funding for Lending Scheme (FLS)

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

2 Directors

(a) Directors' Remuneration

Directors' remuneration totalled £411,000 (2012: £343,000). Full details are given in the Report of the Directors on Remuneration on page 10.

(b) Transactions with Directors

At 31 December 2013 one loan totalling £154,238 (2012: two loans totalling £177,114) made in the ordinary course of business and falling within Section 65 of the Building Societies Act 1986 were outstanding to one (2012: two) Director.

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

3 Employees

	Group		Society	
Average number of persons employed by the Society	2013 Number	2012 Number	2013 Number	2012 Number
Full time	29	29	29	28
Part time	11	11	11	11
	40	40	40	39

4 Interest Receivable and Similar Income

	Group & Society	
	2013 £'000	2012 £'000
On loans fully secured on residential property	7,293	6,712
On other loans	212	236
On debt securities	94	221
On liquid assets other than debt securities	165	219
	7,764	**7,388**

5 Interest Payable and Similar Charges

	Group & Society	
	2013 £'000	2012 £'000
On shares held by individuals	3,809	4,437
On deposits and other borrowings	89	118
	3,898	**4,555**

6 Income from Investments

	Group		Society	
	2013 £'000	2012 £'000	2013 £'000	2012 £'000
Income from shares in subsidiary companies	-	-	-	212

7 Administrative Expenses

	Group		Society	
Employee costs	2013 £'000	2012 £'000	2013 £'000	2012 £'000
Wages and salaries	1,418	1,274	1,418	1,174
Social security costs	155	135	155	126
Pension costs - defined contribution scheme	83	69	83	69
Other pension costs (see note 23)	5	9	5	9
	1,661	1,487	1,661	1,378
Auditors' remuneration for audit work	44	35	44	33
Other expenses	1,023	1,102	1,023	1,104
	2,728	**2,624**	**2,728**	**2,515**

The Society's external auditors Deloitte LLP, had provided non-audit services during 2012 in connections with the Society's application to borrow from the Funding for Lending Scheme. During 2013 further audit work on the scheme has been instructed, this is for the value of £9,000 (2012: nil).

Notes to the Accounts

For the Year Ended 31 December 2013

Continued...

8 Other Operating Charges

	Group & Society	
	2013 £'000	2012 £'000
Other operating charges include:		
Incentives to borrowers	43	28

9 Provisions for Bad and Doubtful Debts

	Group & Society		
	Loans fully secured on residential property	Loans fully secured on land	Total
At 1 January 2013	£'000	£'000	£'000
Portfolio provision	450	-	450
Specific provision	51	-	51
	501	**-**	**501**
Movements in provisions during the year			
Portfolio provision	(10)	-	(10)
Specific provision	(30)	-	(30)
	(40)	**-**	**(40)**
At 31 December 2013			
Portfolio provision	440	-	440
Specific provision	21	-	21
	461	**-**	**461**

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

	Group & Society	
	2013 £'000	2012 £'000
Movement in provisions as above	(40)	(95)
Amounts written off during the year	52	48
Recoveries of amounts previously written off	(1)	(4)
Release of higher lending charges	-	(3)
	11	**(54)**

10 Tax on Profit on Ordinary Activities

	Group		Society	
	2013 £'000	2012 £'000	2013 £'000	2012 £'000
Current tax				
UK Corporation tax	-	5	-	4
Total current tax	**-**	**5**	**-**	**4**
Deferred tax				
Origination and reversal of timing differences (note 25)	(3)	22	(3)	22
Other timing differences relating to pension scheme contributions	-	75	-	75
Total deferred tax	**(3)**	**97**	**(3)**	**97**
Tax (credit) / charge on profit on ordinary activities	**(3)**	**102**	**(3)**	**101**

The average full rate of corporation tax for the year was 21.62% (2012: 24.6%). The actual tax charge for the current and previous year differs from the standard rate as set out below. The main difference is due to the tax relief on the significant pension contributions made in the year.

	Group		Society	
	2013 %	2012 %	2013 %	2012 %
Standard tax rate for period as percentage of profit	23	25	23	25
Effect of:				
Non-taxable income	-	(9)	-	(9)
Capital Allowances in excess of depreciation	-	1	-	1
Movement in general loss provisions	-	(2)	-	(2)
Tax relief on pension scheme contributions	(20)	(15)	(20)	(15)
Small companies' tax relief	(3)	-	(3)	-
	-	**-**	**-**	**-**

11 Treasury Bills and Other Eligible Bills

	Group & Society	
	2013 £'000	2012 £'000
Treasury Bills	-	6,926
	-	**6,926**

Notes to the Accounts

For the Year Ended 31 December 2013

Continued...

12 Loans and Advances to Credit Institutions

	Group & Society	
Loans and advances to credit institutions mature from the date of the balance sheet as follows:	**2013 £'000**	**2012 £'000**
- accrued interest	15	27
- repayable on demand	8,698	23,438
- maturing in not more than three months	-	2,000
- maturing in more than three months but not more than one year	1,000	2,000
	9,713	**27,465**

13 Debt Securities

	Group & Society	
	2013 £'000	**2012 £'000**
Issued by other borrowers	8,055	15,050
Debt securities, all of which are unlisted, mature from the date of the balance sheet as follows:		
- accrued interest	39	60
- maturing in not more than one year	6,016	9,870
- maturing in more than one year	2,000	5,120
	8,055	**15,050**
Included in debt securities are: - unamortised premiums	33	8

Liquid assets include debt securities which are held for prudential purposes as part of the day-to-day management of the Society's liquidity which enables it to meet requests for withdrawals from investors, advance money to borrowers and generally fund its business activities. During the year the Society purchased £25.0m of debt securities (2012: £39.3m). £37.8m (2012: £47.6m) of debt securities matured in the year.

14 Loans and Advances to Customers

	Group & Society	
	2013 £'000	**2012 £'000**
Loans and advances to customers are repayable from the balance sheet date as follows:		
- maturing in not more than three months	2,529	2,062
- maturing in more than three months but not more than one year	5,599	5,579
- maturing in more than one year but not more than five years	33,994	31,578
- maturing in more than five years	163,943	143,232
	206,065	**182,451**
Less:		
provisions (see note 9)	(461)	(501)
	205,604	**181,950**

15 Tangible Fixed Assets

	Group & Society		
	Freehold land and buildings £'000	Equipment, fixtures, fittings and vehicles £'000	Total £'000
Cost or valuation At 1 January 2013	629	810	1,439
Additions	-	134	134
Disposals	-	(33)	(33)
At 31 December 2013	**629**	**911**	**1,540**
Accumulated depreciation at 1 January 2013	319	699	1,018
Charge for the year	18	53	71
Eliminated on disposal	-	(33)	(33)
At 31 December 2013	**337**	**719**	**1,056**
Net book values			
At 31 December 2013	**292**	**192**	**484**
At 31 December 2012	**310**	**111**	**421**

Two thirds of the Freehold land and buildings included in Tangible Fixed Assets are let to third parties, on commercial terms, on leases of less than five years' duration.

	Group & Society	
Cost or valuation of freehold land and buildings.	2013 £'000	2012 £'000
Valuation at 31 December 1983	500	500
Cost of freehold improvements	129	129
	629	**629**

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

The historical cost of the revalued assets is £337,000 (2012: £337,000). The accumulated historical cost depreciation on these revalued assets is £154,000 (2012: £149,000). Included in the total net book value of freehold land and buildings is £125,000 (2012: £125,000) in respect of land on which no depreciation is provided.

16 Other Assets

	Group & Society	
	2013 £'000	2012 £'000
Prepayments and accrued income – due within one year	147	237
	147	**237**

Notes to the Accounts

For the Year Ended 31 December 2013

Continued...

17 Shares

	Group & Society	
	2013 £'000	2012 £'000
Shares, all of which are held by individuals, are repayable from the balance sheet date in the ordinary course of business as follows:		
- accrued interest	1,144	1,533
- on demand	82,812	85,382
- in not more than three months	62,987	58,875
- repayable in more than three months but not more than one year	32,647	34,185
- repayable in more than one year but not more than five years	8,366	16,593
	187,956	**196,568**

18 Amounts Owed to Credit Institutions

	Group & Society	
	2013 £'000	2012 £'000
Amounts owed to credit institutions are repayable from the balance sheet date in the ordinary course of business as follows:		
- accrued interest	21	30
- repayable in not more than three months	8,000	10,000
- repayable in more than three months but not more than one year	4,489	-
	12,510	**10,030**

19 Amounts Owed to Other Customers

	Group & Society	
	2013 £'000	2012 £'000
Amounts owed to other customers are repayable from the balance sheet date in the ordinary course of business as follows:		
- accrued interest	1	2
- on demand	122	130
- repayable in not more than three months	7,505	5,047
	7,628	**5,179**

20 Other Liabilities

	Group & Society	
	2013 £'000	2012 £'000
Falling due within one year		
- Income tax	209	241
- Corporation tax	-	4
- Other creditors	6	16
	215	**261**

21 Accruals and Deferred Income

	Group & Society	
	2013 £'000	2012 £'000
Accruals		
Other accruals	739	473
Deferred income	57	55
	796	**528**

All amounts fall due within one year.

22 Other Provisions

	Group & Society	
	2013 £'000	2012 Restated £'000
Other provisions comprise		
Provisions for contributions to Financial Services Compensation Scheme (FSCS)	135	146
Other provisions	20	20
	155	**166**
The charge to income and expenditure is made up as follows:		
FSCS charge for year	134	147
	134	**147**

Provisions for contributions to FSCS		
Movement in year:		
At 1 January	146	75
Charge for year	134	147
Paid in year	(145)	(76)
At 31 December 2013	**135**	**146**

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 , Landsbanki ('Icesave') and London Scottish Bank plc.

The FSCS originally met the claims by way of loans received from the Bank of England, which have since been replaced by a loan from HM Treasury. The FSCS has, in turn, acquired the rights to the realisation of the assets of these banks. The FSCS is liable to pay interest on the loan from the Treasury and has notified firms that a further liability exists in respect of the expected shortfall in the capital element of the loan following the realisation of the assets of the banks.

IFRIC 21 Levies

The interpretation clarifies the accounting for Government imposed Levies in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets. Although it reports under UK GAAP, the Society has followed best practice in adopting this standard. This has resulted in a prior year adjustment.

To recover the interest cost the FSCS charges a management expense levy to all UK deposit takers, including Teachers Building Society. During 2013 the Society paid £146,000 (which it had fully provided for in the 2012 accounts) in respect of the levy for the 2012/13 scheme year. This amount was based on the Society's deposit balances at 31 December 2011. At 31 December 2013 the Society has provided £134,000 in respect of the amount due for 2013/14 (based on deposit balances at 31 December 2012) and which will be paid in 2014. This amount is based on the most recent estimates of the increase in contribution rate requested by HM Treasury and includes an estimate of the first of three payments the Society will be required to make towards the shortfall in the assets of the failed banks. This is a change of basis due to the early adoption of IFRIC 21 (see note 1c).

Notes to the Accounts

For the Year Ended 31 December 2013

Continued...

23 Pension Costs

Defined Contribution Scheme

The amount charged to the Income and Expenditure Account in respect of contributions to the Group's defined contribution and stakeholder pension arrangements is the amount payable in the year. The total pension cost amounted to £83,000 (2012: £69,000).

Defined Benefit Scheme

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

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

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

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

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

	Group & Society	
	2013	**2012**
Key assumptions		
Rate of increase in salaries	0.0%	3.0%
Discount rate	4.6%	4.4%
Inflation rate RPI	3.7%	3.0%
Inflation rate CPI	2.7%	2.3%
Rate of increase in pensions in payment	5.0%	5.0%
Expected return on assets	4.6%	5.0%
Mortality assumptions appropriate to the membership of the scheme		
Base mortality table Mortality projection basis	PCMA00/PCFA00 CMI 2010	PCMA00/PCFA00 CMI 2010
Life expectancies at age 65		
Male currently aged 65	88.8	88.7
Female currently aged 65	89.9	89.8
Male currently aged 45	91.1	91.0
Female currently aged 45	91.5	91.4
Scheme Assets		
The scheme assets are mainly in the form of an insurance policy with Legal & General and are invested as follows:		
UK equities	-	39.0%
Global equities	-	19.2%
Corporate bonds	-	15.3%
Index linked bonds	-	23.7%
Annuity policies	100%	2.8%
Cash	-	-

23 Pension Costs (Continued)

	Group & Society	
The constituents of the scheme and the net pension asset or liability were:	**2013 £'000**	**2012 £'000**
Market value of assets:		
UK equities	-	3,647
Global equities	-	1,791
Corporate bonds	-	1,432
Index linked bonds	-	2,216
Annuity policies	10,154	-
Cash	-	266
Total fair value of assets	10,154	9,352
Present value of defined benefit obligations	(10,154)	(9,743)
Shortfall in the scheme	-	(391)
Related deferred tax asset	-	86
Net pension liability	**-**	**(305)**

Analysis of changes in the fair value of scheme assets		
Opening fair value of scheme assets	9,352	8,237
Expected return	533	451
Employer's contribution	5,146	303
Actuarial gain/(loss)	(4,786)	424
Benefits (paid)	(91)	(63)
Closing fair value of scheme assets	**10,154**	**9,352**
The value of assets has been taken as the value of units at bid price on 31 December 2013.		

Analysis of changes in the present value of scheme liabilities		
Opening scheme liabilities	9,743	8,664
Current service cost	9	9
Interest cost	427	406
Actuarial loss	66	727
Benefits paid	(91)	(63)
Closing scheme liabilities	**10,154**	**9,743**

Analysis of amount charged to operating profit		
- Current service cost	(9)	(9)

Analysis of amount charged to other finance charges		
- Expected return on pension scheme assets	533	451
- Interest on pension scheme liabilities	(427)	(406)
- Scheme expenses paid	(98)	(45)
	8	**-**

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

Notes to the Accounts

For the Year Ended 31 December 2013

Continued...

23 Pension Costs (Continued)

History	2013 £'000	2012 £'000	2011 £'000	2010 £'000	2009 £'000
Fair value of scheme assets	10,154	9,352	8,237	7,717	6,671
Present value of scheme liabilities	(10,154)	(9,743)	(8,664)	(8,023)	(7,753)
Deficit	-	(391)	(427)	(306)	(1,082)
Experience adjustments on scheme assets	(4,830)	424	(145)	394	758
Experience adjustments on scheme liabilities	(132)	-	336	(42)	-

24 Investments

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

-TBS Financial Services Limited, which has issued share capital of £1, traded until 30 November 2012. Its principal business was the provision of investment advice and the sale of life assurance and other protection policies. Following the implementation of the recommendations of the Retail Distribution Review, the Directors decided to close the business, which is now dormant.

-Teachers Mortgage Services Limited and Teachers Mortgages Limited, each of which has issued share capital of £100, and TBS Mortgage Services Limited, which has issued share capital of £1, did not trade during the year or the preceding year.

25 Deferred Taxation

	Group & Society	
	2013 £'000	2012 £'000
(a) Movement in deferred taxation balance in the period at 1 January 2013	114	136
Increase/(decrease) in asset recognised	860	(22)
At 31 December 2013	**974**	**114**
(b) Analysis of deferred taxation balance		
Depreciation in excess of capital allowances	16	12
Short term differences (less than 3 years)	101	102
Deferred tax on pension contributions	728	-
Tax losses carried forward	129	-
	974	**114**

26 Reserves

	Group & Society	
	General Reserve	Revaluation Reserve
	£'000	£'000
At 1 January 2013 as previously stated	18,957	95
Prior year adjustment	72	-
At 1 January 2013 restated	19,029	95
Total recognised gains and losses for the financial year	(3,407)	-
Transfer to general reserve - depreciation on revaluation surplus	2	(2)
At 31 December 2013	**15,624**	**93**

27 Financial Commitments

a) Capital Commitments

At 31 December 2013 there was no capital expenditure contracted for but not provided in the accounts (2012: £nil).

(b) Contingent Liabilities

As explained in note 22, 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. The Society has provided for the second of three annual contributions towards funding the expected shortfall arising on the realisation of assets acquired by the Scheme.

28 Financial Instruments

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

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

This structure is reviewed regularly by the Society's Executive Assets and Liabilities Committee which is responsible for managing and controlling balance sheet exposures and the use of financial instruments for risk management purposes.

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

Liquidity Risk

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

Derivatives

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

During the year ended 31 December 2013 the Society entered into interest rate swaps in connection with fixed rate mortgage and savings products. The table below shows the notional principal amounts, credit risk weighted amounts and replacement costs of derivatives outstanding at the year end. The notional principal amount indicates the volume of business outstanding at the balance sheet date and does not represent the amount at risk. The credit risk weighted amount is calculated in accordance with guidance issued by the Financial Services Authority on the implementation of the Capital Requirements Directive and is based on replacement cost, but also takes into account the extent of potential future exposure and the nature of the counterparty. Replacement cost represents the cost of replacing contracts with positive values, calculated at market rates current at the balance sheet date, and reflects the Society's maximum exposure should all counterparties default.

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

	Group & Society		
Interest rate contracts:	**Notional principal amount**	**Risk weighted amount**	**Replacement cost**
	£'000	**£'000**	**£'000**
At 31 December 2013			
Interest rate swaps	59,950	379	194
At 31 December 2012			
Interest rate swaps	60,150	291	94

Notes to the Accounts

For the Year Ended 31 December 2013

Continued...

Fair Values of Financial Instruments

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

	Group & Society	
	2013 £'000	2012 £'000
Debt securities		
Book value	8,055	15,050
Fair value	8,021	15,011
Interest rate contracts		
Book value	-	-
Fair value	(74)	(878)

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

Interest Rate Risk

The Society is exposed to movements in interest rates and manages this exposure on a continuous basis, within limits set by the Board, using both on and off balance sheet instruments. The Directors are satisfied that the Society was within its exposure limits and that assets and liabilities were adequately matched during 2013. The Society's interest rate exposure was:

At 31 December 2013

	Next interest reset date:					
	– in not more than three months £'000	– in more than three months but not more than six months £'000	– in more than six months but not more than one year £'000	– in more than one year but not more than five years £'000	Non-interest bearing £'000	Total £'000
Assets						
Liquid assets	11,699	3,015	3,001	-	53	**17,768**
Loans and advances to customers	136,527	3,659	13,208	52,210	-	**205,604**
Other assets including tangible fixed assets	-	-	-	-	1,605	**1,605**
Total assets	**148,226**	**6,674**	**16,209**	**52,210**	**1,658**	**224,977**
Liabilities						
Shares	145,799	12,365	20,282	8,366	1,144	**187,956**
Amounts owed to credit institutions and other customers	15,627	500	-	3,988	23	**20,138**
Other liabilities	-	-	-	-	1,166	**1,166**
Capital	-	-	-	-	15,717	**15,717**
Total Liabilities	**161,426**	**12,865**	**20,282**	**12,354**	**18,050**	**224,977**
Off balance sheet items	(54,850)	4,000	13,750	37,100	-	**-**
Interest rate gap	**(68,050)**	**(2,191)**	**9,677**	**76,956**	**(16,392)**	**-**

At 31 December 2012

Restated	Next interest reset date: – in not more than three months	– in more than three months but not more than six months	– in more than six months but not more than one year	– in more than one year but not more than five years	Non-interest bearing	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Assets						
Liquid assets	44,238	1,000	999	3,116	88	**49,441**
Loans and advances to customers	124,276	6,480	6,138	45,056	-	**181,950**
Other assets including tangible fixed assets	-	-	-	-	772	**772**
Total assets	**168,514**	**7,480**	**7,137**	**48,172**	**860**	**232,163**
Liabilities						
Shares	144,226	16,681	17,504	16,592	1,565	**196,568**
Amounts owed to credit institutions and other customers	15,209	-	-	-	-	**15,209**
Other liabilities	-	-	-	-	1,260	**1,260**
Capital	-	-	-	-	19,126	**19,126**
Total Liabilities	**159,435**	**16,681**	**17,504**	**16,592**	**21,951**	**232,163**
Off balance sheet items	36,150	(5,250)	1,500	(32,400)	-	-
Interest rate gap	**45,229**	**(14,451)**	**(8,867)**	**(820)**	**(21,091)**	**-**

Annual Business Statement

For the Year Ended 31 December 2013

1 Statutory Percentages

	2013	Statutory Limit
Lending limit	2.26%	25.00%
Funding limit	9.68%	50.00%

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

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

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

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

2 Other Percentages

	Group & Society	
	2013	2012
As a percentage of shares and borrowings		
Gross capital	7.55%	9.03%
Free capital	7.53%	9.04%
Liquid assets	8.54%	23.35%
As a percentage of mean total assets		
Profit after tax	0.42%	0.09%
Management expenses	1.22%	1.18%

The above percentages have been prepared from the Group accounts.

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

'Gross capital' comprises reserves and revaluation reserves.

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

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

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

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

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

3 Information Relating to Directors and Other Officers

a) At 31 December 2013 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
				TBS Mortgage Services Ltd
				Teachers Mortgage Services Ltd
				Teachers Mortgages Ltd
A Evans	20/11/1963	Finance & Operations Director	15/07/2013	
				None
A Pike	15/09/1963		01/11/2012	
				Simple Health and Beauty Group Ltd
M J Reed	04/05/1959	Teacher	25/04/2006	
				None
K F Richardson	29/04/1953	Company Director	26/11/2003	
				Exeter Friendly Society Ltd
R J Spragg	18/11/1951	Company Director	01/01/2009	
				Bournemouth University

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

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

b) At 31 December 2013 the other officers were:

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

Teachers Building Society

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