## Teachers Building Society

# Report and Accounts

For the year ended 31 December 2012

Teachers Building Society

# Teachers Building Society Annual Report and Accounts

**for the year ended 31 December 2012**

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# Directors, Management and Professional Advisors

## Directors

K F Richardson, Chairman
J J Bawa, Chief Executive
S E Gorham, Finance Director
M H Percy, Non-executive Director
M J Reed, Non-executive Director
A L Pike, 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

It is usually dangerous (particularly in a Chairman's report) to make predictions of future changes in interest rates, but it is fair to say that Bank of England Base Rate is not (at the time of writing) expected to change for at least two or three years, with some commentators suggesting a far longer period of low rates. The economic downturn is also well into its fifth year and shows little sign of coming to an end at any time soon.

So I am delighted to be able to offer a more upbeat report of business at Teachers Building Society. After a few years in which we have not been able to gain any net mortgage lending, we achieved much greater success in 2012. Our move into the mortgage introducer market in 2011 has helped drive a near-doubling of gross lending in 2012 compared to 2011, while initiatives to retain mortgage customers helped us to achieve net mortgage growth of nearly 9%.

We still face challenges from many directions: 2013 will see yet more changes in regulation and in regulatory reporting; we need to prepare to implement the recommendations of the Mortgage Market Review which will change the way mortgages are sold; we will start making increased contributions to the Financial Service Compensation Scheme to fund the shortfall in the assets of the failed banks; and major changes have continued in the terms and conditions of employment for teachers. The Funding for Lending Scheme, under which the Bank of England will provide access to lower-cost funding for mortgage lending and which we will be joining in 2013, certainly provides an opportunity for the Society, but it has also had the effect of pushing down savings rates. This naturally disappoints and causes hardship for our saver members, a point we have made forcefully to the Bank of England.

An unhelpful economy and challenges from many directions are now the norm, however, and we must adapt our business accordingly. We recognise the risks which are an inevitable consequence of this environment; however, we believe the changes we are now making to the business will help us continue the success we achieved in 2012.

2013 will also see some changes to our Board. Towards the end of 2012 we welcomed Alex Pike as a Non-executive Director. Alex brings us significant marketing expertise from managing a number of highly successful businesses.

Michael Percy has served on the Board for nine years, for much of that time as Chair of the Audit and Risk Committee. In accordance with the principles of good Corporate Governance Michael will be retiring at the end of the 2013 Annual General Meeting.

Following a strategic review we have also decided to reduce our senior management structure and to broaden the current role of Finance Director to include responsibility for strategic IT, an essential skill to support our future development. This means that, sadly, Simon Gorham, who joined the Society in 1987 as Finance Manager, and joined the Board as Finance Director in 2002, will also be leaving us. Plans are well advanced to ensure a smooth succession, but I sincerely thank Michael and Simon for all their hard work over the years and offer my best wishes to them for the future. I also thank the staff for continuing to provide a service which wins the praise of so many of our members, and I thank my colleagues on the Board, for their support and commitment over the year.

**Kevin Richardson**
**Chairman**
26 February 2013

# Chief Executive's Report

2012 might well have been another difficult year for Teachers Building Society as the UK dipped in and out of recession. This had the effect of depressing consumer confidence and limiting growth in mortgages and savings markets. But following our launch into the intermediary market in 2011, over the course of 2012 we became an established lender for brokers and this, along with the continued growth of our direct channel, has helped us achieve £38m of new lending, almost double the amount lent in 2011.

Government initiatives to stimulate the housing market also helped. We welcomed the extension of the FirstBuy scheme to help first time buyers get on to the housing ladder, and we are working with the housing minister to ensure we can become involved in the NewBuy scheme so teachers and local Dorset residents can access more mortgage products from Teachers Building Society in 2013.

The biggest impact for borrowers, and perhaps even more significantly on savers, has come from the Funding for Lending Scheme. The scheme allows lenders to access lower cost funding from the Bank of England as part of an initiative to stimulate lending. Teachers intends to borrow from the scheme, though has not drawn any funds during 2012. Whilst mortgage rates did start falling towards the end of the year, there was an even more profound impact on savings rates in the market generally, which saw significant falls. This has made life even harder for those who are dependent on the income from their savings to support their retirement, and we have been very vocal with the Bank of England on behalf of our savers.

As a mutual, we have been able to use some of our profits to return higher savings rates to members through more competitive interest rates, and will continue to do this as long as we can. We have had savings products in the Best Buy lists every week throughout 2012, but we are not immune from the shift in the market and, towards the end of the year, had to reduce some of those rates in the interests of all of our members and the future security of the Society.

We funded some of the increase in mortgage lending by reducing the amount of liquidity held, and we plan to continue to reduce liquidity levels a little further during 2013. Profits were lower than in 2011 as we returned funds to members through competitive pricing, but expenses also increased as we invested in the business, particularly in staff development, risk management systems, and changes to the business structure. However, careful management of the balance sheet ensured we were able to maintain our strong reserve ratio, which supports our plans to expand the business.

A key initiative from the Financial Services Authority (FSA) which took effect at the end of 2012 led to changes in the industry and within our Group. The Retail Distribution Review is designed to improve the way investment sales are made and we took the decision, on grounds of cost and administration, to close our subsidiary company, TBS Financial Services Limited, and to become an introducer for the investment products of Prudential. This has the advantage of offering a broader range of services for our members whilst maintaining some continuity with our sales team, ensuring our members continue to receive truly personal service to the high standards we expect to deliver.

Our focus on delivering excellent service remains at the forefront of our ethos and we were delighted to win the prestigious 'Best Local Building Society' in the What Mortgage 2012 Awards for the second year running. Customer complaints remain extremely low and we have been largely unaffected by Mortgage Payment Protection Insurance claims because of our unwillingness to over-sell these products in the past. Our cautious approach to lending also ensured our arrears levels remained considerably lower than the industry average recorded by the Building Societies Association.

Our staff have continued to show their commitment to supporting local and education based charities through a variety of fund raising events. Our schools presentations about general finance education to pupils were well received and we will continue to develop resources to help teachers provide general financial education. In October, Teachers Building Society sponsored the inaugural Dorset Hall of Fame, recognising worthy contributions made by the people of Dorset for the people of the county in which the Society is based.

So much of our success is due to our staff, who have excelled themselves to deliver improvements in our organisation whilst maintaining high customer service levels for our growing business volumes, and I sincerely thank them for all their hard work.

The years since 2008 have posed some challenges for this Society and for our members, and while we hope we are past the worst of the downturn, a continuation of a sluggish UK economy seems likely. However, over the last 18 months Teachers Building Society has laid the foundations for a stronger future and achieved a good result in 2012. We now plan to build on this success and develop the Society in a sustainable manner, expanding our business around our head office area in Dorset; and in the early part of 2013 we will be launching online functionality to allow members to view and transact on their accounts. We will develop this online functionality further in the coming years. To support our expansion we have invested in our staff and will be adding new skills throughout the organisation. Changes will also be needed to address the requirements of the Mortgage Market Review, an initiative launched by the FSA to make the mortgage sales process clearer for consumers. 2013 will also see the introduction of a new regulatory framework with prudential supervision being transferred from the FSA to the Prudential Regulation Authority of the Bank of England, while consumer protection and market regulation will be transferred to the Financial Conduct Authority.

Finally, I add my thanks to those of the Chairman for the dedication and hard work of Michael Percy and Simon Gorham who will be leaving Teachers Building Society during 2013. I have greatly valued their support and advice over the years and the contributions they have made to the Society and I offer them my very best wishes for the future.

**James Bawa**
**Chief Executive**
26 February 2013

# Directors' Report

The Directors have pleasure in presenting the Annual Report and Accounts for the year ended 31 December 2012.

## 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 4 to 5. The Society monitors its performance and development by reference to a range of key performance indicators. For 2012 results in these key areas were:

- Profit and Capital

Net profit after tax for the year of £285,000 (2011: £487,000) has been transferred to the Group general reserve. Gross capital (which comprises reserves and revaluation reserves) was £19.1m at the year-end (2011: £19.0m) and represented 9.00% of share and deposit liabilities (2011: 9.34%). Free capital (comprising gross capital and portfolio provisions for bad and doubtful debts less tangible fixed assets) was £19.1m (2011: £19.1m) or 9.01% (2011: 9.37%) of share and deposit liabilities.

- Assets

Total assets increased by 3.71% from £223.9m to £232.2m. Mortgage advances totalled £38.0m (2011: £19.4m).

- Management Expenses

Group management expenses were £2.62m (2011: £2.36m) 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 1.18% (2011: 1.05%).

- Mortgage Arrears

Total arrears outstanding on all accounts improved again over the course of 2012, falling from £51,900 at 31 December 2011 to £41,400 at 31 December 2012. Although the numbers remain small, there was an improvement in more serious arrears: at the year-end 2 accounts (2011: 3) were 12 months or more in arrears. The balances on these accounts totalled £146,000 (2011: £232,000) and the arrears totalled £10,000 (2011: £16,000). 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 also 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 2012 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. At the end of 2012 using the appropriate accounting provisions of Financial Reporting Standard 17 'Retirement Benefits', the scheme showed a deficit, net of deferred tax, of £305,000 (2011: £329,000). During 2011, a revised funding plan was put in place to eliminate the deficit progressively over the coming years. Further details are shown in note 23 to the Accounts.

## Creditor Payment Policy

The Society's policy with regard to payment of its trade creditors is to pay within the agreed terms of credit, once the supplier has discharged its contractual obligations. At 31 December 2012 average creditor days were 27 (2011: 27).

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

- Credit risk relating to mortgages is primarily managed through the Society's Lending Policy which is reviewed by the Credit Committee and the Board of Directors, 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 3 to 6 months | Total |
|---|---|---|---|
| Australia | £1.6m | - | **£1.6m** |
| Denmark | - | £1.0m | **£1.0m** |
| France | £3.0m | - | **£3.0m** |

■ 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 Group's Treasury Investment Policy establishes controls that ensure sufficient funds are maintained in liquid form at all times to ensure that the Group can meet its liabilities as they fall due. The Group has established policies and procedures and undertakes regular stress tests to ensure that it can withstand normal and abnormal cash outflows. The Policy is 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 Group's assets and liabilities. This risk is managed using financial instruments (mainly interest rate swaps) where appropriate in accordance with the Financial Risk Management Policy. The use of interest rate swaps may itself create basis risk which, for Teachers Building Society, is the risk that income from the swap does not match the cost of funding the asset being hedged. Exposures to each of these risks are reviewed and approved by the Executive Assets and Liabilities Committee under a delegated authority from the Board of Directors. A summary of the Group'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 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. The Conduct 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.

■ Operational Risk

Operational risk is the risk of loss arising from inadequate or failed internal processes or systems, human error or external events. The Operational Risk Management Committee ensures that operational risks are identified and recorded and that appropriate mitigating controls are in place. The Group's objective is to minimise the impact of operational risk upon its performance.

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

# Directors' Report Continued...

## Going Concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Chairman's Statement on page 4, the Chief Executive's Report on page 5 and elsewhere in the Directors' Report on pages 6 to 8. 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

S E Gorham

M H Percy

M J Reed

A L Pike (from 1 November 2012)

R J Spragg

At the next Annual General Meeting, in April 2013, Roy Spragg and Martin Reed retire as Directors by rotation and, being eligible, offer themselves for re-election.

Kevin Richardson and Michael Percy retire, each having served on the Board for nine years. Michael Percy is not seeking re-election, but the Board have agreed that, in order to ensure a smooth transition to a new Chairman, Kevin Richardson will seek re-election for one further year.

Alex Pike, who was appointed to the Board in November 2012, will be seeking election for the first time.

## Directors' responsibilities for preparing annual accounts

The following statement, which should be read in conjunction with the statement of the auditors' responsibilities on page 12, is made by the Directors to explain their responsibilities in relation to the preparation of the Annual Accounts, Annual Business Statement and Directors' Report.

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

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

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

Directors' responsibilities for accounting records and internal control

The Directors are responsible for ensuring that the Society:

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

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

## Auditors

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

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

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

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

**Kevin Richardson**
**Chairman**

26 February 2013

# Report of the Directors on Remuneration

## Policy on Directors' Remuneration

The Board aims to follow best practice in its remuneration policy for Directors and has adopted the provisions of the FSA's Remuneration Code (The Code).

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. The Society's Finance Director, Simon Gorham, is also entitled to take out a mortgage of up to £100,000 with the Society on preferential terms available to some other employees. 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 2013, based on performance in 2012.

From 2012 members of the Executive Team, including Executive Directors, were also 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 an accrual has been made in these accounts. The first payment under the scheme will be paid in April 2013 with the remainder paid in 2014 and 2015.

## Executive Directors' Contractual Terms

The contracts for James Bawa and Simon Gorham include notice periods of 12 months by the Society and 6 months by the employee. The contracts are available for inspection at the Annual General Meeting.

## Non-executive Directors

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

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

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

## Remuneration of Individual Directors

| | 2012 £'000 | 2011 £'000 |
|---|---|---|
| **Fees paid to non-Executive Directors** | | |
| **K F Richardson** | 27 | 26 |
| **M H Percy** | 20 | 19 |
| **A L Pike (from 1st November 2012)** | 3 | - |
| **M J Reed** | 17 | 17 |
| **R J Spragg** | 17 | 17 |
| **Total** | **84** | **79** |
| **Executive Directors' remuneration** | | |
| **J J Bawa** | | |
| Salary | 129 | 126 |
| Car allowance and taxable benefits | 11 | 10 |
| Performance-related bonus | 1 | 1 |
| Medium term bonus | 5 | - |
| Pension contributions | 12 | 12 |
| **Total** | **158** | **149** |
| **S E Gorham** | | |
| Salary | 73 | 71 |
| Car allowance and taxable benefits | 9 | 9 |
| Performance-related bonus | 1 | 1 |
| Medium term bonus | 3 | - |
| Pension contributions | 15 | 14 |
| **Total** | **101** | **95** |
| **K A Flaherty (until 6 December 2011)** | | |
| Salary | - | 61 |
| **Total** | **-** | **61** |
| **Total Directors' remuneration** | **343** | **384** |

Martin Reed
Director
26 February 2013

# Report on Corporate Governance

## Corporate Governance

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

## 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 Limited, where he is chairman of the audit committee.

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

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

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

The Board has established a system of appraisal and review to ensure continuing appropriate Board training and development. Each Director undergoes an annual performance review by the Chairman. The Directors also meet annually, without the Chairman, to appraise his performance. The Board reviews its own performance by analysing the results of key decisions and the methodology behind them. Every three years the Board conducts a more formal self appraisal by means of a written questionnaire. 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, four other Non-executive Directors, the Chief Executive, and the Finance 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 inspection 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 and Compliance Officer. The Committee, which met on six occasions during the year, was chaired by Michael Percy during the year and the other members were Martin Reed, Kevin Richardson and Roy Spragg. The Society's chairman, Kevin Richardson, has remained a member of the Committee 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 Building Societies Association 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 2013 Annual General Meeting. 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 impairment provisions, and provisions for FSCS liabilities, and FRS17 pension assumptions.

All significant financial judgements are set out in note 1. 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 Operational Risk Management Committee), whose membership comprises a combination of the Executive Directors and the senior managers of the Society, provide 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 Directors 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. Members of the Society have the right under the Society's rules to nominate candidates for election. The Committee members were Kevin Richardson (Chairman), James Bawa and Roy Spragg.

## 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 all of the Society's executive management, 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 Executive Directors, James Bawa (who chairs the meetings) and Simon Gorham, and other members of the Society's executive management team. The Committee also provides reports to the Board's Audit and Risk Committee which reviews the papers presented to the Committee and the minutes of its meetings on a regular basis and considers changes to the financial risk management policies prior to their submission to the Board of Directors for approval.

## Conduct Risk Committee

This Committee monitors, manages and controls the Society's Conduct 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. 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 Society's Board.

## 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, was chaired throughout the year by the Society's Head of Customer Experience, Lisa Hanger, and comprises the Executive Directors, James Bawa and Simon Gorham and other members of the Society's executive management team. 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. A key development during the year was the acquisition of systems designed to record and evaluate risk and to assist the regular review and update of risk by risk owners. The Committee reports to the Executive 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 9 years will be subject to annual re-election, but that such instances should be exceptional.

## Board Attendance at meetings

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

| Director | Board | Audit & Risk Committee | Nomination Committee | Remuneration Committee |
|---|---|---|---|---|
| **J J Bawa** | 8 (8) | 6 (6) | 2 (2) | - (-) |
| **S E Gorham** | 8 (8) | 6 (6) | - (-) | - (-) |
| **M H Percy** | 8 (8) | 6 (6) | - (-) | 2 (2) |
| **A L Pike** (from 1st November 2012) | - (1) | - (-) | - (-) | - (-) |
| **M J Reed** | 8 (8) | 6 (5) | - (-) | 2 (2) |
| **K F Richardson** | 8 (8) | 6 (6) | 2 (2) | 2 (2) |
| **R J Spragg** | 8 (8) | 6 (6) | 2 (2) | 2 (2) |

**Kevin Richardson**
**Chairman**
26 February 2013

# Independent Auditor's Report

We have audited the Group and Society Annual Accounts of Teachers Building Society for the year ended 31 December 2012 which comprise the Group and Society Income and Expenditure Accounts, the Group and Society Statements of Total Recognised Gains and Losses, the Group and Society Balance Sheets and the Group Cash Flow Statement and the related notes 1 to 28. These Accounts have been prepared under the accounting policies set out therein.

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

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

## Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement, the Directors are responsible for the preparation of the 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.

## 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's 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. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

## Opinion on financial statements

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 2012 and of the Group and the Society income and expenditure for the year then ended; and
- have been prepared in accordance with the requirements of the Building Societies Act 1986.

## 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

We have nothing to report in respect of the following matters where the Building Societies Act 1986 requires us to report to you if, in our opinion:

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

**Simon Cleveland (Senior Statutory Auditor)**
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor

Southampton, United Kingdo m
27 February 2013

# Income and Expenditure Accounts

**for the year ended 31 December 2012**

| | Note | Group | | Society | |
|---|---|---|---|---|---|
| | | 2012 £'000 | 2011 £'000 | 2012 £'000 | 2011 £'000 |
| Interest receivable and similar income | 4 | 7,388 | 7,271 | 7,388 | 7,271 |
| Interest payable and similar charges | 5 | (4,555) | (4,344) | (4,555) | (4,344) |
| **Net interest receivable** | | **2,833** | **2,927** | **2,833** | **2,927** |
| Other finance charges | 23 | - | (42) | - | (42) |
| Income from investments | 6 | - | - | 212 | - |
| Fees and commissions receivable | | 488 | 345 | 361 | 178 |
| Fees and commissions payable | | (302) | (143) | (301) | (142) |
| Other operating income | 1(k) | 106 | 91 | 117 | 104 |
| **Total operating income** | | **3,125** | **3,178** | **3,222** | **3,025** |
| Administrative expenses | 7 | (2,624) | (2,358) | (2,515) | (2,251) |
| Depreciation | 15 | (67) | (62) | (67) | (62) |
| Other operating charges | 8 | (28) | (17) | (28) | (17) |
| **Operating profit before provisions** | | **406** | **741** | **612** | **695** |
| Provisions for bad and doubtful debts | 9 | 54 | 100 | 54 | 100 |
| Provisions for liabilities and charges | 22 | (73) | (155) | (73) | (155) |
| **Profit on ordinary activities before tax** | | **387** | **686** | **593** | **640** |
| Tax on profit on ordinary activities | 10 | (102) | (199) | (101) | (190) |
| **Profit for the financial year** | | **285** | **487** | **492** | **450** |

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

# Statement of Total Recognised Gains and Losses

| | | | | | |
|---|---|---|---|---|---|
| Profit for the financial year | | 285 | 487 | 492 | 450 |
| Actuarial losses recognised in pension scheme | 23 | (303) | (423) | (303) | (423) |
| Movement in deferred tax relating to pension scheme | | 63 | 82 | 63 | 82 |
| **Total recognised gains and losses in the year** | **26** | **45** | **146** | **252** | **109** |

# Balance Sheets

## at 31 December 2012

### Assets

| | Note | Group | | Society | |
|---|---|---|---|---|---|
| | | 2012<br>£'000 | 2011<br>£'000 | 2012<br>£'000 | 2011<br>£'000 |
| **Liquid assets** | | | | | |
| Treasury Bills and other eligible bills | 11 | 6,926 | 5,996 | 6,926 | 5,996 |
| Loans and advances to credit institutions | 12 | 27,465 | 26,578 | 27,465 | 26,578 |
| Debt securities | 13 | 15,050 | 23,326 | 15,050 | 23,326 |
| **Loans and advances to customers** | 14 | | | | |
| Loans fully secured on residential property | | 177,209 | 162,391 | 177,209 | 162,391 |
| Other loans fully secured on land | | 4,741 | 4,924 | 4,741 | 4,924 |
| **Tangible fixed assets** | 15 | 421 | 441 | 421 | 441 |
| **Other assets** | 16 | 351 | 239 | 351 | 239 |
| **Total assets** | | **232,163** | **223,895** | **232,163** | **223,895** |

### Liabilities

| | Note | Group 2012 £'000 | Group 2011 £'000 | Society 2012 £'000 | Society 2011 £'000 |
|---|---|---|---|---|---|
| **Shares** | 17 | 196,568 | 189,065 | 196,568 | 189,065 |
| **Amounts owed to credit institutions** | 18 | 10,030 | 10,014 | 10,030 | 10,014 |
| **Amounts owed to other customers** | 19 | 5,179 | 4,408 | 5,179 | 4,408 |
| **Other liabilities** | 20 | 261 | 332 | 261 | 567 |
| **Accruals and deferred income** | 21 | 528 | 498 | 528 | 470 |
| **Provisions for liabilities and charges** | | | | | |
| Other provisions | 22 | 240 | 242 | 240 | 242 |
| Net pension liability | 23 | 305 | 329 | 305 | 329 |
| **Reserves** | 26 | | | | |
| Revaluation reserve | | 95 | 97 | 95 | 97 |
| General reserve | | 18,957 | 18,910 | 18,957 | 18,703 |
| **Total liabilities** | | **232,163** | **223,895** | **232,163** | **223,895** |

These accounts were approved by the Board of Directors on 26 February 2013.

**Kevin Richardson**
**Chairman**

**Roy Spragg**
**Director**

**James Bawa**
**Chief Executive**

# Group Cash Flow Statement

## for the year ended 31 December 2012

| | Group 2012 £'000 | Group 2011 £'000 |
|---|---|---|
| **Net cash inflow/(outflow) from operating activities** | 8,020 | (3,107) |
| **Tax paid** | (95) | (57) |
| **Capital expenditure** | | |
| Purchase of tangible fixed assets | (47) | (38) |
| **Increase/(Decrease) in cash** | **7,878** | **(3,202)** |

| Reconciliation of profit on ordinary activities before tax to net cash inflow/(outflow) from operating activities | 2012 £'000 | 2011 £'000 |
|---|---|---|
| **Profit on ordinary activities before tax** | 387 | 686 |
| (Increase)/decrease in prepayments and accrued income | (147) | 17 |
| Increase/(decrease) in accruals and deferred income | 233 | (6) |
| Decrease in provisions for bad and doubtful debts | (98) | (43) |
| (Decrease)/increase in other provisions | (2) | 96 |
| Non-cash movements in debt securities | (103) | (37) |
| Depreciation of tangible fixed assets | 67 | 62 |
| Pension charge less contributions paid | (294) | (272) |
| **Net cash inflow from trading activities** | 43 | 503 |
| (Increase)/decrease in loans and advances to customers | (14,537) | 12,281 |
| Increase/(decrease) in shares | 7,318 | (12,595) |
| Increase/(decrease) in amounts owed to credit institutions and other customers | 769 | (2,787) |
| Decrease in loans and advances to credit institutions | 7,000 | - |
| Increase in Treasury Bills | (930) | (3,000) |
| Decrease in debt securities | 8,337 | 2,487 |
| Increase in other liabilities | 20 | 4 |
| **Net cash inflow/(outflow) from operating activities** | **8,020** | **(3,107)** |

| Analysis of decrease in cash | |
|---|---|
| Loans and advances to credit institutions repayable on demand (note 12) | £'000 |
| At 1 January 2012 | 15,560 |
| Increase during the year | 7,878 |
| **At 31 December 2012** | **23,438** |

# Notes to the Accounts

**for the year ended 31 December 2012**

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

### c) Income recognition

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

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

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

### d) Treasury Bills and Debt securities

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

### e) Tangible fixed assets and depreciation

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

Freehold buildings – fifty years

Major improvements to buildings – ten years

Computers, electronic equipment and software – two to seven years

Motor vehicles – four years

Fixtures and fittings – four to ten years

### f) Taxation

Current tax, including UK Corporation Tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted, or substantively enacted, by the balance sheet date.

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

### g) Provisions

Provisions for 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 takes full consideration of the impact on its arrears position from using these forbearance techniques and it sets an appropriate level of provisions against such loans where provisions are deemed necessary.

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 interest and capital shortfall on loans made to the FSCS by HM Treasury to be levied by the Financial Services Compensation Scheme for the Scheme years 2012/13 and 2013/14 and by reference to the amount of deposits held by the Society at 31 December 2011 and 31 December 2012.

### Pensions

The Group operates two pension schemes.

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

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

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

Further information concerning pensions is set out in note 23.

### h) 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.

### i) Incentives to borrowers

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

### j) 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.

### k) Other operating income

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

# Notes to the Accounts

**For the year ended 31 December 2012**

## 2 Directors

(a) Directors' remuneration
Directors' remuneration totalled £343,000 (2011: £384,000). Full details are given in the Report of the Directors on Remuneration on page 9.

(b) Transactions with Directors
At 31 December 2012 two loans totalling £177,114 (2011: two loans totalling £191,211) made in the ordinary course of business and falling within Section 65 of the Building Societies Act 1986 were outstanding to two Directors.

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

## 3 Employees

| | Group | | Society | |
|---|---|---|---|---|
| **Average number of persons employed by the Society** | **2012 Number** | **2011 Number** | **2012 Number** | **2011 Number** |
| Full time | 29 | 29 | 28 | 28 |
| Part time | 11 | 9 | 11 | 9 |
| | **40** | **38** | **39** | **37** |

## 4 Interest receivable and similar income

| | Group & Society | |
|---|---|---|
| | **2012 £'000** | **2011 £'000** |
| On loans fully secured on residential property | 6,712 | 6,493 |
| On other loans | 236 | 243 |
| On debt securities | 221 | 281 |
| On liquid assets other than debt securities | 219 | 254 |
| | **7,388** | **7,271** |

## 5 Interest payable and similar charges

| | Group & Society | |
|---|---|---|
| | **2012 £'000** | **2011 £'000** |
| On shares held by individuals | 4,437 | 4,240 |
| On deposits and other borrowings | 118 | 104 |
| | **4,555** | **4,344** |

## 6 Income from Investments

| | Group | | Society | |
|---|---|---|---|---|
| | **2012 £'000** | **2011 £'000** | **2012 £'000** | **2011 £'000** |
| Income from shares in subsidiary companies | - | - | 212 | - |

## 7 Administrative expenses

| | Group | | Society | |
|---|---|---|---|---|
| | 2012<br>£'000 | 2011<br>£'000 | 2012<br>£'000 | 2011<br>£'000 |
| Employee costs | | | | |
| wages and salaries | 1,274 | 1,168 | 1,174 | 1,084 |
| social security costs | 135 | 134 | 126 | 123 |
| pension costs - defined contribution scheme | 69 | 66 | 69 | 66 |
| other pension costs (see note 23) | 9 | 8 | 9 | 8 |
| | 1,487 | 1,376 | 1,378 | 1,281 |
| Auditors' remuneration for audit work | 35 | 34 | 33 | 32 |
| Other expenses | 1,102 | 948 | 1,104 | 938 |
| | **2,624** | **2,358** | **2,515** | **2,251** |

No non-audit services were provided during 2012 or 2011 by the Society's external auditors, Deloitte LLP, but during 2013 the firm has provided services in connection with the Society's application to borrow from the Funding for Lending Scheme.

## 8 Other operating charges

| | Group Society | |
|---|---|---|
| | 2012<br>£'000 | 2011<br>£'000 |
| Other operating charges include: | | |
| Incentives to borrowers | 28 | 17 |

## 9 Provisions for bad and doubtful debts

| | Group & Society | | |
|---|---|---|---|
| | Loans fully secured on residential property | Loans fully secured on land | Total |
| **At 1 January 2012** | £'000 | £'000 | £'000 |
| Portfolio provision | 500 | - | 500 |
| Specific provision | 96 | - | 96 |
| | **596** | **-** | **596** |
| **Movements in provisions during the year** | | | |
| Portfolio provision | (50) | - | (50) |
| Specific provision | (45) | - | (45) |
| | **(95)** | **-** | **(95)** |
| **At 31 December 2011** | | | |
| Portfolio provision | 450 | - | 450 |
| Specific provision | 51 | - | 51 |
| | **501** | **-** | **501** |

**The credit to income and expenditure is made up as follows:**

| | Group & Society | |
|---|---|---|
| | 2012<br>£'000 | 2011<br>£'000 |
| Movement in provisions as above | (95) | (30) |
| Amounts written off during the year | 48 | 14 |
| Recoveries of amounts previously written off | (4) | (71) |
| Release of higher lending charges | (3) | (13) |
| | **(54)** | **(100)** |

## 10 Tax on profit on ordinary activities

| | Group | | Society | |
|---|---|---|---|---|
| | 2012 £'000 | 2011 £'000 | 2012 £'000 | 2011 £'000 |
| **Current tax** | | | | |
| UK Corporation tax | 5 | 95 | 4 | 86 |
| **Total current tax** | **5** | **95** | **4** | **86** |
| **Deferred tax** | | | | |
| Origination and reversal of timing differences (note 25) | 22 | 35 | 22 | 35 |
| Other timing differences relating to pension scheme contributions | 75 | 69 | 75 | 69 |
| **Total deferred tax** | **97** | **104** | **97** | **104** |
| **Tax on profit on ordinary activities** | **102** | **199** | **101** | **190** |

The average full rate of corporation tax for the year was 24.6% (2011: 26.6%) which is the UK standard rate.
The actual tax charge for the current and previous year differs from the standard rate for the reasons set out below:

| | Group | | Society | |
|---|---|---|---|---|
| | 2012 % | 2011 % | 2012 % | 2011 % |
| Standard tax rate for period as percentage of profit | 25 | 26 | 25 | 26 |
| 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 | (15) | (12) | (15) | (13) |
| Small companies' tax relief | - | (3) | - | (3) |
| | **-** | **11** | **-** | **10** |

## 11 Treasury bills and other eligible bills

| | Group & Society | |
|---|---|---|
| | 2012 £'000 | 2011 £'000 |
| **Treasury Bills** | **6,926** | **5,996** |

## 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: | 2012 £'000 | 2011 £'000 |
| - accrued interest | 27 | 18 |
| - repayable on demand | 23,438 | 15,560 |
| - maturing in not more than three months | 2,000 | 9,000 |
| - maturing in more than three months but not more than one year | 2,000 | 2,000 |
| | **27,465** | **26,578** |

## 13 Debt securities

| | Group & Society | |
|---|---|---|
| | 2012 £'000 | 2011 £'000 |
| Issued by other borrowers | 15,050 | 23,326 |
| Debt securities, all of which are unlisted, mature from the date of the balance sheet as follows: | | |
| - accrued interest | 60 | 56 |
| - maturing in not more than one year | 9,870 | 21,266 |
| - maturing in more than one year | 5,120 | 2,004 |
| | **15,050** | **23,326** |
| Included in debt securities are: - unamortised premiums | 8 | 77 |

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 £39.3m of debt securities (2011: £53.4m). £47.6m (2011: £56.8m) of debt securities matured in the year.

## 14 Loans and advances to customers

| | Group & Society | |
|---|---|---|
| | 2012 £'000 | 2011 £'000 |
| Loans and advances to customers are repayable from the balance sheet date as follows: | | |
| - maturing in not more than three months | 2,062 | 1,936 |
| - maturing in more than three months but not more than one year | 5,579 | 5,093 |
| - maturing in more than one year but not more than five years | 31,578 | 29,348 |
| - maturing in more than five years | 143,232 | 131,537 |
| | **182,451** | **167,914** |
| Less: | | |
| provisions (see note 9) | (501) | (596) |
| fees collected and provided against high loan-to-value advances (see note 9) | - | (3) |
| | **181,950** | **167,315** |

# Notes to the Accounts
**for the year ended 31 December 2012**

## 15 Tangible fixed assets

| | Group & Society | | |
|---|---|---|---|
| | Freehold land and buildings £'000 | Equipment, fixtures, fittings and vehicles £'000 | Total £'000 |
| Cost or valuation<br>At 1 January 2012 | 629 | 763 | 1,392 |
| Additions | - | 47 | 47 |
| **At 31 December 2012** | **629** | **810** | **1,439** |
| Accumulated depreciation<br>At 1 January 2012 | 300 | 651 | 951 |
| Charge for the year | 19 | 48 | 67 |
| **At 31 December 2012** | **319** | **699** | **1,018** |
| Net book values | | | |
| **At 31 December 2012** | **310** | **111** | **421** |
| **At 31 December 2011** | **329** | **112** | **441** |

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. | 2012 £'000 | 2011 £'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 (2011: £337,000). The accumulated historical cost depreciation on these revalued assets is £144,000 (2011: £144,000). Included in the total net book value of freehold land and buildings is £125,000 (2011: £125,000) in respect of land on which no depreciation is provided.

## 16 Other assets

| | Group | | Society | |
|---|---|---|---|---|
| | 2012 £'000 | 2011 £'000 | 2012 £'000 | 2011 £'000 |
| Prepayments and accrued income – due within one year | 237 | 103 | 237 | 103 |
| Deferred tax asset (see note 25) | 114 | 136 | 114 | 136 |
| | 351 | 239 | 351 | 239 |

## 17 Shares

| | Group & Society | |
|---|---|---|
| | 2012 £'000 | 2011 £'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 | 1,533 | 1,348 |
| - on demand | 85,382 | 87,936 |
| - in not more than three months | 58,875 | 51,204 |
| - repayable in more than three months but not more than one year | 34,185 | 24,680 |
| - repayable in more than one year but not more than five years | 16,593 | 23,897 |
| | 196,568 | 189,065 |

## 18 Amounts owed to credit institutions

| | Group & Society | |
|---|---|---|
| | 2012 £'000 | 2011 £'000 |
| Amounts owed to credit institutions are repayable from the balance sheet date in the ordinary course of business as follows: | | |
| - accrued interest | 30 | 14 |
| - repayable in not more than three months | 10,000 | 9,000 |
| - repayable in more than three months but not more than one year | - | 1,000 |
| | 10,030 | 10,014 |

## 19 Amounts owed to other customers

| | Group & Society | |
|---|---|---|
| | 2012 £'000 | 2011 £'000 |
| Amounts owed to other customers are repayable from the balance sheet date in the ordinary course of business as follows: | | |
| - accrued interest | 2 | - |
| - on demand | 130 | 133 |
| - repayable in not more than three months | 5,047 | 4,275 |
| | 5,179 | 4,408 |

## 20 Other liabilities

| | Group | | Society | |
|---|---|---|---|---|
| | 2012 £'000 | 2011 £'000 | 2012 £'000 | 2011 £'000 |
| Falling due within one year | | | | |
| Income tax | 241 | 233 | 241 | 233 |
| Corporation tax | 4 | 95 | 4 | 86 |
| Other creditors | | | | |
| - Amounts owed to Group undertakings | - | - | - | 244 |
| - Other creditors | 16 | 4 | 16 | 4 |
| | 261 | 332 | 261 | 567 |

# Notes to the Accounts

## for the year ended 31 December 2012

### 21 Accruals and deferred income

| | Group | | Society | |
|---|---|---|---|---|
| | 2012 £'000 | 2011 £'000 | 2012 £'000 | 2011 £'000 |
| Accruals | | | | |
| Other accruals | 473 | 414 | 473 | 400 |
| Deferred income | 55 | 84 | 55 | 70 |
| | 528 | 498 | 528 | 470 |

All amounts fall due within one year.

### 22 Other provisions

| | Group & Society | |
|---|---|---|
| | 2012 £'000 | 2011 £'000 |
| Other provisions comprise | | |
| Provisions for contributions to Financial Services Compensation Scheme (FSCS) | 220 | 221 |
| Other provisions | 20 | 21 |
| | 240 | 242 |

| | | |
|---|---|---|
| The charge to income and expenditure is made up as follows: | | |
| FSCS charge for year | 125 | 155 |
| FSCS adjustment to previous estimate | (51) | - |
| Adjustments to other provisions | (1) | - |
| | 73 | 155 |

| | | |
|---|---|---|
| **Provisions for contributions to FSCS** | | |
| Movement in year: | | |
| At 1 January 2012 | 221 | 125 |
| Charge for year | 125 | 155 |
| Adjustment to previous estimates | (51) | - |
| Paid in year | (75) | (59) |
| **At 31 December 2012** | **220** | **221** |

### Financial Services Compensation Scheme

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

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

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

To recover the interest cost the FSCS charges a management expense levy to all UK deposit takers, including Teachers Building Society. During 2012 the Society paid £75,000 (which it had fully provided for in the 2011 accounts) in respect of the levy for the 2011/12 scheme year. This amount was based on the Society's deposit balances at 31 December 2010. At 31 December 2012 the Society has also provided £95,000 in respect of the amount due for 2012/13 ( based on deposit balances at 31 December 2011) and which will be paid in 2013. A further amount of £125,000 has been provided in respect of the 2013/14 scheme year (based on balances at 31 December 2012). 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.

## 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 £69,000 (2011: £66,000).

### Defined Benefit Scheme

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

The most recent full actuarial valuation was at 1 April 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. Under the current recovery plan, the Trustees of the scheme and the Society have agreed an annual contribution by the Society of £280,000 each year until 31 January 2015 to amortise the shortfall. The amount and duration of the annual contribution is reassessed at each subsequent full actuarial valuation. A valuation is carried out at each year end by an independent actuary in accordance with the requirements of FRS17. At 31 December 2012 this showed that the value of the scheme's assets was £9.4m (2011: £8.2m) and that the actuarial value of these assets represented 96% (2011: 95%) of the benefits that had accrued to members. During 2011, the Society and Trustees of the Scheme agreed that, from 1st January 2013, the pensionable pay of deferred members would generally be increased in line with the Consumer Prices Index (CPI) rather than the Retail Prices Index (RPI). The effect of this change was to reduce scheme liabilities by £229,000.

| | Group & Society | |
|---|---|---|
| | **2012** | **2011** |
| **Key assumptions** | | |
| Rate of increase in salaries | 3.0% | 3.0% |
| Discount rate | 4.4% | 4.7% |
| Inflation rate RPI | 3.0% | 3.0% |
| Inflation rate CPI | 2.3% | 2.0% |
| Rate of increase in pensions in payment | 5.0% | 5.0% |
| Expected return on assets | 5.0% | 5.4% |
| **Mortality assumptions appropriate to the membership of the scheme** | | |
| Base mortality table | PCMA00/PCFA00 | PCMA00/PCFA00 |
| Mortality projection basis | CMI 2010 | Long cohort |
| Life expectancies at age 65 | | |
| Male currently aged 65 | 88.7 | 88.6 |
| Female currently aged 65 | 89.8 | 89.8 |
| Male currently aged 45 | 91.0 | 90.9 |
| Female currently aged 45 | 91.4 | 91.3 |
| **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% | 60.7% |
| Global equities | 19.2% | 0.0% |
| Corporate bonds | 15.3% | 15.7% |
| Index linked bonds | 23.7% | 23.3% |
| Cash | 2.8% | 0.3% |

# Notes to the Accounts

## for the year ended 31 December 2012

### 23 Pension costs (continued)

| | Group & Society | |
|---|---|---|
| The constituents of the shortfall in the scheme and the net pension asset or liability were: | **2012 £'000** | **2011 £'000** |
| Market value of assets: | | |
| UK equities | 3,647 | 4,998 |
| Global equities | 1,791 | - |
| Corporate bonds | 1,432 | 1,290 |
| Index linked bonds | 2,216 | 1,920 |
| Cash | 266 | 29 |
| Total fair value of assets | 9,352 | 8,237 |
| Present value of defined benefit obligations | (9,743) | (8,664) |
| Shortfall in the scheme | (391) | (427) |
| Related deferred tax asset | 86 | 98 |
| **Net pension liability** | **(305)** | **(329)** |

| **Analysis of changes in the fair value of scheme assets** | | |
|---|---|---|
| Opening fair value of scheme assets | 8,237 | 7,717 |
| Expected return | 451 | 461 |
| Employer's contributions | 303 | 280 |
| Actuarial gain/(loss) | 424 | (145) |
| Benefits paid | (63) | (76) |
| **Closing fair value of scheme assets** | **9,352** | **8,237** |
| The value of assets has been taken as the value of units at bid price on 31 December 2012. | | |

| **Analysis of changes in the present value of scheme liabilities** | | |
|---|---|---|
| Opening scheme liabilities | 8,664 | 8,023 |
| Current service cost | 9 | 8 |
| Interest cost | 406 | 431 |
| Actuarial loss | 727 | 278 |
| Benefits paid | (63) | (76) |
| **Closing scheme liabilities** | **9,743** | **8,664** |

| **Analysis of amount charged to Operating profit** | | |
|---|---|---|
| - Current service cost | 9 | 8 |

| **Analysis of amount charged to Other finance charges** | | |
|---|---|---|
| - Expected return on pension scheme assets | 451 | 461 |
| - Interest on pension scheme liabilities | (406) | (431) |
| - Scheme expenses paid | (45) | (72) |
| | **-** | **(42)** |

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

| History | | | | | |
|---|---|---|---|---|---|
| History | 2012 £'000 | 2011 £'000 | 2010 £'000 | 2009 £'000 | 2008 £'000 |
| Fair value of scheme assets | 9,352 | 8,237 | 7,717 | 6,671 | 5,575 |
| Present value of scheme liabilities | (9,743) | (8,664) | (8,023) | (7,753) | (6,137) |
| Deficit | (391) | (427) | (306) | (1,082) | (562) |
| Experience adjustments on scheme assets | 424 | (145) | 394 | 758 | (1,027) |
| Experience adjustments on scheme liabilities | - | 336 | (42) | - | (113) |

## 24 Investments

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

-TBS Financial Services Limited, which has issued share capital of £1, traded 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.

-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.

## 25 Deferred taxation

| | Group & Society | |
|---|---|---|
| | 2012 £'000 | 2011 £'000 |
| (a) Movement in deferred taxation balance in the period<br>At 1 January 2012 | 136 | 170 |
| Decrease in asset recognised in the income and expenditure account | (22) | (34) |
| **At 31 December 2012 (See note 16)** | **114** | **136** |
| (b) Analysis of deferred taxation balance | | |
| Depreciation in excess of capital allowances | 12 | 19 |
| Short term differences (less than 3 years) | 102 | 117 |
| | **114** | **136** |

## 26 Reserves

| | Group General reserve | Society General reserve | Group & Society Revaluation reserve |
|---|---|---|---|
| | £'000 | £'000 | £'000 |
| At 1 January 2012 | 18,910 | 18,703 | 97 |
| Total recognised gains and losses for the financial year | 45 | 252 | - |
| Transfer to general reserve - depreciation on revaluation surplus | 2 | 2 | (2) |
| **At 31 December 2012** | **18,957** | **18,957** | **95** |

## 27 Financial commitments

### a) Capital commitments

At 31 December 2012 there was no capital expenditure contracted for but not provided in the accounts (2011: £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 and the prior year. The Society has also provided for the first of three annual contributions towards the 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 Group is a retailer of financial instruments in the form of mortgage and savings products. The Group also uses wholesale financial instruments to invest liquid asset balances, raise funds and manage the risks arising from its operations.

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

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

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

### Liquidity risk

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

### Derivatives

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

During the year ended 31 December 2012 the Group 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 Group'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 13.

| | Group & Society | | |
|---|---|---|---|
| **Interest rate contracts:** | **Notional principal amount** | **Risk weighted amount** | **Replacement cost** |
| | **£'000** | **£'000** | **£'000** |
| At 31 December 2012 | | | |
| Interest rate swaps | 60,150 | 291 | 94 |
| At 31 December 2011 | | | |
| Interest rate swaps | 63,300 | 110 | 13 |

### 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 | |
|---|---|---|
| | **2012 £'000** | **2011 £'000** |
| **Debt securities** | | |
| Book value | 15,050 | 23,326 |
| Fair value | 15,011 | 23,268 |
| **Interest rate contracts** | | |
| Book value | - | - |
| Fair value | (878) | (1,645) |

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 Group anticipates no gains or losses will be realised on sale or termination in the forthcoming year.

## Interest rate risk

The Group is exposed to movements in interest rates and manages this exposure on a continuous basis, within limits set by the Board, using both on and off balance sheet instruments. The Directors are satisfied that the Group was within its exposure limits and that assets and liabilities were adequately matched during 2012.

**The Group's interest rate exposure was:**

**At 31 December 2012**

| | 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 | - | - | - | - | 1,334 | **1,334** |
| Capital | - | - | - | - | 19,052 | **19,052** |
| **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)** | **-** |

**At 31 December 2011**

| | 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 | 48,152 | 7,674 | - | - | 74 | **55,900** |
| Loans and advances to customers | 95,103 | 9,253 | 16,918 | 46,041 | - | **167,315** |
| Other assets including tangible fixed assets | - | - | - | - | 680 | **680** |
| **Total assets** | **143,255** | **16,927** | **16,918** | **46,041** | **754** | **223,895** |
| **Liabilities** | | | | | | |
| Shares | 139,127 | 11,934 | 12,745 | 23,897 | 1,362 | **189,065** |
| Amounts owed to credit institutions and other customers | 13,422 | 1,000 | - | - | - | **14,422** |
| Other liabilities | - | - | - | - | 1 ,401 | **1,401** |
| Capital | - | - | - | - | 19,007 | **19,007** |
| **Total Liabilities** | **152,549** | **12,934** | **12,745** | **23,897** | **21,770** | **223,895** |
| **Off balance sheet items** | 51,300 | (9,500) | (8,600) | (33,200) | - | - |
| **Interest rate gap** | **42,006** | **(5,507)** | **(4,427)** | **(11,056)** | **(21,016)** | **-** |

# Annual business statement

## for the year ended 31 December 2012

### 1 Statutory percentages

| | 2012 | Statutory limit |
|---|---|---|
| Lending limit | 2.79% | 25.00% |
| Funding limit | 7.18% | 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

| | 2012 | 2011 |
|---|---|---|
| As a percentage of shares and borrowings | | |
| Gross capital | 9.00% | 9.34% |
| Free capital | 9.01% | 9.37% |
| Liquid assets | 23.35% | 27.47% |
| As a percentage of mean total assets | | |
| Profit after tax | 0.12% | 0.21% |
| Management expenses | 1.18% | 1.05% |

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 2012 the Directors were:**

| Name | Date of Birth | Occupaton | 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 |
| S E Gorham | 10/07/1957 | Finance Director | 16/01/2003 | |
| | | | | TBS Financial Services Ltd<br>The Arts University Bournemouth |
| M H Percy | 28/09/1949 | Company Director | 08/04/2004 | |
| | | | | Stena (UK) Ltd |
| | | | | Stena Ferries Ltd |
| | | | | Stena HSS Holdings Ltd |
| | | | | Stena North Sea Ltd |
| | | | | Stena Ropax Ltd |
| | | | | TBS Financial Services Ltd |
| 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 |
| | | | | Vivrymas Ltd |
| R J Spragg | 18/11/1951 | Company Director | 01/01/2009 | |
| | | | | Bournemouth University |
| | | | | Tunbridge Wells Equitable Friendly Society Ltd |
| | | | | TBS Financial Services Ltd |

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

At 31 December 2012 none of the Directors had service contracts except the Executive Directors, Mr Bawa and Mr Gorham.

Their contracts are dated 7 May 2002 and 27 July 1987 respectively and may be terminated by the Society with one year's notice or by the employee with six months' notice.

**b) At 31 December 2012 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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