Teachers Building Society

Report and Accounts

For the year ended 31 December 2010

Teachers
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Annual Report and Accounts
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Directors, Management and Professional Advisors

Directors

K F Richardson, Chairman
J J Bawa, Chief Executive
S E Gorham, Finance Director
K A Flaherty, Solicitor and Secretary
M H Percy, Non-executive Director
M J Reed, Non-executive Director
R J Spragg, Non-executive Director

Auditors

Deloitte LLP, Southampton, United Kingdom

Bankers

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

Principal Office

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

FSA Firm Reference Number

156580

Chairman's Statement

This is my first report as Chairman, and I note that my predecessor has in recent years commented on the difficult and distorted market in which we have operated. Nothing changed in 2010 – indeed the mortgage market has had the most difficult year since we as a Society were formed.

Readers of financial reports in recent years will by now be familiar with phrases such as 'a challenging market', 'difficult economic conditions', and 'uncertain times', but it would be hard to describe 2010 in more positive terms. Nevertheless, while many of our members will rightly be concerned about the security of their employment or the effects of low interest rates on their savings, we have successfully continued our focus on providing them with financial security and long-term value and have made the best we can of these conditions.

Over the last year we have sought to maintain the strength and stability of the Society rather than pursue asset growth, though the low levels of new lending are inevitably frustrating and disappointing. But, as we report elsewhere, careful financial management has helped generate stronger capital and liquidity positions, as well as allowing us to offer exceptionally good value savings and mortgage products and to improve our customer service with developments in our telephone and IT systems. We shall be continuing developments in these areas in 2011.

The Government's determination to establish greater consumer confidence in all areas of the financial services sector meant that the level of regulatory oversight and pace of change did not ease in 2010. We now report to our regulator, the Financial Services Authority, under new and more restrictive regimes which took effect during the year and, in common with all firms, engaged in frequent dialogue with the FSA on many matters. While this intensive supervision has been demanding it is generally constructive and we recognise that its purpose is to strengthen the sector.

In addition, as many members will be aware, the new Government has stated its intention to restructure the financial supervisory regime, transferring some powers from the Financial Services Authority to the Bank of England. The recommendations of the Mortgage Market Review and the Retail Distribution Review will also take effect in the coming months and years, and further changes by the Basel Committee on Banking Supervision, are planned so as to strengthen the capital held by banks and building societies. We urge the Government to ensure that the resultant changes to the supervisory structure, and in particular those to the sale of mortgages and financial services, do not result in less choice and poorer services for consumers.

I cannot finish my report without mentioning and thanking all of our staff. Throughout the year they have maintained the high levels of service which you, our members, have come to expect and which they are so proud to deliver - a level of service which differentiates us from our competitors and which you so often tell us is one of the main reasons why you support us. They have all worked with determination and enthusiasm and I can assure them that they are not taken for granted. I and all the board members truly appreciate what they have achieved and are confident that, as we move forward, they will continue to redefine the meaning of exceptional service in the sector.

Kevin Richardson
Chairman
22 February 2011

Chief Executive's Report

The continuing difficult and uncertain economic environment in 2010 led many consumers to put off key buying decisions and to draw on their savings to combat the effects of rising inflation and reduced household disposable incomes. The impact of this for building societies such as Teachers was a decline in mortgage transactions with net mortgage lending in the UK a fraction of its peak just 3 years earlier.

Consumers in general increased the amount they saved in retail deposits compared to 2009, but the balance of savings still remains lower than in recent years as we all deal with increased household costs, the fear of unemployment and concerns about lower returns.

At Teachers Building Society, we recognised the issues our members were facing and sought to balance the need to keep mortgage costs down for borrowers with that of delivering good returns to investors. Protecting mortgage and savings rates for members meant we limited growth in profits.

During the summer, we removed arrangement fees for borrower members taking out a new mortgage with the Society, so reducing the costs of home improvement and house purchase. Not forgetting that our roots lie in helping teachers get on the housing ladder, we successfully launched our HomeBuy Direct mortgage, which as part of the government and property developer sponsored HomeBuy scheme, helped many teachers, who would otherwise have been unable to do so, buy their first home.

Our savings rates continued to deliver fair returns and we were delighted to be recognised for this when being commended in the Moneyfacts Awards 2010 for the third year running. During the first part of 2010, we relaunched our Reward Saver account offering competitive returns and flexible access, recognising that changing circumstances meant that members wanted greater access to their money without sacrificing income. Towards the end of the year, we launched our Regular Saver account which has proved extremely popular and which remained in the Best Buy lists for the rest of 2010.

At Teachers Building Society we are proud of the high level of service we provide to members. Customer satisfaction scores remain very high, with our survey showing that 96% rate the service we provide as good or excellent. In 2010, we built on this by putting in place the changes to our mortgage and savings administration systems that I promised in my 2009 report. We also improved our telephone systems so that all members can now get straight through to one of our customer facing staff without going through an automated process, something we know frustrates many people when dealing with other providers.

The core priority in 2010 was to protect the balance sheet to ensure long term viability. Despite the investment made in delivering these improvements, Teachers Building Society increased profits and reserves in 2010. The fall in gross assets was expected, as consumers continued to pay down debt, but was still disappointing. Even so, our overall financial position has strengthened with free capital improving as a result of margin improvement and strong management of arrears. Last year, I reported that we ended the year with no properties in possession and, although a small number of repossessions did arise during the year, the continuing quality of our mortgage portfolio and selective underwriting meant that arrears overall were lower than in 2009. Nevertheless, we take a cautious view of the future and, having considered the impact the weak economy and cuts in public spending will have in the coming years, have maintained an appropriate level of provision against potential future losses.

During 2010, we continued to ensure we fully met our regulatory responsibilities and we recognise this is a vital part in helping to restore confidence following the banking crisis. We maintain a close working relationship with the Financial Services Authority (FSA) and provide regular reporting demonstrating our financial prudence and risk management.

Market conditions will remain challenging in 2011 but we believe we have made changes that will enable Teachers Building Society to achieve its plans and continue to provide the products and services our members expect.

In 2011, we will be making our products more widely available to members with developments of our online capability and the launch of intermediary introduced mortgages. We will continue to improve the clarity and consistency of our customer communications and will be investing in marketing to increase awareness of the Society among our core education and local markets.

Last year our staff raised over £1,000 for charity and made time to visit schools to help children improve their understanding of general financial issues. In 2011, we will be building on this and our links with the education sector as part of our corporate social responsibility programme.

Like the Chairman, I am indebted to our staff who have continued to deliver high standards of service to our members and demonstrated their care and commitment for the continued success of Teachers Building Society.

Finally, I welcome the appointment of Kevin Richardson as the new Chairman of the Teachers Building Society. His knowledge of the financial services sector has proved invaluable and his experience with the Society will ensure continuation on the Board, whilst also providing new vigour to guide the Society.

James Bawa
Chief Executive
22 February 2011

Directors' Report

The Directors have pleasure in presenting the Annual Report and Accounts for the year ended 31 December 2010.

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 and 5. The Society monitors its performance and development by reference to a range of key performance indicators. For 2010 results in these key areas were:

- Profit and Capital
  Net profit for the year of £397,000 (2009: £306,000) has been transferred to the Group general reserve. Gross capital (which comprises reserves and revaluation reserves) was £18.86m at the year-end (2009: £18.1m) and represented 8.62% of share and deposit liabilities (2009: 7.64%). Free capital (comprising gross capital and portfolio provisions for bad and doubtful debts less tangible fixed assets) was £18.95m (2009: £18.2m) or 8.66% (2009: 7.67%) of share and deposit liabilities.
- Assets
  Total assets decreased by 7.2% from £257.36m to £238.89m. Mortgage advances totalled £14.81m (2009: £16.16m).
- Management expenses
  Group management expenses measured as a percentage of average total assets were 0.93% (2009: 0.80%).
- Mortgage Arrears
  Overall, arrears outstanding on all accounts improved over the year, falling from £67,000 at 31 December 2009 to £53,000 at 31 December 2010. More serious arrears worsened very slightly: at the year-end 3 accounts (2009: 2) were 12 months or more in arrears. The balances on these accounts totalled £308,000 (2009: £126,000) and the arrears totalled £16,000 (2009: £8,000). 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 enable them 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. Although actual arrears experience has been good, the level of provisioning as shown in note 8 to the Accounts reflects the cautious outlook of the Directors towards the housing market. The Society's policy on provisioning is contained in note 1(g) to the Accounts.

Fixed assets

Changes to fixed assets during 2010 are summarised in note 14 to the Accounts.

Retirement benefits

The Society operated a defined benefit pension scheme until 31 December 2002 when it was substantially closed to the accrual of future benefits and staff were offered alternative pension provision. At the end of 2010 using the appropriate accounting provisions of Financial Reporting Standard 17 'Retirement Benefits', the scheme showed a deficit, net of deferred tax, of £220,000 (2009: £779,000). A funding plan has been put in place to eliminate the deficit progressively over the coming years. Further details are shown in note 22 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 2010 average creditor days were 21 (2009: 20).

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 regularly 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 27 to the Accounts.

- Credit Risk

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

  a) Credit risk relating to mortgages is primarily managed through the Society's Lending Policy which is regularly 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.

  b) The Financial Risk Management Policy includes limits on credit exposures to individual and groups of counterparties. This aspect of the policy is also reviewed frequently by the Credit Committee and amendments 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.

- 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 regularly 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 regularly reviewed and approved by the Executive Assets and Liabilities Committee under a delegated authority from the Board of Directors. A detailed analysis of the Group's interest rate sensitivity at the year end and an explanation of the financial risks and the controls in place to manage them is given in note 27 to the Accounts on pages 28 and 29.

- Operational Risk

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

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

Going Concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Chairman's Statement on page 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 27 to the Accounts.

The current economic conditions present increased risks and uncertainties for all businesses. The education sector, in which most of the Society's borrowers are employed, will not be immune from the planned reduction in public spending announced in 2010, although the Government has largely shielded the sector from spending cuts. The Directors have carefully considered these risks and uncertainties and the extent to which they might affect the preparation of the Accounts on a going concern basis.

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

The Group's assets are primarily in the form of mortgages to teachers on residential property. Regular assessment of the recoverability of all mortgage assets is undertaken and provision

Directors' Report Continued...

made where appropriate as described in the Directors' Report.

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

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

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

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

Directors

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

K F Richardson (appointed Chairman on 19th April 2010)

J J Bawa

K A Flaherty

A J Frost (until 19th April 2010)

S E Gorham

M H Percy

M J Reed

R J Spragg

At the next Annual General Meeting (in April 2011) Karen Flaherty, Simon Gorham, Martin Reed and Roy Spragg retire as Directors. All four, being eligible, offer themselves for re-election.

Directors' responsibilities for preparing annual accounts

The following statement, which should be read in conjunction with the statement of the auditors' responsibilities on page 10, 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

22 February 2011

Report of the Directors on Remuneration

Policy on Directors' Remuneration

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

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

Executive Directors' Remuneration

Remuneration of Executive Directors is reviewed annually by the Remuneration Committee, which comprises the Non-executive Director Martin Reed (who chairs the Committee) and the Society's Chairman, Kevin Richardson. 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 Society is not paying more than is necessary. 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. The Board decided at the beginning of 2010 that no bonus scheme would operate during the year; a small bonus was, however, paid to all staff in December 2010 in recognition of their dedication and hard work throughout the year.

Executive Directors' Contractual Terms

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

Non-executive Directors

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

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

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

Remuneration of Individual Directors

	2010 £'000	2009 £'000
Fees paid to non-executive Directors		
A J Frost (until 19th April 2010)	8	26
K F Richardson	24	20
M H Percy	19	19
M J Reed	17	17
R J Spragg	17	17
Total	**85**	**99**
Executive Directors' remuneration		
J J Bawa		
Salary	126	126
Car allowance and taxable benefits	11	10
Performance related pay	-	5
Pension contributions	12	12
Total	**149**	**153**
K A Flaherty		
Salary	66	65
Performance related pay	-	3
Total	**66**	**68**
S E Gorham		
Salary	71	71
Car allowance and taxable benefits	6	5
Performance related pay	-	3
Pension contributions	14	14
Total	**91**	**93**
Total Directors' remuneration	**391**	**413**

Martin Reed
Director
22 February 2011

Report on Corporate Governance

Corporate Governance

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

The Board and Committees

Kevin Richardson was appointed as Chairman of the Board on 19 April 2010, taking over from Alan Frost, who had chaired the Board since 20 April 2004, following Alan Frost's retirement from the Board. Kevin Richardson 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 the chairman of the audit committee.

Michael Percy is the appointed Senior Independent Director. Kevin Richardson was the Senior Independent Director until his appointment as Chairman in April 2010. All of the non-executive Directors are considered by the Board to be free from any business or other relationship which could materially interfere with the exercise of their independent judgement.

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

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

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

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

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

- 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 is chaired by Michael Percy and the other members during the year were Martin Reed, Kevin Richardson and Roy Spragg. Following his appointment as Chairman of the Board, 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. It also reviews the Annual Accounts prior to Board approval. The executive committees within the Society with specific responsibilities for overseeing 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. Until Alan Frost's retirement as Chairman in April 2010, the members of the Committee were Kevin Richardson (Chairman), Alan Frost and Martin Reed. Since April 2010, the members of the Committee were Martin Reed (Chairman) and Kevin Richardson.

■ 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. Until Alan Frost's retirement as Chairman in April 2010, the Committee members were Alan Frost (Chairman), James Bawa and Kevin Richardson. Since April 2010, the members were Kevin Richardson (Chairman), James Bawa and Roy Spragg.

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 three Executive Directors, James Bawa, Simon Gorham (who chairs the meetings) and Karen Flaherty, and other members of the Society's executive management team. The Committee reports to the Executive Committee and 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.

Credit Committee

The Committee monitors and reviews credit risks relating to the Society's lending to mortgage customers and treasury counterparties. The Committee meets monthly and comprises the three Executive Directors, James Bawa, Simon Gorham and Karen Flaherty (who chairs the meetings), 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 reviews, identifies and evaluates the key operational risks and the processes and controls designed to reduce or mitigate these risks. It ensures that these are documented and monitored through the Society's risk assessment process, making recommendations for improvements where necessary. The Committee meets monthly and is chaired by Karen Flaherty with members from the key operational areas of the business. 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 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.

Directors	Board	Audit & Risk Committee	Nomination Committee	Remuneration Committee
J J Bawa	8 (8)		2 (2)	
K A Flaherty	8 (8)			
A J Frost	2 (2)		1 (1)	1 (1)
S E Gorham	8 (8)			
M H Percy	8 (8)	6 (6)		
M J Reed	7 (8)	4 (6)		2 (3)
K F Richardson	8 (8)	6 (6)	2 (2)	3 (3)
R J Spragg	7 (8)	6 (6)	1 (1)	

Kevin Richardson
Director
22 February 2011

Independent Auditors' report

We have audited the Group and Society Annual Accounts of Teachers Building Society for the year ended 31 December 2010 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 27. 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.

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 2010 and of the Group's and the Society's income and expenditure for the year then ended; and
- have been prepared in accordance with the requirements of the Building Societies Act 1986.

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 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 Kingdom
22 February 2011

Income and Expenditure Accounts
for the Year Ended 31 December 2010

	Note	Group		Society	
		2010 £'000	2009 £'000	2010 £'000	2009 £'000
Interest receivable and similar income	4	6,923	8,083	6,923	8,083
Interest payable and similar charges	5	(4,576)	(6,024)	(4,576)	(6,024)
Net interest receivable		**2,347**	**2,059**	**2,347**	**2,059**
Other finance charges	22	(33)	(70)	(33)	(70)
Fees and commissions receivable		397	428	198	272
Fees and commissions payable		(97)	(130)	(95)	(129)
Other operating income	1(m)	94	107	107	107
Total operating income		**2,708**	**2,394**	**2,524**	**2,239**
Administrative expenses	6	(2,244)	(2,078)	(2,140)	(1,956)
Depreciation	14	(58)	(71)	(58)	(71)
Other operating charges	7	(10)	(12)	(10)	(12)
Operating profit before provisions		**396**	**233**	**316**	**200**
Provisions for bad and doubtful debts	8	124	247	124	247
Provisions for liabilities and charges	21	11	(60)	11	(60)
Profit on ordinary activities before tax		**531**	**420**	**451**	**387**
Tax on profit on ordinary activities	9	(134)	(114)	(117)	(107)
Profit for the financial year		**397**	**306**	**334**	**280**

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		397	306	334	280
Actuarial gains (losses) recognised in pension scheme	22	494	(725)	494	(725)
Movement in deferred tax relating to pension scheme		(138)	203	(138)	203
Total recognised gains and losses in the year	**25**	**753**	**(216)**	**690**	**(242)**

Balance Sheets
at 31 December 2010

Assets

	Note	Group		Society	
		2010 £'000	2009 £'000	2010 £'000	2009 £'000
Liquid assets					
Treasury Bills and other eligible bills	10	2,996	-	2,996	-
Loans and advances to credit institutions	11	29,792	29,826	29,792	29,826
Debt securities	12	25,809	27,785	25,809	27,785
Loans and advances to customers	13				
Loans fully secured on residential property		174,583	193,924	174,583	193,924
Other loans fully secured on land		4,970	5,098	4,970	5,098
Tangible fixed assets	14	465	457	465	457
Other assets	15	275	273	275	272
Total assets		**238,890**	**257,363**	**238,890**	**257,362**

Liabilities

Shares	16	201,621	214,369	201,621	214,369
Amounts owed to credit institutions	17	13,514	21,664	13,514	21,664
Amounts owed to other customers	18	3,700	1,127	3,700	1,127
Other liabilities	19	290	286	497	430
Accruals and deferred income	20	538	782	501	744
Provisions for liabilities and charges					
Other provisions	21	146	248	146	248
Net pension liability	22	220	779	220	779
Reserves	25				
Revaluation reserve		99	102	99	102
General reserve		18,762	18,006	18,592	17,899
Total liabilities		**238,890**	**257,363**	**238,890**	**257,362**

These accounts were approved by the Board of Directors on 22 February 2011.

Kevin Richardson
Chairman

Roy Spragg
Director

James Bawa
Chief Executive

Group Cash Flow Statement
for the Year Ended 31 December 2010

	Group 2010 £'000	Group 2009 £'000
Net cash inflow from operating activities	3,052	4,298
Tax (paid)/repaid	(13)	3
Capital expenditure		
Purchase of tangible fixed assets	(66)	(48)
Disposal of tangible fixed assets	2	4
Increase in cash	**2,975**	**4,257**

Reconciliation of profit on ordinary activities before tax to net cash inflow from operating activities	2010 £'000	2009 £'000
Profit on ordinary activities before tax	531	420
(Increase)/decrease in prepayments and accrued income	(43)	576
Decrease in accruals and deferred income	(255)	(1,161)
Decrease in provisions for bad and doubtful debts	(280)	(304)
Decrease in other provisions	(102)	(23)
Non-cash movements in debt securities	117	3
Depreciation of tangible fixed assets	58	71
(Profit)/loss on disposal of fixed assets	(2)	22
Pension charge less contributions paid	(282)	(205)
Net cash outflow from trading activities	**(258)**	**(601)**
Decrease in loans and advances to customers	19,749	18,759
Decrease in shares	(12,791)	(13,247)
Decrease in amounts owed to credit institutions and other customers	(5,523)	(8,486)
Decrease in loans and advances to credit institutions	3,000	-
Increase in Treasury Bills	(2,996)	-
Decrease in debt securities	1,911	8,569
Decrease in other liabilities	(40)	(696)
Net cash inflow from operating activities	**3,052**	**4,298**

Analysis of increase in cash	
Loans and advances to credit institutions repayable on demand (note 11)	£'000
At 1 January 2010	15,787
Increase during the year	2,975
At 31 December 2010	**18,762**

Notes to the Accounts
for the Year ended 31 December 2010

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 losses on advances and loans

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

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

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

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

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

Provision for Financial Services Compensation Scheme contribution

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

h) Higher lending charges

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

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

For further information see note 8 to the accounts.

i) Pensions

The Group operates two pension schemes.

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

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

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

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

Further information concerning pensions is set out in note 22.

j) Hedging instruments

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

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

k) Incentives to borrowers

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

l) Fees and commissions payable

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

m) Other operating income

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

Notes to the Accounts
for the Year ended 31 December 2010

2 Directors

(a) Directors' remuneration
Directors' remuneration totalled £391,000 (2009: £413,000). Full details are given in the Report of the Directors on Remuneration on page 9.

(b) Transactions with Directors
At 31 December 2010 two loans totalling £213,966 (2009: two loans totalling £271,201) 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	
Ave no. of persons employed by the Society	**2010 Number**	**2009 Number**	**2010 Number**	**2009 Number**
Full time	26	26	25	25
Part time	8	10	8	9
	34	**36**	**33**	**34**

4 Interest receivable and similar income

	Group & Society	
	2010 £'000	**2009 £'000**
On loans fully secured on residential property	6,069	6,608
On other loans	254	312
On debt securities	309	717
On liquid assets other than debt securities	291	446
	6,923	**8,083**

5 Interest payable and similar charges

	Group & Society	
	2010 £'000	**2009 £'000**
On shares held by individuals	4,405	5,331
On deposits and other borrowings	171	693
	4,576	**6,024**

6 Administrative expenses

	Group		Society	
Employee costs	2010 £'000	2009 £'000	2010 £'000	2009 £'000
Wages and salaries	1,063	1,007	976	917
Social security costs	127	125	118	115
Pension costs - defined contribution scheme	68	66	68	66
Other pension costs (see note 22)	8	7	8	7
	1,266	**1,205**	**1,170**	**1,105**
Auditors' remuneration for audit work	34	32	32	30
Other expenses	944	841	938	821
	2,244	**2,078**	**2,140**	**1,956**

7 Other operating charges

	Group & Society	
	2010 £'000	2009 £'000
Other operating charges include: Incentives to borrowers	**10**	**12**

8 Provisions for bad and doubtful debts

	Group & Society		
	Loans fully secured on residential property	Loans fully secured on land	Total
At 1 January 2010	£'000	£'000	£'000
Portfolio provision	550	-	550
Specific provision	330	-	330
	880	**-**	**880**
Movements in provisions during the year			
Portfolio provision	-	-	-
Specific provision	(254)	-	(254)
	(254)	**-**	**(254)**
At 31 December 2010			
Portfolio provision	550	-	550
Specific provision	76	-	76
	626	**-**	**626**

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

	Group & Society	
	2010 £'000	2009 £'000
Movement in provisions as above	(254)	(274)
Amounts written off during the year	156	60
Recoveries of amounts previously written off	-	-
Release of higher lending charges (see note 1(h) and note 13)	(26)	(33)
	(124)	**(247)**

Notes to the Accounts
for the Year ended 31 December 2010

9 Tax on profit on ordinary activities

	Group		Society	
	2010 £'000	2009 £'000	2010 £'000	2009 £'000
Current tax				
UK Corporation tax	57	13	40	6
Total current tax	**57**	**13**	**40**	**6**
Deferred tax				
Origination and reversal of timing differences	(2)	45	(2)	45
Other timing differences relating to pension scheme contributions	79	56	79	56
Total deferred tax	**77**	**101**	**77**	**101**
Tax on profit on ordinary activities	**134**	**114**	**117**	**107**

The full rate of corporation tax for the year is 28% (2009: 28%) which is the UK standard rate. The actual tax charge for the current and previous year differs from the standard rate for the reasons set out below:

Finance (No 2) Act 2010 was substantively enacted on 27 July 2010 and included legislation to reduce the main rate of corporation tax from 28% to 27% from 1 April 2011. Further reductions to the main rate are proposed to reduce the rate by 1% per annum to 24% by 1 April 2014 and are expected to be enacted separately each year. For the year ended 31 December 2010, as the reduction in statutory rate by 1% has been substantively enacted, deferred tax has been recognised on the balance sheet at the marginal rate at which it is expected to reverse. The average rate for the year was 26.4% (2009: 26.6%).

	Group		Society	
	2010 £'000 %	2009 £'000 %	2010 £'000 %	2009 £'000 %
Standard tax rate for period as percentage of profit	28	28	28	28
Effect of:				
Movement in short term timing differences	1	(2)	1	(2)
Contributions to the pension scheme	(16)	(14)	(18)	(15)
Small companies' tax relief	(3)	(1)	(3)	(1)
Taxable losses brought forward	-	(8)	-	(8)
	10	**3**	**8**	**2**

10 Treasury bills and other eligible bills

	Group & Society	
	2010 £'000	2009 £'000
Treasury Bills	**2,996**	**-**

11 Loans and advances to credit institutions

	Group & Society	
Loans and advances to credit institutions mature from the date of the balance sheet as follows:	**2010 £'000**	**2009 £'000**
- accrued interest	30	39
- repayable on demand	18,762	15,787
- maturing in not more than three months	7,000	11,000
- maturing in more than three months but not more than one year	4,000	2,000
- maturing in more than one year but not more than five years	-	1,000
	29,792	**29,826**

12 Debt securities

	Group & Society	
	2010 £'000	**2009 £'000**
Issued by other borrowers	25,809	27,785
Debt securities, all of which are unlisted, mature from the date of the balance sheet as follows:		
- accrued interest	88	36
- maturing in not more than one year	20,164	20,965
- maturing in more than one year	5,557	6,784
	25,809	**27,785**
Included in debt securities are:		
- unamortised premiums	132	172

Liquid assets include debt securities which are held for prudential purposes as part of the day-to-day management of the Society's liquidity which enables it to meet requests for withdrawals from investors, advance money to borrowers and generally fund its business activities. During the year the Society purchased £49.4m of debt securities (2009: £79.9m). £51.4m (2009: £88.5m) of debt securites matured in the year.

13 Loans and advances to customers

	Group & Society	
	2010 £'000	**2009 £'000**
Loans and advances to customers are repayable from the balance sheet date as follows:		
- maturing in not more than three months	1,998	1,991
- maturing in more than three months but not more than one year	5,329	5,535
- maturing in more than one year but not more than five years	31,418	33,742
- maturing in more than five years	141,450	158,676
	180,195	**199,944**
Less:		
provisions (see note 8)	(626)	(880)
fees collected and provided against high loan-to-value advances (see note 8)	(16)	(42)
	179,553	**199,022**

Notes to the Accounts
for the Year ended 31 December 2010

14 Tangible fixed assets

	Group & Society		
	Freehold land and buildings £'000	Equipment, fixtures, fittings and vehicles £'000	Total £'000
Cost or valuation At 1 January 2010	629	686	1,315
Additions	-	66	66
Disposals	-	(19)	(19)
At 31 December 2010	**629**	**733**	**1,362**
Accumulated depreciation At 1 January 2010	264	594	858
Charge for the year	17	41	58
Eliminated on disposal	-	(19)	(19)
At 31 December 2010	**281**	**616**	**897**
Net book values			
At 31 December 2010	**348**	**117**	**465**
At 31 December 2009	**365**	**92**	**457**

	Group & Society	
Cost or valuation of freehold land and buildings.	2010 £'000	2009 £'000
Valuation at 31 December 1983	500	500
Cost	129	129
	629	**629**

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

The historical cost of the revalued assets is £337,000 (2009: £337,000). The accumulated historical cost depreciation on these revalued assets is £139,000 (2009: £134,000). Included in the total net book value of freehold land and buildings is £125,000 (2009: £125,000) in respect of land on which no depreciation is provided.

15 Other assets

	Group		Society	
	2010 £'000	2009 £'000	2010 £'000	2009 £'000
Prepayments and accrued income – due within one year	105	105	105	104
Deferred tax asset (see note 24)	170	168	170	168
	275	**273**	**275**	**272**

16 Shares

	Group & Society	
	2010 £'000	2009 £'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	1,309	1,266
on demand	103,790	91,838
in not more than three months	48,746	60,194
repayable in more than three months but not more than one year	33,093	53,316
repayable in more than one year but not more than five years	14,683	7,755
	201,621	**214,369**

17 Amounts owed to credit institutions

	Group & Society	
	2010 £'000	2009 £'000
Amounts owed to credit institutions are repayable from the balance sheet date in the ordinary course of business as follows:		
accrued interest	14	64
repayable in not more than three months	13,500	20,600
repayable in more than three months but not more than one year	-	1,000
	13,514	**21,664**

18 Amounts owed to other customers

	Group & Society	
	2010 £'000	2009 £'000
Amounts owed to other customers are repayable from the balance sheet date in the ordinary course of business as follows:		
- accrued interest	5	9
- on demand	133	132
- repayable in not more than three months	3,562	936
- repayable in more than three months but not more than one year	-	50
	3,700	**1,127**

19 Other liabilities

	Group		Society	
	2010 £'000	2009 £'000	2010 £'000	2009 £'000
Falling due within one year				
Income tax	232	252	232	252
Corporation tax	57	13	40	6
Other creditors				
Amounts owed to Group undertakings	-	-	224	152
Other creditors	1	21	1	20
	290	**286**	**497**	**430**

Notes to the Accounts
for the Year ended 31 December 2010

20 Accruals and deferred income

	Group		Society	
	2010 £'000	2009 £'000	2010 £'000	2009 £'000
Accruals				
Other accruals	460	705	435	687
Deferred income	78	77	66	57
	538	**782**	**501**	**744**

All amounts fall due within one year.

21 Other provisions

	Group & Society	
	2010 £'000	2009 £'000
Other provisions comprise		
Provisions for contributions to Financial Services Compensation Scheme (FSCS)	125	210
Other provisions	21	38
	146	**248**
The charge to income and expenditure is made up as follows:		
FSCS charge for year	65	105
FSCS adjustment to previous estimate	(76)	(83)
Other provisions made in year	-	38
	(11)	**60**
Provisions for contributions to FSCS		
Movement in year		
At 1 January 2010	210	271
Charge for year	65	105
Adjustment to previous estimates	(76)	(83)
Paid in year	(74)	(83)
At 31 December 2010	**125**	**210**

Financial Services Compensation Scheme

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

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

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

To recover the interest cost the FSCS charges a management expense levy to all UK deposit takers, including Teachers Building Society. During 2010, the Society paid £74,000 (against which it had provided £105,000 in the 2009 accounts) in respect of the levy for the 2009/10 scheme year. This amount was based on the Society's deposit balances at 31 December 2008. At 31 December 2009 the Society had also provided a £105,000 in respect of the amount due for 2010/11 (which will be based on deposit balances at 31 December 2009).

Based on revised cost estimates issued by the FSA during 2010, the Society now expects to pay £60,000 in respect of the 2010/11 scheme year. In the 2010 accounts it has made provision for both this amount and for £65,000 in respect of the 2011/12 scheme year levy (which will be based on deposit balances at 31 December 2010).

Taking into account the Society's expected market share and the known claims, it is estimated that a further levy is expected to be payable in 2013 in respect of the 2012/13 scheme year. No provision has been made for this amount, nor for any compensation levies that may arise from claims in subsequent years as a result of any shortfall arising on the realisation of the assets acquired by the FSCS.

22 Pension costs

Defined Benefit Scheme

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

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

The full actuarial valuation at 1 April 2008 was updated at 31 December 2010 by a qualified independent actuary and showed that the market value of the scheme's assets was £7.7m and that the actuarial value of these assets represented 96% of the benefits that had accrued to members.

	Group & Society	
	2010	**2009**
Key assumptions		
Rate of increase in salaries	4.1%	4.3%
Discount rate	5.4%	5.4%
Inflation rate	3.6%	3.8%
Rate of increase in pensions in payment	5.0%	5.0%
Expected return on assets	5.9%	6.3%
Mortality assumptions appropriate to the membership of the scheme		
Base mortality table	PCA00	PCA00
Mortality projection basis	Long cohort	Long cohort
Life expectancies at age 65		
– Male currently aged 65	88.4	88.4
– Female currently aged 65	90.8	90.7
– Male currently aged 45	89.6	89.6
– Female currently aged 45	91.8	91.7
Scheme Assets		
The scheme assets are in the form of an insurance policy with Legal & General invested as follows:		
Equities	64.30%	61.40%
Index-linked gilts	19.70%	21.20%
Corporate bonds	15.60%	16.70%
Cash	0.40%	0.70%

Notes to the Accounts
for the Year ended 31 December 2010

22 Pension costs (continued)

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

	Group & Society	
	2010 £'000	2009 £'000
Market value of assets:		
- Bank deposits	29	49
- Legal & General funds	7,688	6,622
Total fair value of assets	7,717	6,671
Present value of defined benefit obligations	(8,023)	(7,753)
Shortfall in the scheme	(306)	(1,082)
Related deferred tax asset	86	303
Net pension liability	**(220)**	**(779)**
Analysis of changes in the fair value of scheme assets		
Opening fair value of scheme assets	6,671	5,575
Expected return	384	291
Employer's contributions	323	282
Actuarial gain/(loss)	394	758
Benefits paid	(55)	(235)
Closing fair value of scheme assets	**7,717**	**6,671**
The value of assets has been taken as the value of units at bid price on 31 December 2010.		
Analysis of changes in the present value of scheme liabilities		
Opening scheme liabilities	7,753	6,137
Current service cost	8	7
Interest cost	417	361
Actuarial (gain)/loss	(100)	1,483
Benefits paid	(55)	(235)
Closing scheme liabilities	**8,023**	**7,753**
Analysis of amount charged to Operating profit		
- Current service cost	8	7
Analysis of amount charged to Other finance charges		
- Expected return on pension scheme assets	427	291
- Interest on pension scheme liabilities	(417)	(361)
- Scheme expenses paid	(43)	-
	(33)	**(70)**

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

History					
History	2010 £'000	2009 £'000	2008 £'000	2007 £'000	2006 £'000
Fair value of scheme assets	7,717	6,671	5,575	5,982	4,890
Present value of scheme liabilities	(8,023)	(7,753)	(6,137)	(6,109)	(6,327)
- Deficit	(306)	(1,082)	(562)	(127)	(1,437)
Experience adjustments on scheme					
- assets	394	758	(1,027)	56	76
Experience adjustments on scheme					
- liabilities	(42)	-	(113)	44	(32)

23 Investments

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

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

24 Deferred taxation

	Group & Society	
	2010 £'000	**2009 £'000**
(a) Movement in deferred taxation balance in the period At 1 January 2010	168	213
Increase (decrease) in asset recognised in the income and expenditure account	2	(45)
At 31 December 2010 (see note 15)	**170**	**168**
(b) Analysis of deferred taxation balance		
Depreciation in excess of capital allowances	20	16
Short term timing differences	150	152
	170	**168**

25 Reserves

	Group General reserve	Society General reserve	Group & Society Revaluation reserve
	£'000	**£'000**	**£'000**
At 1 January 2010	18,006	17,899	102
Total recognised gains and losses for the financial year	753	690	-
Transfer to general reserve - depreciation on revaluation surplus	3	3	(3)
At 31 December 2010	**18,762**	**18,592**	**99**

26 Financial commitments

a) Capital commitments

At 31 December 2010 there was no capital expenditure contracted for but not provided in the accounts (2009: £nil).

b) Contingent liabilities

As explained in note 21, the Society has been notified of claims on the Financial Services Compensation Scheme and has made provision in these accounts for that proportion of the amount it expects to be required to contribute in respect of the interest which relates to the current year and the prior year. The Society has a contingent liability in respect of contributions to fund any shortfall that might arise on the realisation of assets acquired by the Scheme. No provision has been made in these accounts as this amount cannot currently be assessed.

c) Contingent assets

The Society is pursuing a claim against a third party in relation to the alleged over-valuation of a property which has resulted in losses being incurred by the Society. Based on the current status of the case, the Directors do not consider it possible to make a reliable estimation of a final settlement amount. No additional information has been disclosed in respect of this, as the Directors consider that such disclosure would be seriously prejudicial to the ongoing legal case.

Notes to the Accounts
for the Year ended 31 December 2010

27 Financial Instruments

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

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

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

Liquidity risk

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

Derivatives

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

During the year ended 31 December 2010 the Group entered into interest rate swaps in connection with fixed rate mortgage products. The table below shows the notional principal amounts, credit risk weighted amounts and replacement costs of derivatives outstanding at the year end. The notional principal amount indicates the volume of business outstanding at the balance sheet date and does not represent the amount at risk. The credit risk weighted amount is calculated in accordance with guidance issued by the Financial Services Authority on the implementation of the Capital Requirements Directive and is based on replacement cost, but also takes into account the extent of potential future exposure and the nature of the counterparty. Replacement cost represents the cost of replacing contracts with positive values, calculated at market rates current at the balance sheet date, and reflects the Group's maximum exposure should all counterparties default.

	Group & Society		
Interest rate contracts:	**Notional principal amount**	**Risk weighted amount**	**Replacement cost**
	£'000	**£'000**	**£'000**
At 31 December 2010			
Interest rate swaps	62,850	44	20
At 31 December 2009			
Interest rate swaps	99,050	59	-

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	
	2010 £'000	**2009 £'000**
Debt securities		
Book value	25,809	27,785
Fair value	25,644	27,718
Interest rate contracts		
Book value	-	-
Fair value	(3,003)	(4,841)

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

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 2010.

The Group's interest rate exposure was: At 31 December 2010

	Next interest reset date:					
	– in not more than three months	– in more than three months but not more than six months	– in more than six months but not more than one year	– in more than one year but not more than five years	Non-interest bearing	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Assets						
Liquid assets	50,356	3,998	3,074	1,051	118	**58,597**
Loans and advances to customers	102,177	8,473	10,970	57,933	-	**179,553**
Other assets including tangible fixed assets -	-	-	-	-	740	**740**
Total assets	**152,533**	**12,471**	**14,044**	**58,984**	**858**	**238,890**
Liabilities						
Shares	152,516	13,048	20,045	14,683	1,328	**201,621**
Amounts owed to credit institutions and other customers	16,964	250	-	-	-	**17,214**
Other liabilities	-	-	-	-	1,193	**1,193**
Capital -	-	-	-	-	18,862	**18,862**
Total Liabilities	**169,480**	**13,298**	**20,045**	**14,683**	**21,383**	**238,890**
Off balance sheet items	57,350	(8,750)	(8,500)	(40,100)	-	**-**
Interest rate gap	**40,403**	**(9,577)**	**(14,501)**	**4,201**	**(20,525)**	**-**

At 31 December 2009

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

Annual business statement
for the Year ended 31 December 2010

1 Statutory percentages

	2010	Statutory limit
Lending limit	2.91%	25.00%
Funding limit	7.87%	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

	2010	2009
As a percentage of shares and borrowings		
Gross capital	8.62%	7.64%
Free capital	8.66%	7.67%
Liquid assets	26.78%	24.29%
As a percentage of mean total assets		
Profit after tax	0.16%	0.11%
Management expenses	0.93%	0.80%

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 2010 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
K A Flaherty	12/02/1972	Solicitor	01/01/2009	
				None
S E Gorham	10/07/1957	Finance Director	16/01/2003	
				TBS Financial Services Ltd The Arts University College at Bournemouth
M H Percy	28/09/1949	Company Director	08/04/2004	
				Stena (UK) Ltd
				Stena Ferries Ltd
				Stena HSS Holdings Ltd
				Stena North Sea Ltd
				Stena Ropax Ltd
M J Reed	04/05/1959	Teacher	25/04/2006	
				None
K F Richardson	29/04/1953	Company Director	26/11/2003	
				Exeter Friendly Society Ltd
				TBS Financial Services Ltd
				Vivrymas Ltd
R J Spragg	18/11/1951	Company Director	01/01/2009	
				Bournemouth University
				TBS Financial Services Ltd

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

At 31 December 2010 none of the Directors had service contracts except the Executive Directors, Mr Bawa, Ms Flaherty and Mr Gorham. Their contracts are dated 7 May 2002, 26 March 2007 and 27 July 1987 respectively and may be terminated by the Society with one year's notice or by the employee with six months' notice in the case of Mr Bawa and Mr Gorham and three months' notice from either the employee or the employer in the case of Ms Flaherty.

b) At 31 December 2010 the other officer was:

Name	Occupation	Directorships
I M Pullen	Internal Audit Manager	None

Teachers Building Society

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