Teachers Building Society

Report and Accounts

For the year ended 31 December 2011

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Teachers Building Society 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
M H Percy, Non-executive Director
M J Reed, Non-executive Director
R J Spragg, Non-executive Director

Solicitor and Secretary

P E Jarman

Auditors

Deloitte LLP, Southampton, United Kingdom

Bankers

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

Principal Office

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

FSA Firm Reference Number

156580

Chairman's Statement

The dominant theme in reports and accounts over the last few years has been the difficult economic environment. Each year has produced its own variation on this theme and in 2011, particularly in the second half of the year, the problems coming from the Eurozone economies and which contributed to an already difficult UK domestic position, took the headlines. A widely held view is that a further recession is now more likely and one consequence is that Bank Base Rate is set to remain at very low levels for some years to come.

Against this backdrop we have continued our focus on providing members with financial security and long-term value and have made the best we can of the conditions. Although we at Teachers experienced a further fall in mortgage assets, our move to provide greater access for teachers to our product range through broker-introduced mortgages was successful and the final few months of the year saw a significant increase in our mortgage lending. In what is certain to be a difficult year ahead, we hope to continue this success in 2012 and expand, in a small way, business around our head office in Dorset.

Managing risk continues to be a strong emphasis of your Board. I am pleased to say that this focus has served the Society well and the low number of accounts in arrears reflects the quality of the assets we hold on our balance sheet. The board have encouraged management to maintain their focus on risk, whilst not stifling innovation, with further investment in the Society's risk management resources currently taking place.

As a small building society we continue to put a significant proportion of our resources into dealing with regulatory supervision. We have a very good relationship with our regulator, the Financial Services Authority, and we have always recognised and supported the prime purposes of the closer supervisory regime which have been to establish greater consumer confidence and a sound banking and financial services sector.

In the coming months and years our current regulatory regime will be split into the Prudential Regulatory Authority, a subsidiary of the Bank of England to be responsible for promoting the financial stability of the UK financial system, and an independent Financial Conduct Authority to be responsible for conduct regulation. We urge both organisations to apply regulation in a proportionate manner and to ensure that consumer choice and access to good service is not impaired.

Building societies generally are also concerned about the disproportionate effect on their businesses of proposals by HM Treasury to increase substantially the cost of contributions to the Financial Services Compensation Scheme (FSCS) by refinancing the loan taken out to meet the liabilities of Bradford & Bingley plc and the Icelandic banks at the time of the financial crisis. At the time of writing, the proposals would lead to a further increase in the cost of our contributions to the FSCS. More risk-averse organisations such as ours and other building societies already pay over the top to support the failures of organisations which took greater risks in the past. We believe the Treasury's approach is inappropriate and unfair on our members.

I end my report by thanking my colleagues on the Board for their support and commitment and all of our staff who have maintained the highest levels of service which you, our members, have come to expect and which they are so proud to deliver. They have worked with determination and enthusiasm and I and all the board members truly appreciate what they have achieved.

Kevin Richardson
Chairman
21 February 2012

Chief Executive's Report

The UK continues to experience a flat economy and this made 2011 another challenging year for Teachers' Building Society and for other societies.

With the ever-present concern of a double-dip recession, consumers have remained cautious about big purchases, such as home moving, and have reviewed their expenses as their disposable income falls. The need to protect income has also affected savings decisions. The economic environment has been a key factor influencing the development of our products and services to ensure we meet our members' needs and continue to deliver a truly personal service whilst providing a safe haven for their savings.

The housing market remained moribund with a slight fall in prices over the year and lower levels of transactions. UK lending remained broadly flat last year, but this has meant that consumers have had access to better mortgage deals as mortgage providers fought for market share. Our response has been to widen distribution opportunities by launching in to new markets and to improve our products.

In May, we made our mortgage products available for sale through mortgage intermediaries. At a time of economic uncertainty, many home buyers value the advice and access to a wide range of products they can offer. Our entry in to this market was welcomed by the brokers and the appeal of our broad range of innovative products has boosted the volume of mortgages we advanced during the second half of the year. Following interest from local residents close to our Head Office base in Wimborne, we also began actively promoting our mortgage products to people living in Dorset, widening the opportunity to increase sales within a controlled risk environment.

During the year we have introduced new products to help existing borrowers and those stepping on to the housing ladder for the first time. Our FirstBuy mortgage product supporting government-sponsored home buying schemes proved as popular as its predecessor, HomeBuy Direct, while in 2011 existing homeowners were able to take advantage of our lowest ever mortgage rates.

Savers at some banks have continued to struggle to get meaningful returns as the Bank of England base rate remained at 0.5% throughout the year. During this unprecedented period of low interest rates, we made the decision to focus on retaining loyal members, where possible, maintaining rates and offering new products that encourage saving. Our Regular Saver and Cash ISA Reward products have spent months in the 'best-buy' market comparison tables, providing highly competitive rates of interest.

At the start of the year, we launched our revised branding, and improved our website and customer documentation at the same time. This has led to improved communications and better access to products and information for our customers.

These actions delivered some encouraging results last year. Profits and mortgage advances saw a significant increase. Profits grew by 23% and gross mortgage advances increased by 31% to £19.45m. Repayments of capital by borrowers fell by 8% compared to 2010, but overall net mortgage balances dropped as members chose to pay down debt, outrunning the advances. Cost of borrowing increased as we maintained favourable savings rates, but savings balances were allowed to fall back in line with the drop in mortgage balances. However, careful management of the balance sheet has led to improved financial strength, and reserves increased to £19m, giving us the opportunity to grow the business when conditions are right.

I am pleased that we have achieved this whilst maintaining our exceptionally high levels of customer service with 96% of customers rating our service as good or excellent. Our improvements to customer communications, along with the range of products and services offered resulted in us winning two prestigious industry awards during 2011 – 'Best Local Building Society' in the What Mortgage 2011 Awards and 'Excellence in Treating Customers Fairly' in the Mortgage Finance Gazette Awards 2012.

We remain committed to the education sector and last year we were one of the sponsors for the Times Education Supplement Schools Awards which celebrate achievement and excellence in schools, and we continued to promote our Charity Saver Account in support of the Teacher Support Network which provides help and support to teachers and their families. Our staff once again supported a range of local, national and education charities and they made over £2,700 of donations to charity through events organised by the Society.

Interest rates and market conditions generally are expected to remain flat until at least 2013 with the prospect of recession still very real in light of the Eurozone crisis. Notwithstanding this difficult environment, we plan to develop the business further in 2012 with more mortgage business coming through our introducers and from the local area. We will also be setting up partnerships, some of which have already been established, with local authorities so as to help more teacher first-time buyers and we will be increasing the amount of savings business we attract from local savers. Amongst other developments we will also be strengthening our risk and compliance systems so as to ensure we maintain a sound system of controls in the business.

In 2013, two significant regulatory initiatives will be launched by the Financial Services Authority. Changes resulting from the Mortgage Market Review, due for launch in mid-2013, will lead to changes in the way mortgages are sold and regulated and we will be preparing for this during 2012. The Retail Distribution Review, the results of which are due to take effect on 1st January 2013 will significantly change the way financial advice, of the sort offered by our subsidiary TBS Financial Services Limited, is provided and we will adapt our business accordingly.

At the end of 2011, Patrick Jarman was appointed Secretary and Solicitor to replace Karen Flaherty who has moved on to a new role at another organisation. I would like to thank Karen for her significant contribution to the Society during a period of exceptional regulatory change and I wish Patrick every success in his role at the Society.

Finally, I am, of course, 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.

James Bawa
Chief Executive
21 February 2012

Directors' Report

The Directors have pleasure in presenting the Annual Report and Accounts for the year ended 31 December 2011.

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 2011 results in these key areas were:

- Profit and Capital

Net profit after tax for the year of £487,000 (2010: £397,000) has been transferred to the Group general reserve. Gross capital (which comprises reserves and revaluation reserves) was £19.0m at the year-end (2010: £18.9m) and represented 9.342% of share and deposit liabilities (2010: 8.62%). Free capital (comprising gross capital and portfolio provisions for bad and doubtful debts less tangible fixed assets) was £19.1m (2010: £18.9m) or 9.37% (2010: 8.66%) of share and deposit liabilities.

- Assets

Total assets decreased by 6.3% from £238.9m to £223.9m. Mortgage advances totalled £19.4m (2010: £14.8m).

- Management expenses

Group management expenses were £2.36m (2010: £2.24m) reflecting an increase in staff numbers. Measured as a percentage of average total assets management expenses were 1.05% (2010: 0.93%).

- Mortgage Arrears

Total arrears outstanding on all accounts improved slightly over the year, falling from £53,000 at 31 December 2010 to £51,900 at 31 December 2011. There was little change in more serious arrears: at the year-end 3 accounts (2010: 3) were 12 months or more in arrears. The balances on these accounts totalled £232,000 (2010: £308,000) and the arrears totalled £16,000 (2010: £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 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. 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. 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 2011 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 closed to the accrual of future benefits and staff were offered alternative pension provision. At the end of 2011 using the appropriate accounting provisions of Financial Reporting Standard 17 'Retirement Benefits', the scheme showed a deficit, net of deferred tax, of £329,000 (2010: £220,000). 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 2011 average creditor days were 27 (2010: 21).

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 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.

- 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 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. 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	£3.52m	Nil	**£3.52m**
France	£3.31m	£1.06m	**£4.37m**
Ireland	£0.5m	Nil	**£0.5m**

- 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 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 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.

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

Directors' Report Continued...

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 continue to 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 reduction in public spending over the coming years, 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 made where appropriate as described in the Directors' Report.

The Group also holds liquid assets. These assets are principally invested in UK Government and supranational debt and also 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.

Profits need to be generated so as to keep capital at a level which meets regulatory requirements and supports risks arising from the Group's activities. The Group's assessment of the amount of capital needed includes stress testing against severe adverse scenarios and is documented in its Individual Capital Adequacy Assessment Process (ICAAP) which is discussed and developed with the FSA through the Supervisory Review and Evaluation Process. In the current environment profitability will be reduced because of the effect on net interest receivable of low interest rates. The Group holds capital 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

J J Bawa

K A Flaherty (until 6 December 2011)

S E Gorham

M H Percy

M J Reed

R J Spragg

At the next Annual General Meeting (in April 2012) James Bawa, Kevin Richardson and Michael Percy retire as Directors. All three, 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 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
21 February 2012

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 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 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. A small bonus was paid to all staff, including Executive Directors, in December 2011 in recognition of their achievements.

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

	2011 £'000	2010 £'000
Fees paid to non-executive Directors		
A J Frost (until 19 April 2010)	-	8
K F Richardson	26	24
M H Percy	19	19
M J Reed	17	17
R J Spragg	17	17
Total	**79**	**85**
Executive Directors' remuneration		
J J Bawa		
Salary	126	126
Car allowance and taxable benefits	10	11
Annual Bonus	1	-
Pension contributions	12	12
Total	**149**	**149**
K A Flaherty (until 6 December 2011)		
Salary	61	66
Total	**61**	**66**
S E Gorham		
Salary	71	71
Car allowance and taxable benefits	9	6
Annual Bonus	1	-
Pension contributions	14	14
Total	**95**	**91**
Total Directors' remuneration	**384**	**391**

Martin Reed
Director
21 February 2012

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 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 and during 2011 the Board's effectiveness was also assessed by an independent external assessor.

The principal means by which the Directors ensure compliance with the Code is through the work of Board and Committee meetings. At the year-end the Board comprised a Non-executive Chairman, three other Non-executive Directors, the Chief Executive, and the Finance 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 is chaired by Michael Percy and the other members during the year 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. 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. 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.

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 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, which meets monthly, is chaired 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 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. During 2011 the Committee, which meets monthly, was chaired by the Society's Solicitor and Secretary but is currently chaired by Penny Winter who is the Society's Human Resources Officer. The Committee also comprises members from 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 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)		1 (1)	
K A Flaherty (until 6 December 2011)	8 (8)			
S E Gorham	8 (8)			
M H Percy	7 (8)	5 (5)		2 (2)
M J Reed	8 (8)	4 (5)		4 (4)
K F Richardson	8 (8)	5 (5)	1 (1)	4 (4)
R J Spragg	8 (8)	5 (5)	1 (1)	2 (2)

Kevin Richardson
Chairman
21 February 2012

Independent Auditor's Report

We have audited the Group and Society financial statements of Teachers Building Society for the year ended 31 December 2011 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. 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 2011 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 FCA (Senior Statutory Auditor)

for and on behalf of Deloitte LLP Chartered Accountants and Statutory Auditor Southampton, United Kingdom

23 February 2012

Income and Expenditure Accounts

for the year ended 31 December 2011

	Note	Group		Society	
		2011 £'000	2010 £'000	2011 £'000	2010 £'000
Interest receivable and similar income	4	7,271	6,923	7,271	6,923
Interest payable and similar charges	5	(4,344)	(4,576)	(4,344)	(4,576)
Net interest receivable		**2,927**	**2,347**	**2,927**	**2,347**
Other finance charges	22	(42)	(33)	(42)	(33)
Fees and commissions receivable		345	397	178	198
Fees and commissions payable		(143)	(97)	(142)	(95)
Other operating income	1(l)	91	94	104	107
Total operating income		**3,178**	**2,708**	**3,025**	**2,524**
Administrative expenses	6	(2,358)	(2,244)	(2,251)	(2,140)
Depreciation	14	(62)	(58)	(62)	(58)
Other operating charges	7	(17)	(10)	(17)	(10)
Operating profit before provisions		**741**	**396**	**695**	**316**
Provisions for bad and doubtful debts	8	100	124	100	124
Provisions for liabilities and charges	21	(155)	11	(155)	11
Profit on ordinary activities before tax		**686**	**531**	**640**	**451**
Tax on profit on ordinary activities	9	(199)	(134)	(190)	(117)
Profit for the financial year		**487**	**397**	**450**	**334**

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		487	397	450	334
Actuarial (losses)/gains recognised in pension scheme	22	(423)	494	(423)	494
Movement in deferred tax relating to pension scheme		82	(138)	82	(138)
Total recognised gains and losses in the year	**25**	**146**	**753**	**109**	**690**

Balance Sheets
at 31 December 2011

Assets

	Note	Group		Society	
		2011 £'000	2010 £'000	2011 £'000	2010 £'000
Liquid assets					
Treasury Bills and other eligible bills	10	5,996	2,996	5,996	2,996
Loans and advances to credit institutions	11	26,578	29,792	26,578	29,792
Debt securities	12	23,326	25,809	23,326	25,809
Loans and advances to customers	13				
Loans fully secured on residential property		162,391	174,583	162,391	174,583
Other loans fully secured on land		4,924	4,970	4,924	4,970
Tangible fixed assets	14	441	465	441	465
Other assets	15	239	275	239	275
Total assets		**223,895**	**238,890**	**223,895**	**238,890**

Liabilities

Shares	16	189,065	201,621	189,065	201,621
Amounts owed to credit institutions	17	10,014	13,514	10,014	13,514
Amounts owed to other customers	18	4,408	3,700	4,408	3,700
Other liabilities	19	332	290	567	497
Accruals and deferred income	20	498	538	470	501
Provisions for liabilities and charges					
Other provisions	21	242	146	242	146
Net pension liability	22	329	220	329	220
Reserves	25				
Revaluation reserve		97	99	97	99
General reserve		18,910	18,762	18,703	18,592
Total liabilities		**223,895**	**238,890**	**223,895**	**238,890**

These accounts were approved by the Board of Directors on 21 February 2012.

Kevin Richardson
Chairman

Michael Percy
Director

James Bawa
Chief Executive

Group Cash Flow Statement
for the year ended 31 December 2011

	Group 2011 £'000	Group 2010 £'000
Net cash (outflow)/inflow from operating activities	(3,107)	3,052
Tax paid	(57)	(13)
Capital expenditure		
Purchase of tangible fixed assets	(38)	(66)
Disposal of tangible fixed assets	-	2
(Decrease)/increase in cash	**(3,202)**	**2,975**

Reconciliation of profit on ordinary activities before tax to net cash (outflow)/inflow from operating activities	2011 £'000	2010 £'000
Profit on ordinary activities before tax	686	531
Decrease/(increase) in prepayments and accrued income	17	(43)
Decrease in accruals and deferred income	(6)	(255)
Decrease in provisions for bad and doubtful debts	(43)	(280)
Increase/(decrease) in other provisions	96	(102)
Non-cash movements in debt securities	(37)	114
Depreciation of tangible fixed assets	62	58
Profit on disposal of fixed assets	-	(2)
Pension charge less contributions paid	(272)	(282)
Net cash inflow/(outflow) from trading activities	503	(261)
Decrease in loans and advances to customers	12,281	19,749
Decrease in shares	(12,595)	(12,791)
Decrease in amounts owed to credit institutions and other customers	(2,787)	(5,523)
Decrease in loans and advances to credit institutions	-	3,000
Increase in Treasury Bills	(3,000)	(2,996)
Decrease in debt securities	2,487	1,914
Increase/(decrease) in other liabilities	4	(40)
Net cash (outflow)/inflow from operating activities	**(3,107)**	**3,052**

Analysis of decrease in cash	
Loans and advances to credit institutions repayable on demand (note 11)	£'000
At 1 January 2011	18,762
Decrease during the year	(3,202)
At 31 December 2011	**15,560**

Notes to the Accounts
for the year ended 31 December 2011

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.

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 management charges to be levied by the Financial Services Compensation Scheme, based on its liability to contribute for the Scheme years 2011/12 and 2012/13 and by reference to the amount of deposits held by the Society at 31 December 2010 and 31 December 2011.

h) 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.

i) Hedging instruments

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

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

j) Incentives to borrowers

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

k) Fees and commissions payable

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

l) 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 2011

2 Directors

(a) Directors' remuneration
Directors' remuneration totalled £384,000 (2010: £391,000). Full details are given in the Report of the Directors on Remuneration on page 9.

(b) Transactions with Directors
At 31 December 2011 two loans totalling £191,211 (2010: two loans totalling £213,966) 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	**2011 Number**	**2010 Number**	**2011 Number**	**2010 Number**
Full time	29	26	28	25
Part time	9	8	9	8
	38	**34**	**37**	**33**

4 Interest receivable and similar income

	Group & Society	
	2011 £'000	**2010 £'000**
On loans fully secured on residential property	6,493	6,069
On other loans	243	254
On debt securities	281	309
On liquid assets other than debt securities	254	291
	7,271	**6,923**

5 Interest payable and similar charges

	Group & Society	
	2011 £'000	**2010 £'000**
On shares held by individuals	4,240	4,405
On deposits and other borrowings	104	171
	4,344	**4,576**

6 Administrative expenses

	Group		Society	
Employee costs	2011 £'000	2010 £'000	2011 £'000	2010 £'000
wages and salaries	1,168	1,063	1,084	976
social security costs	134	127	123	118
pension costs - defined contribution scheme	66	68	66	68
other pension costs (see note 22)	8	8	8	8
	1,376	**1,266**	**1,281**	**1,170**
Auditors' remuneration for audit work	34	34	32	32
Other expenses	948	944	938	938
	2,358	**2,244**	**2,251**	**2,140**

7 Other operating charges

	Group & Society	
	2011 £'000	2010 £'000
Other operating charges include: Incentives to borrowers	17	10

8 Provisions for bad and doubtful debts

	Group & Society		
	Loans fully secured on residential property	Loans fully secured on land	Total
At 1 January 2011	£'000	£'000	£'000
Portfolio provision	550	-	550
Specific provision	76	-	76
	626	**-**	**626**
Movements in provisions during the year			
Portfolio provision	(50)	-	(50)
Specific provision	20	-	20
	(30)	**-**	**(30)**
At 31 December 2011			
Portfolio provision	500	-	500
Specific provision	96	-	96
	596	**-**	**596**

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

	Group & Society	
	2011 £'000	2010 £'000
Movement in provisions as above	(30)	(254)
Amounts written off during the year	14	156
Recoveries of amounts previously written off	(71)	-
Release of higher lending charges	(13)	(26)
	(100)	**(124)**

Notes to the Accounts
for the year ended 31 December 2011

9 Tax on profit on ordinary activities

	Group		Society	
	2011 £'000	2010 £'000	2011 £'000	2010 £'000
Current tax				
UK Corporation tax	95	57	86	40
Total current tax	**95**	**57**	**86**	**40**
Deferred tax				
Origination and reversal of timing differences (note 24)	35	(2)	35	(2)
Other timing differences relating to pension scheme contributions	69	79	69	79
Total deferred tax	**104**	**77**	**104**	**77**
Tax on profit on ordinary activities	**199**	**134**	**190**	**117**

The full rate of corporation tax for the year was 28% until 31 March 2011 and 26% thereafter (2010: 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:

	Group		Society	
	2011 %	2010 %	2011 %	2010 %
Standard tax rate for period as percentage of profit	26	28	26	28
Effect of:				
- movement in short term timing differences	-	1	-	1
- contributions to the pension scheme	(12)	(16)	(13)	(18)
- small companies' tax relief	(3)	(3)	(3)	(3)
- taxable losses brought forward	-	-	-	-
	11	**10**	**10**	**8**

10 Treasury bills and other eligible bills

	Group & Society	
	2011 £'000	2010 £'000
Treasury Bills	**5,996**	**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:	**2011 £'000**	**2010 £'000**
- accrued interest	18	30
- repayable on demand	15,560	18,762
- maturing in not more than three months	9,000	7,000
- maturing in more than three months but not more than one year	2,000	4,000
- maturing in more than one year but not more than five years	-	-
	26,578	**29,792**

12 Debt securities

	Group & Society	
	2011 £'000	**2010 £'000**
Issued by other borrowers	23,326	25,809
Debt securities, all of which are unlisted, mature from the date of the balance sheet as follows:		
- accrued interest	56	88
- maturing in not more than one year	21,266	20,164
- maturing in more than one year	2,004	5,557
	23,326	**25,809**
Included in debt securities are:		
- unamortised premiums	77	132

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 £53.4m of debt securities (2010: £49.4m). £56.8m (2010: £51.4m) of debt securities matured in the year.

13 Loans and advances to customers

	Group & Society	
	2011 £'000	**2010 £'000**
Loans and advances to customers are repayable from the balance sheet date as follows:		
- maturing in not more than three months	1,936	1,998
- maturing in more than three months but not more than one year	5,093	5,329
- maturing in more than one year but not more than five years	29,348	31,418
- maturing in more than five years	131,537	141,450
	167,914	**180,195**
Less:		
provisions (see note 8)	(596)	(626)
fees collected and provided against high loan-to-value advances (see note 8)	(3)	(16)
	167,315	**179,553**

Notes to the Accounts
for the year ended 31 December 2011

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 2011	629	733	1,362
Additions	-	38	38
Disposals	-	(8)	(8)
At 31 December 2011	**629**	**763**	**1,392**
Accumulated depreciation At 1 January 2011	281	616	897
Charge for the year	19	43	62
Eliminated on disposal	-	(8)	(8)
At 31 December 2011	**300**	**651**	**951**
Net book values			
At 31 December 2011	**329**	**112**	**441**
At 31 December 2010	**348**	**117**	**465**

	Group & Society	
Cost or valuation of freehold land and buildings.	2011 £'000	2010 £'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 (2010: £337,000). The accumulated historical cost depreciation on these revalued assets is £144,000 (2010: £139,000). Included in the total net book value of freehold land and buildings is £125,000 (2010: £125,000) in respect of land on which no depreciation is provided.

15 Other assets

	Group		Society	
	2011 £'000	2010 £'000	2011 £'000	2010 £'000
Prepayments and accrued income – due within one year	103	105	103	105
Deferred tax asset (see note 24)	136	170	136	170
	239	**275**	**239**	**275**

16 Shares

	Group & Society	
	2011 £'000	2010 £'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	1,348	1,309
- on demand	87,936	103,790
- in not more than three months	51,204	48,746
- repayable in more than three months but not more than one year	24,680	33,093
- repayable in more than one year but not more than five years	23,897	14,683
	189,065	**201,621**

17 Amounts owed to credit institutions

	Group & Society	
	2011 £'000	2010 £'000
Amounts owed to credit institutions are repayable from the balance sheet date in the ordinary course of business as follows:		
- accrued interest	14	14
- repayable in not more than three months	9,000	13,500
- repayable in more than three months but not more than one year	1,000	-
	10,014	**13,514**

18 Amounts owed to other customers

	Group & Society	
	2011 £'000	2010 £'000
Amounts owed to other customers are repayable from the balance sheet date in the ordinary course of business as follows:		
- accrued interest	-	5
- on demand	133	133
- repayable in not more than three months	4,275	3,562
- repayable in more than three months but not more than one year	-	-
	4,408	**3,700**

19 Other liabilities

	Group		Society	
	2011 £'000	2010 £'000	2011 £'000	2010 £'000
Falling due within one year				
Income tax	233	232	233	232
Corporation tax	95	57	86	40
Other creditors				
- Amounts owed to Group undertakings	-	-	244	224
- Other creditors	4	1	4	1
	332	**290**	**567**	**497**

Notes to the Accounts
for the year ended 31 December 2011

20 Accruals and deferred income

	Group		Society	
	2011 £'000	2010 £'000	2011 £'000	2010 £'000
Accruals				
other accruals	414	460	400	435
deferred income	84	78	70	66
	498	538	470	501

All amounts fall due within one year.

21 Other provisions

	Group & Society	
	2011 £'000	2010 £'000
Other provisions comprise		
Provisions for contributions to Financial Services Compensation Scheme (FSCS)	221	125
Other provisions	21	21
	242	146

The charge to income and expenditure is made up as follows:		
FSCS charge for year	155	65
FSCS adjustment to previous estimate	-	(76)
	155	(11)

Provisions for contributions to FSCS		
Movement in year:		
At 1 January 2011	125	210
Charge for year	155	65
Adjustment to previous estimates	-	(76)
Paid in year	(59)	(74)
At 31 December 2011	**221**	**125**

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 2011, the Society paid £59,000 (which it had fully provided for in the 2010 accounts) in respect of the levy for the 2010/11 scheme year.

This amount was based on the Society's deposit balances at 31 December 2009. At 31 December 2010 the Society had also provided £65,000 in respect of the amount due for 2011/12 (which is based on deposit balances at 31 December 2010) and which will be paid in 2012.

A further amount of £155,000 has been provided in respect of the 2012/13 scheme year (which is based on balances at 31 December 2011). This amount is based on the most recent estimates of the increase in contribution rate requested by HM Treasury.

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 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. 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 30 November 2017 to amortise the shortfall. The amount and duration of the annual contribution is reassessed at each subsequent full actuarial valuation. A further full actuarial valuation at 1 April 2011 has been carried out and is awaiting final approval by the Trustees.

A valuation is carried out at each year end by an independent actuary in accordance with the requirements of FRS17. At 31 December 2011 this showed that the value of the scheme's assets was £8.2m (2010: £7.7m) and that the actuarial value of these assets represented 95% (2010: 96%) of the benefits that had accrued to members.

During the year, 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 has been to reduce scheme liabilities as shown below by £229,000.

	Group & Society	
	2011	**2010**
Key assumptions		
Rate of increase in salaries	3.0%	4.1%
Discount rate	4.7%	5.4%
Inflation rate RPI	3.0%	3.6%
Inflation rate CPI	2.0%	N/A
Rate of increase in pensions in payment	5.0%	5.0%
Expected return on assets	5.4%	5.9%
Mortality assumptions appropriate to the membership of the scheme		
Base mortality table Mortality projection basis	PCMA00/PCFA00 CMI 2010	PCMA00/PCFA00 Long cohort
Life expectancies at age 65		
- Male currently aged 65	88.6	88.4
- Female currently aged 65	89.8	90.8
- Male currently aged 45	90.9	89.6
- Female currently aged 45	91.3	91.8
Scheme Assets		
The scheme assets are in the form of an insurance policy with Legal & General invested as follows:		
Equities	60.7%	64.3%
Corporate bonds	15.7%	15.6%
Index-linked gilts	23.3%	19.7%
Cash	0.3%	0.4%

22 Pension costs (continued)

	Group & Society	
The constituents of the shortfall in the scheme and the net pension asset or liability were:	**2011 £'000**	**2010 £'000**
Market value of assets:		
- Bank deposits	29	29
- Legal & General funds	8,208	7,688
Total fair value of assets	8,237	7,717
Present value of defined benefit obligations	(8,664)	(8,023)
Shortfall in the scheme	(427)	(306)
Related deferred tax asset	98	86
Net pension liability	**(329)**	**(220)**

Analysis of changes in the fair value of scheme assets		
Opening fair value of scheme assets	7,717	6,671
Expected return	461	427
Employer's contributions	280	280
Actuarial gain/(loss)	(145)	394
Benefits paid	(76)	(55)
Closing fair value of scheme assets	**8,237**	**7,717**
The value of assets has been taken as the value of units at bid price on 31 December 2011.		

Analysis of changes in the present value of scheme liabilities		
Opening scheme liabilities	8,023	7,753
Current service cost	8	8
Interest cost	431	417
Actuarial (gain)/loss	278	(100)
Benefits paid	(76)	(55)
Closing scheme liabilities	**8,664**	**8,023**

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

Analysis of amount charged to Other finance charges		
- Expected return on pension scheme assets	461	427
- Interest on pension scheme liabilities	(431)	(417)
- Scheme expenses paid	(72)	(43)
	(42)	**(33)**

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

History					
History	**2011 £'000**	**2010 £'000**	**2009 £'000**	**2008 £'000**	**2007 £'000**
Fair value of scheme assets	8,237	7,717	6,671	5,575	5,982
Present value of scheme liabilities	(8,664)	(8,023)	(7,753)	(6,137)	(6,109)
Deficit	(427)	(306)	(1,082)	(562)	(127)
Experience adjustments on scheme assets	(145)	394	758	(1,027)	56
Experience adjustments on scheme liabilities	336	(42)	-	(113)	44

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	
	2011 £'000	2010 £'000
(a) Movement in deferred taxation balance in the period At 1 January 2011	170	168
Increase (decrease) in asset recognised in the income and expenditure account	(34)	2
At 31 December 2011 (see note 15)	**136**	**170**
(b) Analysis of deferred taxation balance		
Depreciation in excess of capital allowances	19	20
Short term differences (less than 3 years)	117	150
	136	**170**

25 Reserves

	Group General reserve	Society General reserve	Group & Society Revaluation reserve
	£'000	£'000	£'000
At 1 January 2011	18,762	18,592	99
Total recognised gains and losses for the financial year	146	109	-
Transfer to general reserve - depreciation on revaluation surplus	2	2	(2)
At 31 December 2011	**18,910**	**18,703**	**97**

26 Financial commitments

a) Capital commitments

At 31 December 2011 there was no capital expenditure contracted for but not provided in the accounts (2010: £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.

Notes to the Accounts

for the year ended 31 December 2011

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. All liquid assests 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 2011 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. The cost fell from £3.3m in 2010 to £1.9m in 2011 because of increases in market rates and the expiry of swaps purchased in earlier years at higher rates.

	Group & Society		
Interest rate contracts:	**Notional principal amount**	**Risk weighted amount**	**Replacement cost**
	£'000	**£'000**	**£'000**
At 31 December 2011			
Interest rate swaps	63,300	110	13
At 31 December 2010			
Interest rate swaps	62,850	44	20

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	
	2011 £'000	**2010 £'000**
Debt securities		
Book value	23,326	25,809
Fair value	23,268	25,644
Interest rate contracts		
Book value	-	-
Fair value	(1,645)	(3,003)

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 2011.

The Group's interest rate exposure was:

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)**	**-**

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)**	**-**

Annual business statement
for the year ended 31 December 2011

1 Statutory percentages

	2011	Statutory limit
Lending limit	3.07%	25.00%
Funding limit	7.09%	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

	2011	2010
As a percentage of shares and borrowings		
Gross capital	9.34%	8.62%
Free capital	9.37%	8.66%
Liquid assets	27.47%	26.78%
As a percentage of mean total assets		
Profit after tax	0.21%	0.16%
Management expenses	1.05%	0.93%

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 2011 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 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
				TBS Financial Services 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 2011 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 2011 the other officers were:

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

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