# ANNUAL REPORT & ACCOUNTS

FOR THE YEAR ENDED 2020

Teachers Building Society

# Contents

# Directors & Professional Advisors

## Directors

J Nicholson, Chair
S Beresford, Chief Executive
R K Patel, Finance Director
P E Jarman, Legal Director & Secretary
I Grayson, Non-executive Director
A P Lee, Non-executive Director
P Winter, Non-executive Director
M Himsworth, Non-executive Director

## Auditor

BDO LLP, London, United Kingdom

## Bankers

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

## Principal Office

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

## Firm Reference Number

156580

# Chair's and Chief Executive's Statement

The past year has been like no other in our history. Covid-19 has impacted us all and changed the communities in which we live and work. The Government had the difficult challenge of balancing its citizens' physical wellbeing against its current and future economic health. As the world sought a vaccine, we adapted to life under national and local lockdowns to control the pandemic's spread. We, your Society, were not immune to the many challenges 2020 brought, but we're pleased to report we collectively met and overcame these.

Before we provide our full review into Society activity over the last 12 months, we would like to acknowledge the many frontline workers among our members and their outstanding work within the community. Also, as news reaches us that the number of fatalities resulting from the pandemic now exceeds 100,000 people, we would like to share the heartfelt thoughts and condolences of all here at Teachers Building Society with those personally affected.

Our business approach to the pandemic has been one of positive determination. Early in the year, as we assessed Covid-19's impact, management and the Board decided the Society should remain open for business to support members, many of whom were mid-move and with smaller deposits. Management and the Board also decided the Society would not draw on the Government's furlough scheme but instead manage costs prudently.

Despite the challenges of national lockdown, we were resilient in the face of change thanks to colleagues and management's strength and resolve to keep serving our members. The Board are incredibly proud of how colleagues responded and would like to take this opportunity to acknowledge their unerring professionalism and dedication.

In addition to strong operational resilience, we are pleased to report your Society demonstrated financial strength during 2020.

During the initial national lockdown in March 2020, one significant impact on our business was the housing market's effective closure as in-person property valuations ceased. Gross national mortgage lending in the second quarter of 2020 was £44.1bn lower than the same period in 2019, equivalent to a 33% decrease.

Aided by the Government's Stamp Duty break however, the housing market quickly rebounded in the second half of the year. Renewed home buying appetite amongst consumers combined with our strategy to lend to those with smaller deposits, resulted in the Society delivering gross lending of £63.1m (2019: £42.2m). Net lending also performed well, increasing to £21.6m (2019: £0.1m). Staying true to our founding principles in 2020, one of our key ambitions was to increase the number of teachers borrowing with the Society. We are pleased to report we delivered on that aim, increasing the number of teacher borrowers who came to us by 20% year on year.

There was a similar focus on growing our savings membership. Over the year, we held several best buy positions and reinforced "saving with teachers helps teachers buy homes" in communications. The impact was a net savings inflow during the period of £30.4m (2019: £9.8m).

As part of the financial measures to help the economy during lockdown the Bank of England (BoE) offered a new Term Funding Scheme with additional incentives for Small and Medium-sized Enterprises (TFSME) designed to ensure sufficient liquidity in the markets to enable adequate lending levels. The Society has transitioned £9m of its Term Funding Scheme (TFS) to TFSME and will continue to transition the remaining TFS funds to TFSME in 2021 altogether. In addition to refinancing TFS, the Society can increase its overall balance of BoE funding and consider this when assessing funding requirements for 2021. Additionally, BoE funding offers the Society access to a secure funding pool for a further four years.

As a result of 9.4% growth in the mortgage book supported by 12.9% increase in the funding balance, the Society passed a significant milestone with total assets exceeding £300m for the first time in our history, increasing to £332.9m during the year (2019: £296.6m). Given the challenges of 2020, this is a positive result of which colleagues and members alike can be proud.

Despite economic uncertainty, the Society's product and operating strategy resulted in an operating profit of £0.58m for the year, up from £0.25m reported in 2019 due to improved net interest income driven by mortgage book growth, a substantial achievement given economic circumstances.

In response to the Bank of England, reducing the base rate to 0.10% in March, we decreased the Society's standard variable mortgage rate and variable savings rates. When deciding the reductions, the underlying principle was to balance both savings and borrowing members' interest whilst achieving sufficient profit to maintain our capital strength and invest in the future.

During the first lockdown period, it became clear early that borrowers throughout the country would need support to overcome interruptions to their regular incomes. We provided a personal service to any member requiring help, offering payment deferrals of up to six months. 9.6% of our borrowers requested this support, which was below the national average. The number of borrowers requiring ongoing support after their initial payment deferral is 0.5% of borrowers. This strong resilience of our borrowers, combined with the mortgage book's strength, has avoided the need to increase our provision for losses this year.

Having been founded 55 years ago specifically to support teachers, the potential impact of the virus on our members' community was the forefront of our minds as the pandemic took hold. In May 2020, we provided additional funding for Education Support, a charity dedicated to teachers' mental health. We also continued to support the Wimborne Food Bank in 2020, ensuring those families hit hardest by the crisis did not go hungry.

Looking ahead, we anticipate further challenges. Firstly, we believe some government measures to support the country during the pandemic will start to unwind. We are also already beginning to see the unemployment rate increase and expect the impact of Brexit on both the broader economy and, specifically, individual businesses to become more apparent during 2021.

# Chair's and Chief Executive's Statement

**Continued...**

Notwithstanding these challenges, but with the strength of knowledge that we successfully navigated the 2020 storm, the Board believes that a very bright and prosperous future lies ahead for the Society.

Our founding purpose, "to help teachers own their own home", will stay central to everything we do, and we see the strength of our relationship with the National Education Union as a vital part of this. We have also begun a project to upgrade the Society's digital infrastructure, ensuring our systems have the sophistication to grow with members' future needs and ambitions. Within our communities, we will continue to support charitable organisations whose purpose aligns with our own, across the education sector and in the area local to our main office.

As a nation, as individuals and as a Society, we will continue to face challenges from the Covid-19 pandemic. Still, with a vaccination programme underway, we sincerely hope that the worst is now behind us and that 2021 will be a brighter year for us all.

Julie Nicholson
Chair
12 March 2021

Simon Beresford
Chief Executive Officer
12 March 2021

# Strategic Report

The Directors have pleasure in presenting the Strategic Report for the year ended 31 December 2020.

## Business Objectives

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

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

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

## Review of the Business

The Society grew its balance sheet by £36.3m to end the year at £332.9m and generated a profit for the year of £479k (2019: £201k). The increase in profit was the result of increased net interest margin through mortgage growth and careful management of administrative expenses. The result for the year was in line with our forecast expectations.

This year's profit has contributed to maintaining a stable capital position with the core equity tier 1 capital ratio of 20.1% (2019: 21.6%), with the slight reduction being due to the increased capital requirement from the mortgage book growth. The majority of the Society's capital resources are represented by core equity tier 1 capital in the form of retained earnings.

We have continued to invest in technology and in supporting colleagues through increased training to provide members with a more efficient and enhanced service.

## Mortgage Lending

The Society was founded to help teachers to own their own homes and we have continued to help more teachers to get onto the housing ladder in 2020 with around 44% (2019: 47%) of new lending being to first-time buyers including through schemes such as Help to Buy.

New mortgage lending for the year was £63.1m (2019: £42.2m) with net lending of £21.6m (2019: £0.1m).

Our personal service and approach of individually assessing all mortgage applications for credit quality and affordability has continued to ensure that our mortgage arrears remain low compared to the building society sector and the industry as a whole. The level of impairment provisions set aside for potential loan losses reduced slightly to £218k representing 0.1% of the mortgage book balance (2019: £229k – 0.1%).

## Savings and Funding

The overall funding balance increased to £309.5m (2019: £274.1m). The shares and other customer deposits balance increased to £275.0m (2019: £244.6m) to support the increased level of lending in 2020. Following the introduction of the Bank of England's Term Funding Scheme with additional incentives for Small and Medium-sized Enterprises (TFSME), the Society has increased its central bank funding whilst refinancing the existing Term Funding Scheme (TFS). The outstanding TFS balance was £15m (2019: £24m) with an additional £15m being drawn under TFSME (2019: nil) being the total central bank funding to £30m (2019: £24m). The Society will continue to refinance TFS with TFSME throughout the next year.

We are committed to providing competitive rates to our members while seeking to balance the amount of savings balances against the amount of mortgage lending.

The total liquidity ratio was 25.3% (2019: 23.2%), the increase reflects increased funding held to cover a larger pipeline of mortgage commitments going into 2021.

## Supporting colleagues

In these unprecedented times, we continue to prioritise colleagues wellbeing, looking out for and supporting one another. We're proud to have protected jobs in 2020 and empowered colleagues to take care of themselves. While most colleagues remain at home, we seek every opportunity to bring us all together virtually.

## Future Development

Our strategy is to continue to support teachers 'under-served' by the wider mortgage market, such as newly qualified teachers, by offering them tailored products and an individual, personal service.

We plan to continue our investment programme to further improve our digital capability, products and service.

The UK will take time to recover from the Covid-19 pandemic and the outcomes from Brexit are not yet clear, however your Society is well capitalised, with strong liquid resources, which mitigate the risks of an unexpected wider economic or financial shock.

Core to the Society's ethos, we aspire to provide all our members and customers with not only an efficient service, but one that is distinctly personal, friendly and professional.

The Board continues to be focused on the long-term success of the Society and bases its strategy on enhancing a sustainable business model that will deliver tangible benefits to the Society's members and the wider education community.

## Key Performance Indicators

The Society monitors its performance and development by reference to a range of Key Performance Indicators ('KPls'). For 2020, the results for the primary KPls used bythe Board were:

| Key Performance Indicators | 2020 | 2019 |
|---|---|---|
| Total profit for the year | £479k | £201k |
| Net interest margin | 1.66% | 1.58% |
| Growth in mortgage balances | 9.4% | 0.2% |
| Common equity tier 1 capital ratio | 20.1% | 21.6% |
| Cost to income ratio | 88.9% | 94.8% |
| Total liquid asset ratio | 25.3% | 23.2% |
| Mortgages > 3 months in arrears | 0.09% | 0.14% |

### Total Profit for the Year

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

Profit after tax for the year of £479k (2019: £201k) has been transferred to the Society's general reserve.

### Net Interest Margin

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

The net interest margin increased to 1.66% from 1.58% in 2020. This is the result of growth in the mortgage book combined with additional central bank funding. Society net interest margin was broadly in line with plan for the year by tightly managing liquidity and interest rate margins.

### Mortgage Balances

The change in mortgage lending is significantly affected by economic and market conditions and the level of repayments of existing loans. The Society's long-term goal is to grow steadily by providing attractive residential mortgage products to teachers.

Overall, total mortgage balances increased by 9.4% from £231.4m to £253.2m.

### Core Equity Tier 1 Capital Ratio

This is one of the primary metrics used by regulators to measure the capital strength of a bank or building society.

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

The CET1 ratio in 2020 was 20.1% (2019: 21.6%), continuing to provide a significant level of security to the Society's members.

### Cost to Income Ratio

This ratio is a broad indicator of the efficiency of the Society; it is calculated by expressing operating expenditure as a percentage of net operating income. It shows how much of the income generated is consumed by the cost base.

For 2020 this was 88.9% (2019: 94.8%). This reduction is the result of benefits from previous investment in the Society combined with careful management of overheads.

### Total Liquid Asset Ratio

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

The Society's level of liquid assets was 25.3% (2019: 23.2%). The increased liquidity is currently required to support the increased size of the Society's mortgage pipeline.

### Arrears and Forbearance

The Society's arrears and possession statistics continue to remain low and compare favourably to the financial services industry.

As at 31 December 2020, the value of mortgage accounts three months or more in arrears expressed as a percentage of total mortgage balances outstanding at the period-end remains low by historic standards at 0.09% (2019: 0.14%).

UK Finance publishes data based on the numbers of cases where the arrears balance represents 2.5% or more of the mortgage debt. The Society had 0.15% cases in this category (0.30% in 2019) compared to a UK Finance average of 0.76% (0.68% in 2019)

The Society had 1 property in possession as at 31 December 2020 (2019: 1).

The Board understands that the personal and financial circumstances of our borrowers can change over time, when this happens, our borrowers benefit from our policy to exercise as much forbearance as reasonably possible and to ensure their fair treatment at all times. This has been particularly relevant in 2020 where under the guidance of the Financial Conduct Authority payment deferrals were granted to borrowers in response to the Covid-19 pandemic. As at 31 December 2020, the Society had offered forbearance measures to 23 customers (2019: 9).

In relation to customers who applied for the payment deferral facility in 2020 because their income was adversely affected by the pandemic, 187 customers were granted a payment holiday during the year. 9 cases were still active at the year end, with the remainder having returned to regular monthly payments.

All loans are manually underwritten by a team of experienced underwriters, who adhere to a lending policy agreed by the Board. Responsible lending and affordability are the key criteria when making a lending decision. This approach has proved successful in the past and underpins the low arrears and default position experienced.
Loan impairment provisions have marginally reduced in 2020 and represents 0.09% percent of the mortgage book (2019: 0.10%). The percentage of provision to the overall mortgage book remains low compared to our peers and the industry average.

## 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 Board is responsible for determining the Society's risk management framework and system of internal control, which is designed to enable the Society to achieve its objectives within a managed risk profile, not to eliminate all risk. To do this, the Society bases its risk management framework on the 'three lines of defence' model. The first line of defence is the checks and controls utilised by operational staff directly engaged in the management of the risks in their area of activity. The 'second line' is the assurance provided by the independent review processes deployed by the Society's Compliance and Risk Management functions. The 'third line' is the independent internal audit reports regularly provided to management and the Audit & Risk Committee by an external provider.

The table on the following page summarises the principal risks relevant to the Society and the strategies put in place to manage them.

| Risk | Description (and sub category) | Key mitigating actions |
|---|---|---|
| Credit | The risk that mortgage customers or treasury counterparties are unable to meet their obligations as they become due. Concentration risk is an aspect of credit risk (as well as of funding risk - see below) and arises from exposure to groups of connected counterparties, or from counterparties in the same economic sector, geographic region or from the same activity or commodity. The Society, as a specialist mortgage lender in the education sector, is exposed to concentration risk in relation to UK property lending and to lending to education professionals. | • Lending Policy: sets limits on categories of lending, the amount and quality of collateral required, and defines clear underwriting criteria.<br>• Bespoke individual underwriting on a case-by-case basis.<br>• Mortgage Indemnity Guarantee (MIG) insurance where the LTV (loan to property value ratio) exceeds 80%.<br>• Financial Risk Policy sets treasury limits on credit exposures to countries, groups and individual counterparties.<br>• Lending Policy and Financial Risk Policy sets limits to mitigate concentration risk.<br>• Oversight by Executive Credit Committee and Board Audit and Risk Committee. |
| Financial | **Market and Interest Rate risk**<br>The risk that the net value of, or net income arising from, the Society's assets and liabilities is impacted as a result of market price or rate changes. The market risk to which the Society is exposed is interest rate risk (re-pricing risk). The use of swaps to hedge interest rate risk may create basis risk which, for the Society, is the risk that changes in interest rates will re-price interest earning assets differently from interest earning liabilities, thus creating an asset liability mismatch and a potential monetary loss. | • Close oversight by the Executive Assets and Liabilities Committee and Board Audit and Risk Committee.<br>• Financial Risk Policy (sets requirements for use of financial instruments, mainly interest rate swaps, to hedge interest rate risk).<br>• Basis risk exposure managed within risk limits set in Financial Risk Policy.<br>• Stress testing. |
| | **Capital or Solvency risk**<br>The risk that the Society maintains insufficient capital resources to protect its depositors, support business growth, meet regulatory requirements and ensure that its liabilities can be met as they fall due. | • Capital Planning as part of the Society's Internal Capital Adequacy Assessment Process ('ICAAP') and corporate plan.<br>• Stress testing and monitoring of key ratios by the Executive Assets and Liabilities Committee and Board Audit and Risk Committee. |
| | **Liquidity and Funding risk**<br>Liquidity risk is the risk that the Society is unable to settle obligations with immediacy and maintain public and stakeholder confidence. Funding risk is the risk that the Society is unable to realise assets or otherwise raise funds on economic terms, and/or within reasonable timescales. Concentration risk is an aspect of funding risk (as well as of credit risk - see above). Traditional building societies, such as Teachers Building Society, have an inherent funding concentration risk arising from reliance on the UK retail savings market. | • Financial Risk Policy sets risk limits.<br>• Maintaining appropriate levels of High Quality Liquid Assets.<br>• The Society's Individual Liquidity Adequacy Assessment Process ('ILAAP') and Contingency Funding Plan.<br>• Stress testing.<br>• Oversight by Executive Asset and Liability Committee and Board Audit and Risk Committee.. |
| Operational | The risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, including cyber security risk and a risk of a failure by third party suppliers but excluding strategic risk. Currently, this includes risks to operational delivery posed by the Covid-19 pandemic. | • Investment in people, systems and processes.<br>• Effective policies and procedures including those designed to support operational resilience and Covid Secure and Homeworking policies.<br>• Training and competence scheme for key colleagues detailing proficiency and supervision requirements.<br>• Insurance.<br>• Executive Conduct and Operational Risk Committee and Board Audit and Risk Committee oversight.<br>• Cyber risk management framework.<br>• Contingency plans are in place which have been tested |
| Strategic | The risk that the Society's business model and corporate plan fail to adapt, or respond quickly to, external developments or that the adaptation or response is flawed. | • Annual Corporate Planning process including sensitivity testing.<br>• Ongoing Executive Committee and Board monitoring of Key Performance and Risk Indicators. |
| Reputational | The risk that arises from a negative perception by members, regulators, counterparties, potential customers or other stakeholders, which damages the Society's brand and reputation and adversely affects its business, earnings, capital or access to funding. | • Board expectation that the Society's business be conducted in a fair and ethical way consistent with the Society's values and beliefs embedded in Society policies.<br>• Robust culture of compliance with legal and regulatory requirements.<br>• Oversight by the Executive Conduct and Operational Risk Committee and the Board. |
| Conduct | The risk arising from the Society's conduct in its direct relationship with retail customers, or where the Society has a direct duty to retail customers. | • Oversight and monitoring by Executive Conduct and Operational Risk Committee and the Board.<br>• Training and awareness for key colleagues<br>• Culture of putting members first. |
| Climate | The Society is aware of the potential risk resulting from climate change and the impact it could have on the value of its assets. | • The Society's assets are insured against flood risk where necessary<br>• Oversight by Executive Credit Committee and Board Audit and Risk Committee. |

On behalf of the Board

Julie Nicholson
Chair of the Board
12 March 2021

# Directors' Report

The Directors have pleasure in presenting the Annual Report and Accounts for the year ended 31 December 2020. Having taken into account all the matters considered by the Board and brought to the attention of the Board during the year, we are satisfied that the Annual Report and Accounts, taken as a whole, are fair, balanced and understandable.

### Business Review and Objectives

A review of the Society's business, its objectives, activities and future plans is contained in the accompanying Chair's and Chief Executive's Statement and the Strategic Report. The Strategic Report also contains the Society's key performance indicators for the year and other important information relating to its business. The Society's gross capital and free capital as percentages of shares and borrowing can be found in the Annual Business Statement.

### Principal Risks and Uncertainties

The Strategic Report identifies the Society's principal risks and uncertainties and the key actions taken to mitigate them. In addition to the description in the Strategic Report, note 25 to the Accounts contains information relevant to the Society's financial risk management policies and objectives.

### Creditors' Payment Policy

The Society's policy is to settle the terms of payment when agreeing the terms of each transaction and to ensure that those suppliers are made aware of the terms of payment. It is also the Society's policy to pay suppliers within the agreed terms providing the supplier performs according to the terms of the contract. In 2020, the average number of days which the Society took to settle amounts owing to trade creditors was 16 (2019: 16).

### Pillar 3 and Country-by-Country Reporting

The disclosures required under EU Directives for Pillar 3 risk disclosure reporting are published on the Society's website. The requirements of Country-by-Country Reporting are disclosed in note 28 to the Accounts.

### Donations

The Society gave £51,821 (2019: £1,034) in charitable donations during the year.

It is the Society's policy not to make political donations; none were made in the year (2019: nil).

### Land and Buildings

The Directors consider that the overall market value of the Society's Principal Office excluding the proportion held as investment property is in excess of the book value. Investment property is held at fair value in the financial statements.

### Mortgage Arrears and Forbearance

At 31 December 2020, there was one mortgage account more than 12 months in arrears (2019: nil) with a balance of £33,300 and £2,220 in arrears. For details of accounts where the Society has offered forbearance, please refer to the Strategic Report. This loan is considered within the Society's impairment provisioning as described in note 1(l) to the accounts.

### Auditor

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

### Going Concern

The Directors have prepared forecasts of the Society's financial position including capital and liquidity projections for a period covering at least 12 months from the date of approving these financial statements.

As a result of the economic uncertainties resulting from the Covid-19 pandemic, in addition to a central scenario the Board have also developed a downside forecast which uses a range of adverse scenarios to assess the impact on the Society's capital and liquidity positions. When assessing appropriate scenarios in both the central and downside forecasts the Board considered the challenges on the economy in 2021 and beyond of the expected withdrawal of Government and central bank support during the pandemic, these include:

- Increased unemployment
- Increased household debt, resulting in a greater number of consumers in financial difficulty
- House price reductions
- Continuing low or negative growth in UK GDP

The Board have also assessed the impact of the pandemic on the Society's future trading prospects and operational capability. New business volumes remained strong in 2020, with gross advances increasing 50% compared to 2019, mortgage commitments remained strong at year end and as a result new business at the start of 2021 has started positively. Net retail receipts have continued to be sufficient to maintain funding and liquidity levels to support the growth in lending.

The need for the majority of staff to work largely from home represented a significant operational resilience event, which the Society has coped with. Business volumes currently being processed are high compared to recent years and given the current operating model both member servicing and underwriting standards have remained high.

After considering all of this information, together with available market information and the Directors' knowledge and experience of the Society and markets in which it operates, the Directors are satisfied that the Society has adequate resources to continue in business for the foreseeable future. Accordingly, and after consideration of the impact of Covid-19, it is appropriate for the accounts to continue to be prepared on a going concern basis.

### Events since the year-end

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

### Directors

The following persons served as Directors of the Society during the year and up to the date of the report:

### Non-executive Directors

J Nicholson, Chair
I Grayson
A L Pike, retired 26 April 2020
A P Lee
P Winter
M Himsworth

### Executive Directors.

S Beresford, Chief Executive
R K Patel, Finance Director
P E Jarman, Legal Director & Secretary

# Directors' Report

**Continued...**

None of the Directors, nor any of their close family members, held an interest in shares or debentures of any undertaking connected with the Society. Full details of the Society's Directors in office as at 31 December 2020 can be found in the Annual Business Statement.

At the next Annual General Meeting, on 28 April 2021, all the Directors will 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 auditor's responsibilities within the Independent Auditor's report to the members accompanying this report, 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 to prepare, for each financial year, Annual Accounts which give a true and fair view in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the affairs of the Society as at the end of the financial year, and the income and expenditure of the Society for the financial year.

In preparing those Annual Accounts, the Directors are required to:

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

The Building Societies Act 1986 requires the Directors to prepare for each financial year, in addition to the Accounts, an Annual Business Statement and a Directors' Report, each containing prescribed information relating to the business of the Society.

### Directors' Responsibilities for Accounting Records and Internal Control

The Directors are responsible for ensuring that the Society:

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

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

The Directors who held office at the date of approval of this report confirm that, so far as they are aware, there is no relevant audit information of which the Society's auditor is unaware, and each Director has taken all the steps that they ought to have taken as directors to make themselves aware of any relevant audit information and to establish that the Society's auditor is aware of that information.

On behalf of the Board

Julie Nicholson
Chair
12 March 2021

# Report on Corporate Governance

Although the UK Corporate Governance Code (the Code), issued by the Financial Reporting Council, does not directly apply to mutual societies, the Board has regard to its principles. The Code has been written with publicly quoted companies in mind, and some of its provisions are not necessarily consistent with the structure of building societies and the legal framework within which they operate. The Board has therefore considered the Code with this in mind and adapted its principles, where appropriate, to make them relevant to a building society.

This Report describes how the Board has addressed the Code by considering each of the Code's five groups of principles: Board Leadership and Company (Society) Purpose; Division of Responsibilities; Composition, Succession and Evaluation; Audit, Risk and Internal Control; and Remuneration.

## Board Leadership and Society Purpose

*Board's role and activities*

The Board's role is to promote the long-term sustainable success of the Society and to set the Society's purpose, values and strategy. The Board considers that its governance structure is a fundamental part in delivering these aims and enables it to successfully focus on strategy and risk management.

The Board maintains a list of matters reserved for its decision and a schedule of delegated authorities, identifying what matters are delegated, to whom and with what limitations. The Board approves major business decisions and mandates a series of policies, including a lending policy, within which the Society's business is required to operate. The Board also approves, annually, a five year rolling corporate plan with appropriate targets and objectives designed to ensure the Society's long-term sustainability. Additionally, each year, the Board reviews all of its policies on at least one occasion, ensures appropriate funding plans are in place, sets limits on delegated expenditure and reviews the Society's risk profile and its capital and liquidity position, both current and projected. In taking each of these actions, the Board considers how opportunities and risks may impact the future success of the business and the sustainability of the Society's business model.

In order to monitor the Society's performance and achievement of strategic objectives, the Board receives monthly reports on a wide variety of subjects including data on the Society's financial and operational performance, achievement of strategic milestones, compliance with risk appetite and policy limits and other performance indicators. Where the data it receives indicates that a corrective response is required, the Board will ensure that appropriate actions are put in place and implemented.

The Board's governance structure includes the following Board committees:

- Audit & Risk Committee – see section on Audit, Risk and Internal Control below;
- Nomination Committee – see section on Composition, Succession and Evaluation below;
- Remuneration Committee – see section on Remuneration below,

There are also a number of Executive-led management committees, information on which is contained in the section on Division of Responsibilities below.

*Stakeholder engagement*

The Board endeavours to understand the views of the Society's key stakeholders.

Engagement with the Society's members is pursued in a number of forms, particularly through discussion at the AGM, member surveys and member newsletters. In the event that more than 20% of votes are cast at an AGM against a Board recommended resolution, the Board undertakes to explain what actions it intends to take to understand the reasons for the vote and to publish its response within the following six months. An update would also be provided in the next following Annual Report.

With regard to suppliers, Executive Directors hold regular update meetings with key business partners. The aim of these discussions is to ensure that an open and productive relationship is maintained.

The Board has appointed two of its independent Non-Executive Directors, Paul Winter and Ian Grayson, as its designated directors responsible for engagement with the Society's workforce. In addition to informal communication channels, every three months Mr. Winter and Mr. Grayson hold a meeting with a quarter of the workforce (around 10 to 12 individuals) to enable an exchange of views to take place. Over the course of the year, all colleagues, therefore, have an opportunity to participate in at least one of these meetings. Points made by colleagues during these quarterly meetings are fed back to the Board. Mr. Winter and Mr. Grayson will, additionally, highlight any colleague views relevant to any matters discussed by the Board as and when they arise. The Society also has a process, overseen by Malcolm Himsworth, an independent Non-Executive Director, to enable colleagues to raise concerns in confidence, and anonymously if they wish to.

The Board also ensures that there is an open and co-operative relationship with the Society's regulators. Regular communications and updates are provided to them, as and when appropriate.

*Culture*

The Board seeks to ensure that the Society's culture is aligned with its purpose, values and strategy. The Board monitors the Society's culture in a number of different ways. Firstly, it receives quarterly culture monitoring reports which include wide ranging and comprehensive indicators including data on colleague turnover, exit interviews, disciplinary data, remuneration/promotion information, supplier relations, customer outcomes, complaints, regulatory compliance, and audit actions status. Secondly, Board members maintain informal direct contact with a large number of the Society's colleagues. Prior to the onset of the 2020 pandemic, this was done on a one-to-one basis or through regular lunches between groups of colleagues and Board members. As a smaller building society, it is possible for Board members to form a clear view of the Society's culture through these informal connections. Latterly, this has been more difficult but video conference facilities have been extensively used to maintain contact. Thirdly, through the designated Directors' stakeholder engagement activities noted above. If any of these monitoring activities indicate that corrective action needs to be taken, the Board would seek assurance from management that this had been carried out. However, such action has not been necessary during the reported year.

*Colleague investment and reward*

The Board attaches a high priority to investing in the Society's colleagues and ensures that an appropriate budget is allocated for training and development. Part of the objectives of the training and development programme is to support the promotion of the Society's values and to ensure that the Society's culture is aligned to them. Similarly, the Board's approach to reward for colleagues – more particularly described in the Remuneration Report – is to ensure that colleagues are rewarded fairly but also that reward supports the alignment of values and culture.

# Report on Corporate Governance
**Continued...**

## Division of Responsibilities

*Chair and Chief Executive*

The Chair of the Board is Julie Nicholson, who the Board determined was independent on appointment when assessed against the Code's independence criteria. She leads the Board and is responsible for its overall effectiveness in directing the Society. In so doing, the Board believes she has demonstrated objective judgment and promoted a culture of openness and debate. The roles of Chair and Chief Executive are separate and distinct and held by different directors. The Chief Executive, Simon Beresford, is responsible, with the other Executive Directors, for managing the Society's business subject to the matters reserved for Board decision and in accordance with the Society's corporate plan, policy structure and the Board's risk appetite.

*Board membership, meetings and attendance*

The Board had nine directors until 26 April 2020 and eight thereafter: six (then five) Non-Executive Directors, including the Chair, and three Executive Directors, including the Chief Executive. The following table lists all the Directors serving during the reported year, the number of meetings held and Directors' attendance at those meetings. (The number of meetings each Director was eligible to attend is indicated in brackets.)

| Director: | Attendance |
|---|---|
| Julie Nicholson | 9 (9) |
| Ian Grayson | 9 (9) |
| Malcolm Himsworth | 9 (9) |
| Andrew Lee | 8 (9) |
| Alex Pike* | 2 (2) |
| Paul Winter | 9 (9) |
| Simon Beresford** | 9 (9) |
| Patrick Jarman** | 9 (9) |
| Rajesh Patel** | 9 (9) |
| Total meetings: | 9 |

* Retired 26 April 2020.
**Executive Directors.

Outside of Board meetings, the Directors met for a day focused on strategy, the Non-Executive Directors met without the Executive Directors present and the independent Non-Executive Directors met without the Chair present to appraise the Chair's performance.

In this, and the subsequent section on Board committees, references to meetings includes meeting by video conference.

Full details of Directors during the reported year are contained in the Directors' Report and the Annual Business Statement.

*Non-Executive Directors*

Non-Executive directors have a prime role in appointing and removing Executive Directors and scrutinizing and holding to account the performance of management and individual Executive Directors. In addition to the Chair, the Non-Executive Directors are:

Ian Grayson,
Malcolm Himsworth,
Andrew Lee,
Paul Winter,

all of whom are considered by the Board to be independent. None of the circumstances identified by the Code as potentially impairing independence apply to any of them. Until her retirement from the Board on 26 April 2020, Alex Pike served as Senior Independent Director (SID). Since then the Board has not had a SID. Although a successor has been identified, the appointment will not be made or announced until the requisite approval from the regulators has been received.

*Committee membership, meetings and attendance*

The tables below state, for each Board committee its chair, committee members, number of meetings held during the reported year, and committee members' attendance at those meetings. (The number of meetings each Director was eligible to attend is shown in brackets.)

***Audit and Risk Committee***

| Members: | Attendance |
|---|---|
| Malcom Himsworth (Chair) | 7 (7) |
| Ian Grayson | 7 (7) |
| Andrew Lee | 7 (7) |
| Paul Winter | 7 (7) |
| Total meetings: | 7 |

***Remuneration Committee***

| Members: | Attendance |
|---|---|
| Ian Grayson (Chair) | 4 (4) |
| Malcom Himsworth | 4 (4) |
| Julie Nicholson | 4 (4) |
| Alex Pike (until 26 April 2020) | 2 (2) |
| Paul Winter | 4 (4) |
| Total meetings: | 4 |

***Nomination Committee***

| Members: | Attendance |
|---|---|
| Julie Nicholson (Chair) | 1 (1) |
| Simon Beresford | 1 (1) |
| Malcom Himsworth | 1 (1) |
| Paul Winter | 1 (1) |
| Total meetings: | 1 |

In addition to the Board Committees, the Society's governance structure includes a number of Executive-led management committees that report to the Board or a Board Committee. These are the Executive Committee, Credit Committee, Assets and Liabilities Committee, Conduct & Operational Risk Committee and the Product Governance Committee. The members of these committees are the Executive Directors, the Chief Operating Officer and the Head of Marketing and Sales. A Non-Executive Director also attends an Assets and Liabilities Committee meeting at least quarterly.

*External appointments*

Directors are not permitted to take on additional external appointments without prior approval of the Board. During the reported year, the Board approved the following external appointments accepted by Non-Executive Directors:

| | |
|---|---|
| Andrew Lee | St Andrews Healthcare |
| Julie Nicholson | Beryllium GP 1 Ltd |
| | Beryllium GP 2 Ltd |

In each case, the Board's rationale for approving the appointment was that there is no conflict of interest and the Board was satisfied that the time commitment did not impact on their duties with the Society.

## Composition, Succession and Evaluation

### *Nomination Committee role*

The Nomination Committee is responsible for considering Board composition, succession planning for both Executive and Non-Executive Directors and leads the process for Board appointments. It also oversees Board and Board Committee effectiveness evaluations. A summary of the work of the Nomination Committee follows.

### *Succession planning and appointments*

The Committee 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. It maintains a Board skills matrix in which it identifies current and future skills requirements. Board composition and the succession pipeline 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.

Candidates for directorship are identified in a number of ways, including advertisements in relevant publications and through external search agencies. No appointments to the Board were made during 2020.

### *Board evaluation*

The Committee has established a system of appraisal and review to evaluate the performance, and the training and development needs, of individual directors and the Board as a whole.

Each of the Non-Executive Directors, and the Chief Executive, undergoes an annual performance review by the Chair of the Board. The Chair's own annual performance is reviewed by the Senior Independent Director, after having solicited feedback from the other Directors. The Chief Executive conducts an annual performance review of the other Executive Directors. The Nomination Committee itself assesses the continuing independence and commitment of the Non-Executive Directors and the Board's training and development needs.

The Committee initiates a review and evaluation of Board and Board Committee effectiveness by conducting a formal annual appraisal. This is facilitated by means of a questionnaire completed anonymously by all attendees to the relevant meetings, and extends beyond Directors and committee members. From time to time, the Committee also seeks an external assessment of its effectiveness; such a review was last undertaken in January 2017. Whether the review is through self-appraisal or external assessment, actions are agreed to take forward any identified improvements and their implementation is subsequently monitored by the Committee and the Board.

For the reported year, the evaluation process identified that further actions should be progressed in relation to Board composition and enhancing input on information technology matters, and optimising the management information provided to the Board.

### *Inclusion and Diversity*

The Society has an Inclusion & Diversity Policy to encourage diversity in its workforce and an inclusive culture. In furtherance of this, the Board receives a half-yearly report on the Society's progress on inclusion and diversity and the Committee takes account of this in its deliberations.

The Board has a policy of encouraging diversity in its composition as much as possible. Specifically, it has agreed an objective of each gender constituting at least a third of any short-list for any appointment as a director.

As required to be disclosed by the Code, the gender balance of those in senior management (defined as members of the Executive Committee) and their direct reports is 56% male and 44% female (2019: 56% male and 44% female).

### *Re-elections at the AGM*

All Directors submit themselves for re-election every year, subject to continued satisfactory performance.

## Audit, Risk and Internal Control

### *Audit & Risk Committee Role*

The Audit and Risk Committee is comprised only of independent Non-Executive Directors. Its role is to monitor the integrity of the external audit and the Society's financial statements, to oversee the Society's risk management framework, to appraise the Society's systems of control, assess the overall effectiveness of the Society's control environment and oversee the necessary actions to improve such controls to mitigate the risks faced by the Society. It is supported by regular reports from the Internal Auditor, Risk Manager, Compliance Officer and External Auditor. A summary of the work of the Audit & Risk Committee follows.

### *External audit*

The Committee reviewed the overall work plan of the external auditor and approved their remuneration and terms of engagement and considered in detail the results of the audit, the external auditor's performance and independence and the effectiveness of the overall audit process. BDO was first appointed as external auditor at the 2020 AGM. It has provided no non-audit services during the reported year.

# Report on Corporate Governance
**Continued...**

A key activity of the Committee is to review the Annual Accounts prior to Board approval. It reviewed and challenged relevant accounting policies and significant financial judgements including the level of lending loss provisions, the basis of the 'effective interest rate' (EIR) calculation for revenue recognition, and hedge accounting. In order to address these issues, the Committee sought and received detailed briefings and explanations.

All significant financial judgements are set out in the Accounting Policies in note 1 to the Accounts, with further details provided in other notes to the Accounts, the Chair's and Chief Executive's Statement and the Strategic Report and the Directors' Report.

The Directors statement of responsibility for preparation of the Annual Report and Accounts is included in the Directors' Report.

### *Internal audit*

The Committee also reviews and approves the plans of the Internal Auditor and during the course of the year receives and reviews the Internal Auditor's reports. The Society has outsourced its internal audit function to RSM Risk Assurance Services LLP.

### *Risk management and internal control*

The Committee has reviewed the effectiveness of the Society's financial controls and the internal control and risk management systems, compliance with financial services legislation, and has monitored progress to ensure that any required remedial action has been or is being taken on any identified weaknesses.

The Board is responsible for determining the Society's risk management framework and for ensuring the Society operates a robust system of internal control to support its strategy and objectives. The Audit & Risk Committee advises the Board on these matters and monitors the risk management framework and internal controls. The Board, on the Committee's advice, sets high-level risk appetites to define the level and type of risk the Society is willing to accept and key risk metrics.

### *Risk assessment*

The Committee and the Board have carried out a robust assessment of the Society's emerging and principal risks and a summary of the outcome of that assessment is included in the Strategic Report. The latter also includes further information on the Society's risk management framework and the mitigation strategies for the specific risks to which the Society is exposed.

## Remuneration

The Remuneration Committee has delegated responsibility for determining remuneration policy generally and for setting the remuneration of the Chair, Executive Directors and senior management. Further detail is included in the Remuneration Report.

On behalf of the Board

Julie Nicholson
Chair
12 March 2021

# Report of the Directors on Remuneration

The Board aims to follow best practice in its remuneration policy and has regard to the principles of the UK Corporate Governance Code (the Code), issued by the Financial Reporting Council.

The Board's objective in designing its remuneration policies and practices is to support strategy and long-term sustainable success.

## Remuneration Committee

The Remuneration Committee is comprised exclusively of independent Non-Executive Directors and the Chair of the Board.

The Board has given delegated authority to the Remuneration Committee for setting the remuneration of the Executive Directors, senior management and the Chair. It also reviews policy on workforce remuneration generally.

The Committee's remit does not extend to Non-Executive Directors' remuneration. Their remuneration is reviewed each year by the Executive Directors and the Chair of the Board, and a recommendation is made to the Board. The Chair's remuneration is reviewed by the Remuneration Committee without the Chair participating in the decision.

## Executive Directors' remuneration

### *Strategic rationale*

The Remuneration Committee has the same policy for the Executive Directors as for senior management. The latter is defined for this purpose as Executive Committee members who are not Executive Directors.

There are four objectives supporting the Committee's approach to remuneration: that remuneration is sufficient to attract, retain and motivate individuals of sufficiently high calibre with the necessary skill sets; that it is aligned with the Society's culture and values as a mutual; that it is consistent with managing the Society's business in line with the Board's risk appetite and regulatory requirements; and that it supports the long-term strategic objectives of the Board.

Executive Directors remuneration consists of salary, a bonus payment, and a benefits package. The benefits package, which is on the same terms as all other colleagues, comprises a contributory (defined contribution) pension scheme with a maximum 10% employer contribution and a 4 times salary death-in-service benefit. A relocation package for new appointees may be available on a case-by-case basis depending on individual circumstances.

The executive bonus is earned as agreed core objectives are achieved. It comprises a broad range of financial and non-financial measures derived from the Society's Corporate Plan and other objectives measured over a three-year period.

Achievement of each individual objective results in a proportion of the bonus being earned up to a total of 20% of salary for achievement of all of the targets. An increased award is possible for exceeding objectives, but this is subject to an absolute maximum of 24% of an individual's salary. Partial awards are possible where an objective has been missed by a relatively narrow margin, but only within pre-agreed parameters. The bonus is therefore designed to support the Board's strategic aims.

The Remuneration Committee has absolute discretion to withhold or reduce an award if it believes it is appropriate to do so either generally or in a particular case regardless of whether a target has been met. It does not, however, have the ability to recover bonuses once paid. The Committee may make an award even if an objective has not been met if, in exceptional circumstances, it believes, in its absolute discretion, it is appropriate to do so.

### *Appropriateness of remuneration*

On joining, the Executive Director's salary is determined by reference to roles carrying similar responsibilities in comparable organisations, particularly other similar building societies, and other factors such as expertise, experience and the need to attract candidates from outside our region. Thereafter, salary increases are normally in line with general cost-of-living increases awarded to all colleagues.

### *'Provision 40 factors'*

Provision 40 of the Code identifies a number of factors of which the Committee should take account in determining Executive Director remuneration, and requires that examples should be given in this Report of how they have been addressed. The factors and examples of how the Committee has taken them into account are set out below:

- Clarity – the remuneration package, including a summary of the terms of the bonus scheme, is set out in this report;
- Simplicity – the remuneration package is simple, with few components, and involves only cash payments plus pension contributions and the death-in-service benefit;
- Risk – bonus payments are expressly subject to key performance indicators demonstrating that the Society has been managed within the Board's risk appetite;
- Predictability – the only variable element of the remuneration package, the bonus, has a clear pre-set range of outcomes with a capped maximum as stated above.

# Report of the Directors on Remuneration

**Continued...**

- Proportionality – There is a clear link between awards and delivery of strategic objectives. The bonus targets are derived from the strategy set out in the Corporate Plan and from longer-term three-year objectives.
- Alignment to culture – if the requirements of a series of qualitative gates are not met, regardless of achievement of objectives, then no bonus will be paid. One of these gates includes achievement of good customer outcomes objectives for the Society's members.

### *Remuneration policy outcomes*

The remuneration policy operated as intended in terms of Society performance and quantum.

### *Member engagement*

At the forthcoming Annual General Meeting, members will be invited to vote on the Remuneration Report.

### *Workforce engagement*

Remuneration is raised and discussed through the workforce engagement activities described in the Corporate Governance Report. The objectives set for the workforce's bonus scheme are included in the executive bonus scheme, although the latter has additional objectives.

### *Remuneration Committee discretion*

The Committee has applied discretion to an objective relating to matching the Society's mortgage book growth to that of the average of a peer group of building societies over a three year period. This reflects the fact that the Society was embarking on a new strategic approach and investing in the Society's capabilities.

### *Non-Executive Directors' remuneration*

In setting Non-Executive Directors remuneration, a comparison of the level of fees to those paid in similar building societies is made, and consideration is given to the responsibilities of each Director and the amount available to be paid, as determined by the Society's rules. Normally, Non-Executive Directors receive the same cost-of-living annual percentage increase as Executive Directors and other colleagues. In 2020, this was 2½%.

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

### *Individual Director's Remuneration*

| Director | 2020 £000 | 2019 £000 |
|---|---|---|
| Fees paid to Non-executive Directors | | |
| J Nicholson | 34 | 33 |
| A P Lee | 22 | 21 |
| A L Pike (until 30.04.20) | 8 | 22 |
| I Grayson | 22 | 21 |
| P Winter | 22 | 21 |
| M Himsworth | 25 | 24 |
| Total | 133 | 142 |
| Executive Directors' remuneration | | |
| S Beresford | | |
| Salary | 165 | 156 |
| Bonus | 34 | 20 |
| Pension contributions | 16 | 16 |
| Total | 215 | 192 |
| P G Marsden (until 10.07.19) | | |
| Salary | - | 76 |
| Bonus | - | - |
| Relocation allowance | - | - |
| Pension contributions | - | 3 |
| Total | - | 79 |
| P E Jarman | | |
| Salary | 85 | 81 |
| Bonus | 17 | 11 |
| Pension contributions | 3 | 3 |
| Total | 105 | 95 |
| R K Patel (from 10.07.19) | | |
| Salary | 148 | 68 |
| Bonus | 26 | 8 |
| Relocation allowance | 5 | 6 |
| Pension contribution | 15 | 7 |
| Total | 194 | 89 |
| Total Directors' remuneration | 647 | 597 |

Ian Grayson
Chair of the Remuneration Committee
12 March 2021

# Independent auditor’s report to the members of Teachers Building Society

### Opinion on the financial statements

In our opinion, the financial statements:

- give a true and fair view of the state of the Society’s affairs as at 31 December 2020 and of the Society’s profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Building Societies Act 1986.

We have audited the financial statements of Teachers Building Society (the ‘Society’) for the year ended 31 December 2020 which comprise the Income Statement, the Statement of Financial Position, the Statement of changes in members’ interests and Statement of cash flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor’s responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion. Our audit opinion is consistent with the additional report to the audit and risk committee.

### Independence

Following the recommendation of the audit and risk committee, we were appointed by the members at the AGM on 30 April 2020 to audit the financial statements for the year ending 31 December 2020 and subsequent financial periods. The period of total uninterrupted engagement including retenders and reappointments is 1 year, covering the year ending 31 December 2020. We remain independent of the Society in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC’s Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services prohibited by that standard were not provided to the Society.

### Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Directors’ use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the Directors’ assessment of the Society’s ability to continue to adopt the going concern basis of accounting included:

- Assessing management’s assessment of Going Concern including supporting financial forecasts
- Reviewing the ICAAP, ILAAP and regulatory capital and liquidity requirements
- Challenging management’s assumptions and judgements made with regards to their base forecast and stress-tested forecast, including reverse stress test scenarios
- Assessing how management have factored in key external factors expected to impact the Society such as the Covid-19 pandemic, checking these had been appropriately considered as part of management’s going concern assessment.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Society’s ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

# Independent auditor's report to the members of Teachers Building Society

Continued….

### Overview

| Key audit matters | | 2020 |
|---|---|---|
| | Revenue recognition | X |
| | Impairement losses on loans and advances | X |
| Materiality | £139,000 based on 0.65% of Tier 1 capital (2019: £107,000 based on 0.5% net assets). | |

### An overview of the scope of our audit

Our audit approach was developed by obtaining an understanding of the Society's activities and the overall control environment. Based on this understanding, we assessed those aspects of the Society's transactions and balances which were most likely to give risk to a material misstatement.

### Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

| Key audit matter | | How the scope of our audit addressed the key audit matter |
|---|---|---|
| Revenue Recognition<br><br>The Society's accounting policies are detailed on page 29 with detail about judgements in applying Accounting policies and critical accounting estimates on page 32. | The Society's mortgage interest income is recognised on an effective interest rate ("EIR") method in accordance with the requirements of FRS 102.<br><br>The net EIR liability of the Society is £18,041 (2019: £149,421).<br>This method involves adjusting fee and interest income to ensure it complies with the EIR method. The models used to achieve this are complex and reliant on the completeness and accuracy of input data. Significant management judgement is also required to determine the expected cash flows for the Society's loans and advances within these models. Error within the EIR models itself or bias in key assumptions applied could result in the material misstatement of revenue.<br><br>The key assumption in the EIR models is the expected behavioural life redemption profiles of the mortgages due to the impact on timing and quantum of expected future cash flows.<br><br>Revenue recognition is therefore considered to be a key audit matter. | We assessed whether the revenue recognition policies adopted by the Society are in accordance with requirements of FRS 102. This included assessment of the types of fees and costs being spread within the effective interest rate models.<br><br>We assessed the completeness and accuracy of data and key model inputs feeding into the EIR model by agreeing samples to the system or source documents.<br><br>We verified the arithmetic accuracy of the models through re-calculation.<br><br>We tested the loan behavioural life run-off curves used by management for the EIR calculations based on the Society's historical data.<br><br>We utilised data analytics to perform a full recalculation of the contractual interest recognised during the financial year on loans advanced.<br><br>Key observations:<br><br>Based on the procedures undertaken we consider revenue recognition to be appropriate. |
| Impairment losses on loans and advances<br><br>The Society's accounting policies are detailed on page | The Society accounts for the impairment of loans and advances to customers using an incurred loss model. | Our testing on specific provisions included selecting a sample of loans and checking the collateral valuation to the external valuations obtained by management, including re-calculations of indexed property valuations and verifying the credentials of management's expert. |

| | | |
|---|---|---|
| 29 with detail about judgements in applying Accounting policies and critical accounting estimates on page 32. As disclosed in Note 9, the collective impairment provision at year-end is £218,000 (2019: £229,000). | In accordance with the recognition and measurement criteria of FRS 102, management has calculated two types of provisions.<br><br>(i) A specific provision is calculated for loans where there is an observable loss event.<br>(ii) A collective provision is recognised for loans which are impaired as at the year end date and whilst not specifically identified as such are known from experience to be present in any portfolio of loans, being impairment that has been incurred but not reported.<br><br>Estimating an appropriate loan loss provision requires significant judgement in determining the value and timing of future cash flows. In particular, the assumptions related to the cash flows expected to be received from the sale of property have the most significant impact on the provision.<br><br>Impairment losses on loans and advances is therefore also a fraud risk area due to the judgments and complexity. | We tested the discount rate applied to the collateral valuations based on past actual discounts where collateral was sold. We also tested the population of loans to gain comfort that all loans that meet the criteria for a specific provision have been included for specific provisioning.<br><br>We tested the appropriateness of the key assumptions within this model in relation to the collective provision, such as impairment triggers, indexed property valuations, and probability of defaults through a combination of, independent recalculations and agreeing inputs to external data sources where applicable, and taking into account current market conditions which pertain to the mortgage book.<br><br>We tested the completeness and accuracy of key model inputs by agreeing them back on a sample basis to underlying source data. We performed sensitivity analysis on the discount applied to the indexed collateral valuations and to the level of segmentation in the model.<br><br>We verified the arithmetic accuracy of the models through re-calculation.<br><br>We reconciled the loan balances in the models to test whether the relevant loan populations were being considered for impairment.<br><br>Key observations:<br><br>We noted no material exceptions through performing these procedures. |

# Independent auditor's report to the members of Teachers Building Society

**Continued….**

### Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements.

In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole and performance materiality as follows:

| | 2020 |
|---|---|
| Materiality | £139,000 |
| Basis for determining materiality | 0.65% of Tier 1 capital |
| Rationale for the benchmark applied | We determined that Tier 1 capital was the most appropriate benchmark considering the difference in stakeholders. In particular as regulatory stability is considered to be a main driver for the Society as well as the purpose of the Society which is to optimise rather than maximise profits. |
| Performance materiality | £83,400 |
| Basis for determining performance materiality | 60% of materiality<br><br>Lower level of materiality applied, in particular considering this our first year auditing the Society. |

### Reporting threshold

We agreed with the Audit and Risk Committee that we would report to them all individual audit differences in excess of £2,000. We also agreed to report differences below this threshold that, in our view, warranted reporting on qualitative grounds.

### Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report and accounts, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information, and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

### Other Building Societies Act 1986 reporting

Based on the responsibilities described below and our work performed during the course of the audit, we are required by the Building Societies Act 1986 and ISAs (UK) to report on certain opinions and matters as described below. .

| | |
|---|---|
| Annual business statement and directors' report | In our opinion, based on the work undertaken in the course of the audit:<br>• The annual business statement and the directors' report have been prepared in accordance with the requirements of the Building Societies Act 1986;<br>• The information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and<br>• 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.<br><br>In the light of the knowledge and understanding of the Society and its environment obtained in the course of the audit, we have not identified any material misstatements in the directors' report. |
| Matters on which we are required to report by exception | We have nothing to report in respect of the following matters in relation to which the Building Societies Act 1986 requires us to report to you if, in our opinion:<br>• adequate accounting records have not been kept; or<br>• the financial statements are not in agreement with the accounting records; or<br>• we have not received all the information and explanations we require for our audit. |

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

In our opinion the information given on page 51 for the financial year ended 31 December 2020 has been properly prepared, in all material respects, in accordance with the Capital Requirements (Country-by-Country Reporting) Regulations 2013.

### Responsibilities of directors

As explained more fully in the statements of Director's responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Society's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Society or to cease operations, or have no realistic alternative but to do so.

### Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

### Extent to which the audit was capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

We gained an understanding of the legal and regulatory framework applicable to the Society and the industry in which it operates and considered the risk of acts by the Society which would be contrary to applicable laws and regulations, including fraud. These included but were not limited to compliance with the Building Societies Act 1986, Prudential Regulation Authority ("PRA") and Financial Conduct Authority ("FCA") regulations, pension legislation and tax legislation.

# Independent auditor’s report to the members of Teachers Building Society

**Continued….**

We focused on laws and regulations that could give rise to a material misstatement in the company financial statements. Our tests included, but were not limited to:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with relevant laws and regulations discussed above;
- enquiring of management, internal audit and the audit and risk committee;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and correspondence with the Financial Conduct Authority and the Prudential Regulation Authority;
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; and
- assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit. As part of this discussion, we identified potential for fraud in relation to accounting estimates such as EIR and loan loss provisioning.

Our audit procedures were designed to respond to risks of material misstatement in the financial statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion. There are inherent limitations in the audit procedures performed and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we are to become aware of it.

A further description of our responsibilities is available on the Financial Reporting Council’s website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor’s report.

### Use of our report

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 and the Society’s members as a body, for our audit work, for this report, or for the opinions we have formed.

12 March 2021
Daniel Taylor (Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor

London, UK

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

# Income Statement

## For the Year Ended 31 December 2020

| | Notes | 2020 £000 | 2019 £000 |
|---|---|---|---|
| Interest receivable and similar income | 5 | 7,348 | 7,922 |
| Interest payable and similar charges | 6 | (2,138) | (3,242) |
| **Net interest income** | | **5,210** | **4,680** |
| Fees and commission receivable | | 330 | 262 |
| Fees and commission payable | | (457) | (356) |
| **Net fees and commission expense** | | **(127)** | **(94)** |
| Other operating income | 16 | 130 | 96 |
| Other fair value losses | 7 | (100) | (82) |
| **Net operating income** | | **5,113** | **4,600** |
| Administrative expenses | 8 | (4,471) | (4,248) |
| Depreciation and amortisation | 14,15 | (75) | (114) |
| **Operating expenses** | | **(4,546)** | **(4,362)** |
| **Operating profit before provisions** | | **567** | **238** |
| Impairment provisions for losses on loans and advances | 9 | 11 | - |
| Provisions for other liabilities and charges | 21 | - | 11 |
| **Operating profit** | | **578** | **249** |
| Taxation expense | 10 | (99) | (48) |
| **Total profit and comprehensive income for the year** | | **479** | **201** |

All results arise from continuing operations.

# Statement of Financial Position

### At 31 December 2020

| Assets | Notes | 2020 £000 | 2019 £000 |
|---|---|---|---|
| **Liquid assets:** | | | |
| Cash in hand and balances with the Bank of England | | 70,509 | 57,385 |
| Loans and advances to credit institutions | 11 | 7,912 | 6,311 |
| | | **78,421** | **63,696** |
| **Loans and advances to customers:** | | | |
| Loans fully secured on residential property | | 251,448 | 229,688 |
| Other loans fully secured on land | | 1,713 | 1,728 |
| | 12 | **253,161** | **231,416** |
| Derivative financial instruments | 13 | - | 22 |
| Intangible fixed assets | 14 | 25 | 63 |
| Tangible fixed assets | 15 | 349 | 261 |
| Investment property | 16 | 775 | 878 |
| Prepayments and accrued income | | 150 | 196 |
| Other assets | 17 | 24 | 36 |
| **Total assets** | | **332,905** | **296,568** |

| Liabilities | Notes | 2020 £000 | 2019 £000 |
|---|---|---|---|
| **Shares and customer deposits:** | | | |
| Shares | 18 | 229,945 | 212,326 |
| Deposits owed to other customers | 19 | 45,065 | 32,259 |
| | | **275,010** | **244,585** |
| Amounts owed to credit institutions | 20 | 34,508 | 29,557 |
| Derivative financial instruments | 13 | 666 | 451 |
| Current tax liabilities | | 103 | 36 |
| Provisions for liabilities and charges | 21 | - | - |
| Accruals and deferred income | 22 | 501 | 346 |
| Deferred tax liabilities | 23 | 58 | 62 |
| Other liabilities | 24 | 160 | 111 |
| Total liabilities | | 311,006 | 275,148 |
| Total equity attributable to members | | 21,899 | 21,420 |
| **Total equity and liabilities** | | **332,905** | **296,568** |

These accounts were approved by the Board of Directors on 12 March 2021

**Julie Nicholson**
Chair

**Simon Beresford**
Chief Executive

**Rajesh Patel**
Finance Director

# Statement of Changes in Members' Interests

## At 31 December 2020

| | Revaluation reserve £000 | General reserves £000 | Total equity attributable to members £000 |
|---|---|---|---|
| **At 1 January 2020** | 744 | 20,676 | 21,420 |
| Profit for the year | - | 479 | 479 |
| Transfer to general reserve - depreciation on revaluation surplus | (2) | 2 | - |
| **At 31 December 2020** | 742 | 21,157 | 21,899 |

## At 31 December 2019

| | Revaluation reserve £000 | General reserves £000 | Total equity attributable to members £000 |
|---|---|---|---|
| **At 1 January 2019** | 746 | 20,473 | 21,219 |
| Profit for the year | - | 201 | 201 |
| Transfer to general reserve - depreciation on revaluation surplus | (2) | 2 | - |
| **At 31 December 2019** | 744 | 20,676 | 21,420 |

# Statement of Cash Flows

**For the year ended 31 December 2020**

| | 2020<br>£000 | 2019<br>£000 |
|---|---|---|
| **Net cash inflow from operating activities (see below)** | 14,747 | 1,609 |
| **Cash flows from investing activities** | | |
| Purchase of intangible assets and property, plant and equipment | (22) | (85) |
| Increase in cash and cash equivalents | 14,725 | 1,524 |
| Cash and cash equivalents at beginning of year | 63,696 | 62,172 |
| **Cash and cash equivalents at end of year** | **78,421** | **63,696** |
| **Represented by:** | | |
| Cash and balances with the Bank of England | 70,509 | 57,385 |
| Loans and advances to credit institutions repayable on demand | 7,912 | 6,311 |
| | **78,421** | **63,696** |

| **Net cash inflow from operating activities** | 2020<br>£000 | 2019<br>£000 |
|---|---|---|
| Operating profit | 578 | 249 |
| **Adjusted for:** | | |
| Depreciation and amortisation | 75 | 114 |
| Impairment losses on loans and advances to customers | (11) | - |
| Fair value loss/ on derivative financial instruments | 100 | 82 |
| Effective interest rate accounting adjustment | 18 | 52 |
| **Changes in net operating assets** | | |
| (Increase) in loans and advances to customers | (21,752) | (563) |
| Decrease in other assets | 12 | 4 |
| Decrease/(increase) in prepayments and accrued income | 46 | (47) |
| Change in derivative financial instruments | 137 | 455 |
| Increase in shares, deposits and amounts owed to credit institutions | 35,376 | 1,513 |
| Increase/(decrease) in other liabilities | 49 | (34) |
| (Decrease) in provisions for liabilities | - | (33) |
| Increase in accruals and deferred income | 155 | 9 |
| **Taxation paid** | (36) | (192) |
| **Net cash inflow from operating activities** | **14,747** | **1,609** |

# Notes to the Accounts

**For the Year Ended 31 December 2020**

## 1 Accounting Policies

The Accounts have been prepared in accordance with the Building Societies (Accounts and Relations Provisions) Regulations 1998 and applicable law and United Kingdom Financial Reporting Standard 102 (FRS 102). The particular accounting policies adopted by the Directors are described below.

### a) Accounting convention

The accounts are prepared under the historical cost convention modified to include certain items at fair value, and in accordance with FRS 102 issued by the Financial Reporting Council.

### b) Basis of preparation

The Society's accounts are made up to 31 December each year. As noted on page 11, the Directors are satisfied that the Society has adequate resources to continue in business for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the accounts.

### c) Tangible fixed assets and depreciation

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

Freehold building – fifty years
Major improvements to buildings – ten years
Computers and electronics equipment – two to seven years
Fixtures and fittings – four to ten years

### d) Intangible fixed assets and amortisation

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

### e) Investment properties

The proportion of the head office building which is not occupied by the Society but rented out (including the roof space) is classified under FRS 102 as investment property and held at fair value. Any change in fair value during the year resulting from an annual valuation is recognised through the income statement.

The value of the investment property is based on a triennial market valuation which is carried out by an independent valuer who holds a recognised and relevant professional qualification and has recent experience in the location and class of the investment property being valued.. The basis of the market valuation is an estimation for which the property would be exchanged between a willing buyer and a willing seller in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion. It assumes that the property is free from structural or other defects that would materially affect the market value. The method of valuation used is based on current rents and capitalisation yields in the area where the property is located. Where an external valuation is not obtained within the year, the value is assessed internally with external support where required.

### f) Basic financial instruments

Basic financial instruments include cash in hand and balances with the Bank of England, loans and advances to credit institutions, debt securities issued by other borrowers, loans and advances to customers, shares, and deposits owed to other customers in accordance with sections 11 and 12 of FRS102. In accordance with sections 11 and 12 of FRS102, basic financial instruments are initially recognised at transaction price, including transaction costs. Assets and liabilities are subsequently measured at amortised cost which is the present value of a financial instrument's future cash flows discounted at the original effective interest rate. The interest income or expense in a period equals the carrying amount at the beginning of a period multiplied by the effective interest rate.

### g) Derivative financial instruments and hedge accounting

In accordance with Section 9A of the Building Societies Act 1986, the Society only uses derivatives to reduce the risk of loss arising from changes in interest rates. Such instruments are not therefore used in trading activity, or for speculative purposes. The Society uses standardised International Swaps and Derivatives Association ("ISDA") agreements with other financial institutions in order to hedge interest rate risk. The ISDA contracts grant legal rights of set off for derivative transactions with the same counterparty. This can reduce the potential credit risk where the derivative contracts may be for offsetting values.

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

If it can be proven, through the use of regression testing, that there is a qualifying hedge relationship with the underlying items being hedged then the fair value of those underlying items is offset in the income statement in accordance with IAS39.

### 1 Accounting Policies (continued)

However, income statement volatility may still arise to the extent that these hedge relationships are ineffective, or because hedge accounting is not achievable.

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

#### h) Taxation

Current tax, including UK Corporation Tax, is provided at amounts expected to be paid or recovered using the tax rates and laws that have been enacted, or substantially enacted, by the statement of financial position date.

Deferred taxation is provided in full on timing differences that result in an obligation at the statement of financial position 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.

#### i) Revenue recognition

The Society uses the effective interest rate (EIR) method to recognise income for certain financial instruments held at amortised cost. To calculate the appropriate EIR, the Society makes assumptions of the expected lives of financial instruments and the anticipated level of early redemption charges to spread interest together with all directly attributable fees payable and receivable over the calculated behavioural life of each mortgage.

#### j) Fees and commissions payable

Mortgage indemnity guarantee premiums, broker fees and valuation fees paid are included in 'Fees and commissions payable' and are expensed using the asset's Effective Interest Rate.

#### k) Other operating income

Other operating income comprises rent and other income receivable from the letting of property and is included in the accounts on an accruals basis.

#### l) Impairment provision for losses on loans and advances

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

The Society uses forbearance techniques to help some borrowers through periods where their finances have become stretched and where servicing of the normal mortgage repayment has become difficult. The Society uses forbearance concessions where they are deemed appropriate for an individual borrower's circumstances and may include interest-only facilities, arrears arrangements, term extensions and capitalisation. Individual provisions are considered for all mortgage accounts in arrears by three months, or more, and for accounts where the property is in possession and there is objective evidence that all cash flows will not be received.

Provisions are made to the extent that the proceeds of sale of the property would be insufficient to meet the outstanding debt and related costs of sale.

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

A collective provision is made against loans and advances which have not been specifically identified as impaired, but where the Society's experience would indicate that losses may ultimately be realised. The impairment value is calculated by applying various factors to each loan. These factors take into account the 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, which may ultimately result in a loss being realised. The probability of eventual repossession is applied based on externally obtained credit scores for each mortgage account.

#### m) Incentive to borrowers

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

## n) Term Funding Scheme (TFS)

The Society has been admitted into the Bank of England's Term Funding Scheme (TFS) which provides funding for a fixed term of four years from the date of drawdown.

TFS provides funding in the form of cash, with the availability of funding being derived from the mortgage book size at 30 June 2016 and any subsequent net growth.

## o) Term Funding Scheme with additional incentives for SMEs (TFSME)

The Society has been admitted into the Bank of England's Term Funding Scheme with additional incentives for SMEs (TFSME) which provides funding for a fixed term of four years from the date of drawdown.

The TFSME scheme is an extension to the existing previous TFS scheme with the available funding being set by reference to mortgage growth. The availability of funding increases where lending is made to SMEs.

The Society is currently using TFSME to refinance the maturing TFS funding, extending the maturity dates and to provide an additional source of funding for future growth.

## p) Colleague benefits

**Pensions**

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

**Other long-term colleague benefits**

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

**Short-term colleague benefits**

The cost of short-term colleague benefits, including wages and salaries, social security costs and healthcare for current colleagues, is recognised in the year of service. Termination benefits, such as payments in lieu of notice and for redundancy, are charged to the income statement as they fall due.

## q) Interest Rate Benchmark Reform – Amendments to IAS39

These amendments were issued by the IASB in September 2019 and endorsed by the EU in December 2019. They modify specific hedge accounting requirements to allow hedge accounting to continue for affected hedges during the period of uncertainty before impacted hedged items and hedging instruments are amended as a result of the on-going interest rate benchmark reforms.

The amendments are relevant to the Society given that it applies hedge accounting to its benchmark interest rate exposure. The application of the amendments impact the Society's accounting in the following ways:

- The Society has fixed rate advances in the form of retail mortgage lending to customers which it includes in a portfolio fair value hedge of the GBP LIBOR risk component of those advances. This benchmark interest rate component was separately identifiable at the time of the initial designation, and as noted above, the amendments permit continuation of hedge accounting even if in the future the hedged benchmark interest rate, GBP LIBOR, may no longer be separately identifiable.
- The Society will not discontinue hedge accounting should the retrospective assessment of hedge effectiveness fall outside the 80-125 per cent range and the hedging relationship is subject to interest rate benchmark reforms. For those hedging relationships that are not subject to the interest rate benchmark reforms the entity continues to cease hedge accounting if retrospective effectiveness is outside the 80-125 per cent range.

The Society has chosen to early apply the amendments to IAS39, which are mandatory for the annual reporting periods beginning on or after 1 January 2020. Adopting these amendments allows the Society to continue hedge accounting during the period of uncertainty arising from interest rate benchmark reforms.

## 2 Critical accounting judgements and key sources of estimation uncertainty

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

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

The following are estimations that the directors have made in the process of applying the Society's accounting policies and that have the most significant effect on the amounts recognised in the financial statements. There are no critical accounting judgements in the period:

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

To the extent the HPI movements were to differ from current observations by 2.5%, the impact on provisions would be £46k. The impact of a 2.5% change in the calculated probability of default currently being applied would impact provisions by £6k.

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

III. **Effective Interest Rate (EIR):**
The Society uses the EIR method to recognise income for certain financial instruments held at amortised cost. To calculate the appropriate EIR, the Society makes assumptions of the expected lives of financial instruments and the anticipated level of early redemption charges. The impact of a 10% change in the expected lives of financial instruments would result in an increase/decrease in the value of the loans in the statement of financial position by £2.1k/(£2.1k) respectively.

IV. **Investment Property:**
The fair value of the investment property is measured annually with the movements recognised in the income statement. The Society's policy is to have a formal valuation based on rental yields every three years, with the valuation changes for the years between being the best estimate of the directors. The last formal valuation was as at 31 December 2018, with the next externally valuation due to take place as at 31 December 2021.

## 3. Directors

### (a) Directors Remuneration

Directors' remuneration totalled £647,000 (2019: £597,000). Full details are given in the Report of the Directors on Remuneration on page 18.

### (b) Transactions with Directors and connected persons

At 31 December 2020 one mortgage loan totalling £88,735 (2019: one mortgage totalling £90,044) made in the ordinary course of business and falling within section 65 of the Building Societies Act 1986 was outstanding to one connected person (2019: one).

Amounts deposited by directors and their close family members earn interest at the same rates offered to the public and interest received totalled £914 (2019: £534). Total balances held by all directors and related parties at 31 December 2020 totalled £65,519 (2019: £110,106).

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

## 4. Colleague

| | 2020 Number | 2019 Number |
|---|---|---|
| Average number of persons employed by the Society | | |
| Full-time | 43 | 40 |
| Part-time | 5 | 6 |
| | **48** | **46** |

## 5. Interest receivable and similar income

| | 2020 £000 | 2019 £000 |
|---|---|---|
| On loans fully secured on residential property | 7,644 | 7,578 |
| On other loans fully secured on land | 89 | 93 |
| Effective interest rate accounting adjustment | (18) | (52) |
| | **7,715** | **7,619** |
| On debt securities | - | 2 |
| On other liquid assets | 136 | 448 |
| Net interest expense on derivative financial instruments | (503) | (147) |
| | **7,348** | **7,922** |

## 6. Interest payable and similar charges

| | 2020 £000 | 2019 £000 |
|---|---|---|
| On shares held by individuals | 2,039 | 2,976 |
| On deposits and debt securities | 99 | 273 |
| On derivative financial instruments | - | (7) |
| | **2,138** | **3,242** |

## 7. Other fair value gains and losses

The Society's income, expense, gains and losses in respect of fair value changes through the income statement are summarised in the following table:

| | 2020 £000 | 2019 £000 |
|---|---|---|
| **Fair value movements through the income statement** | | |
| Hedged mortgages | 137 | 454 |
| Derivative financial instruments | (237) | (536) |
| **Other fair value gains** | **(100)** | **(82)** |

## 8. Administrative expenses

| | 2020 £000 | 2019 £000 |
|---|---|---|
| **Colleague costs** | | |
| Wages and salaries | 2,302 | 2,190 |
| Social security costs | 260 | 242 |
| Pension costs - defined contribution scheme | 139 | 133 |
| | 2,701 | 2,565 |
| **Auditor remuneration** | | |
| for audit of the Society's annual accounts | 101 | 85 |
| Total auditor remuneration | 101 | 85 |
| Other expenses | 1,669 | 1,598 |
| | **4,471** | **4,248** |

## 9. Impairment provisions for losses on loans and advances to customers

| Loans fully secured on residential property | 2020 £000 | 2019 £000 |
|---|---|---|
| **At 1 January** | | |
| Collective provision | 229 | 225 |
| Individual provision | - | 4 |
| | **229** | **229** |
| **Income and expenditure (credit)/charge for the year** | | |
| Collective provision | (52) | 4 |
| Individual provision | 41 | (4) |
| | **(11)** | **-** |
| **At 31 December** | | |
| Collective provision | 177 | 229 |
| Individual provision | 41 | - |
| | **218** | **229** |

| The (credit)/charge to income and expenditure is made up as follows: | 2020 £000 | 2019 £000 |
|---|---|---|
| Movements in provisions as above | (11) | - |
| | (11) | - |

**The interest arising from the un-wind of the discount of expected future recoveries is not material. There are no provisions for loans fully secured on land.**

## 10. Tax on profit on ordinary activities

| | 2020 £000 | 2019 £000 |
|---|---|---|
| **Current tax:** | | |
| UK Corporation Tax | 103 | 36 |
| Total current tax charge | 103 | 36 |
| **Deferred tax:** | | |
| Origination and reversal of timing differences | (4) | 12 |
| Deferred tax charge | (4) | 12 |
| **Total charge on profit on ordinary activities.** | **99** | **48** |

Current tax has been provided at the rate of 19% (2019: 19%). Deferred tax has been provided at 19% (2019: 19%), being the substantively enacted rate at the balance sheet date.

| | 2020 £000 | 2019 £000 |
|---|---|---|
| Tax charged on profit at the average standard rate | **110** | **47** |
| **Effects of:** | | |
| Depreciation in excess of capital allowances | (19) | 1 |
| Income not taxable for tax purposes | 1 | 2 |
| Effect of reduction in tax rate | 7 | (2) |
| Adjustment in respect of prior periods | | - |
| | **99** | **48** |

## 11. Loans and advances to credit institutions

| | 2020 £000 | 2019 £000 |
|---|---|---|
| **Loans and advances to credit institutions mature from the date of the statement of financial position as follows:** | | |
| Repayable on demand | 6,611 | 5,269 |
| Maturing in not more than three months | 501 | 502 |
| Maturing in more than three months but not more than one year | - | - |
| Maturing in more than one year but not more than five years | 800 | 540 |
| | **7,912** | **6,311** |

## 12. Loans and advances to customers

| | 2020 £000 | 2019 £000 |
|---|---|---|
| **Loans and advances to customers are repayable from the statement of financial position date as follows:** | | |
| - repayable on demand – accounts in possession | 60 | - |
| - repayable in not more than three months | 1,949 | 1,997 |
| - repayable in more than three months but not more than one year | 6,039 | 5,713 |
| - repayable in more than one year but not more than five years | 38,638 | 36,731 |
| - repayable in more than five years | 206,035 | 186,665 |
| | 252,721 | 231,106 |
| Less: | | |
| - impairment provisions (see note 9) | (218) | (229) |
| - effective interest rate adjustment | 131 | 149 |
| Add: | | |
| - fair value adjustment | 527 | 390 |
| | **253,161** | **231,416** |

## 13. Derivative financial instruments

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

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

| | 2020 Assets £000s | 2020 Liabilities £000s | 2019 Assets £000s | 2019 Liabilities £000s |
|---|---|---|---|---|
| **Financial instruments measured at fair value** | | | | |
| Interest rate swaps in an effective hedging relationship | - | 666 | 22 | 451 |
| Fixed rate mortgages | 527 | | 390 | - |
| Fixed rate savings | | | - | - |
| **Total hedged position** | **527** | **666** | **412** | **451** |
| Hedge ineffectiveness loss | 139 | | 39 | - |
| **Total** | **666** | **666** | **451** | **451** |

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

Where the fair value movement of an interest rate swap is within the range of 80% to 125% of the fair value movement in the hedged instrument (hedge effectiveness), hedge accounting may be applied so that the majority of the fair value movements can be offset. Where the effectiveness is within the range above but not equal to 100%, the variation between 100% and the actual effectiveness is classed as the ineffective proportion of the hedge relationship and recognised through the Income Statement.

Hedge ineffectiveness resulted in a loss of £100k (2019: £35k) which was recognised in the income statement.

## 14. Intangible fixed assets

| | Computer Software £000 | Total £000 |
|---|---|---|
| Cost or valuation at 1 January 2020 | 687 | 687 |
| Additions | - | - |
| Disposals | - | - |
| **At 31 December 2020** | **687** | **687** |
| | | |
| Accumulated amortisation at 1 January 2020 | 624 | 624 |
| Charge for the year | 38 | 38 |
| Eliminated on disposal | - | - |
| **At 31 December 2020** | **662** | **662** |
| | | |
| Net book values | | |
| At 31 December 2020 | 25 | 25 |
| At 31 December 2019 | 63 | 63 |

## 15. Tangible fixed assets

| | Freehold land and buildings £000 | Equipment, fixtures, fittings, and vehicles £000 | Total £000 |
|---|---|---|---|
| Cost or valuation at 1 January 2020 | 268 | 406 | 674 |
| Additions | - | 22 | 22 |
| Disposals | - | - | - |
| Transfer from investment property | 103 | - | 103 |
| **At 31 December 2020** | **371** | **428** | **799** |
| | | | |
| Accumulated depreciation at 1 January 2020 | 117 | 296 | 413 |
| Charge for the year | 5 | 32 | 37 |
| Eliminated on disposal | - | - | - |
| **At 31 December 2020** | **122** | **328** | **450** |
| | | | |
| Net book values | | | |
| At 31 December 2020 | 249 | 100 | 349 |
| At 31 December 2019 | 151 | 110 | 261 |

## 16. Investment property

| | 2020 £000 | 2019 £000 |
|---|---|---|
| Fair value at 1 January | 878 | 878 |
| Transfer to freehold land and buildings | (103) | - |
| Net gain from fair value movements | - | - |
| **At 31 December** | **775** | **878** |

Investment property represents the proportion of the head office building which is let to third parties, on commercial terms. This proportion of the building is held at fair value.

At the start of 2020, the Society re-occupied an additional part of the building, resulting in it being transferred from investment property to freehold land and buildings.

Property rental income earned during the year was £130k (2019: £98k). This is included within 'Other operating income'.

## 17. Other assets

| | 2020 £000 | 2019 £000 |
|---|---|---|
| Rents receivable from investment property | 16 | 28 |
| Interest due from swap counterparties | 2 | 6 |
| Refundable deposit paid | - | 2 |
| Other debtors | 6 | - |
| | **24** | **36** |

## 18. Shares

| | 2020 £000 | 2019 £000 |
|---|---|---|
| **Shares, all of which are held by individuals, are payable from the statement of financial position date in the ordinary course of business as follows:** | | |
| - on demand | 98,085 | 76,991 |
| - in not more than three months | 87,114 | 100,277 |
| - repayable in more than three months but not more than one year | 30,879 | 32,088 |
| - repayable in more than one year but not more than five years | 13,867 | 2,970 |
| | **229,945** | **212,326** |

### 19. Deposits owed to other customers

| | 2020<br>£000 | 2019<br>£000 |
|---|---|---|
| **Deposits owed to other customers are repayable from the statement of financial position date in the ordinary course of business as follows:** | | |
| - on demand | 8,803 | 2,278 |
| - repayable in not more than three months | 36,262 | 29,681 |
| - repayable in more than three months but not more than one year | - | 300 |
| | **45,065** | **32,259** |

### 20. Amounts owed to credit institutions

| | 2020<br>£000 | 2019<br>£000 |
|---|---|---|
| **Amounts owed to credit institutions are payable from the statement of financial position date in the ordinary course of business as follows:** | | |
| - repayable in not more than three months | 2,001 | 2,505 |
| - repayable in more than three months but not more than one year | 4,501 | 3,007 |
| - repayable in more than one year | 28,006 | 24,045 |
| | **34,508** | **29,557** |

## 21. Provisions for liabilities and charges

| | 2020 £000 | 2019 £000 |
|---|---|---|
| Payment protection insurance provision | - | - |
| Under-paid interest provision | - | - |
| Under-funded mortgage provision | - | - |
| | **-** | **-** |
| The change to income and expenditure is made up as follows: | | |
| Provision for automatic interest capitalisation customer redress | - | - |
| Payment protection insurance provision | - | (10) |
| Under-paid interest provision | - | (1) |
| | **-** | **(11)** |
| **Payment protection insurance provision** | | |
| Movement in year | | |
| At 1 January | - | 10 |
| Charge for year | - | (10) |
| **At 31 December** | **-** | **-** |
| **Under-paid interest provision** | | |
| Movement in year | | |
| At 1 January | - | 1 |
| Charge for year | - | (1) |
| Paid in year | - | - |
| **At 31 December** | **-** | **-** |
| **Under-funded mortgage provision** | | |
| Movement in year | | |
| At 1 January | - | 22 |
| Charge for year | - | - |
| Paid in year | - | (22) |
| **At 31 December** | **-** | **-** |

### Payment Protection Insurance

The Society settled one Payment Protection Insurance claim during 2017 resulting in a pay-out of £5k. Subsequently, a provision of £10k had been included in the financial statements based on management's estimates that further claims may arise. As the PPI deadline has now passed, this provision was released in the prior year.

### Under-paid interest provision

An amount had been provided in relation to under-paid interest due on ISA balances for deceased members from date of death to the date of closure. This was settled in full during the prior year.

### Under-funded mortgage provision

This had been provided to correct a mortgage account balance where the term was set up incorrectly, resulting in the account being under-funded. This was settled in full during the prior year.

## 22. Accruals and deferred income

| | 2020<br>£000 | 2019<br>£000 |
|---|---|---|
| **Falling due within one year:** | | |
| Accruals | 405 | 287 |
| Deferred income | 27 | 33 |
| Interest due to swap counterparties | 69 | 26 |
| | **501** | **346** |

### 23. Deferred taxation

| | 2020 £000 | 2019 £000 |
|---|---|---|
| Deferred taxation balance in the period at 1 January | (62) | (50) |
| (Decrease) in asset recognised | 4 | (12) |
| **At 31 December** | **(58)** | **(62)** |
| **Analysis of deferred taxation balance:** | | |
| Depreciation difference to capital allowances | (9) | (12) |
| Short-term differences (less than three years) | 53 | 59 |
| Fair value of investment property | (102) | (109) |
| | **(58)** | **(62)** |

### 24. Other liabilities

| | 2020 £000 | 2019 £000 |
|---|---|---|
| Falling due within one year: | | |
| Mortgage application fees received in advance | 3 | 1 |
| Other creditors | 157 | 110 |
| | **160** | **111** |

## 25. Financial instruments

### a) Categories of financial instruments

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

| As at 31 December 2020 | At amortised cost £000 | Loans and receivables £000 | Available-for-sale £000 | Fair value through IS £000 | Total £000 |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash in hand and balances with the Bank of England | 70,509 | - | - | - | 70,509 |
| Loans and advances to credit institutions | - | 7,411 | - | - | 7,411 |
| Debt securities | - | - | 501 | - | 501 |
| Derivative financial instruments | - | - | - | - | - |
| Loans and advances to customers | - | 253,161 | - | - | 253,161 |
| **Total financial assets** | **70,509** | **261,073** | **501** | **-** | **331,582** |
| Total non-financial assets | | | | | 1,321 |
| **Total assets** | | | | | **332,905** |
| **Liabilities** | | | | | |
| Shares | 229,945 | - | - | - | 229,945 |
| Amounts owed to credit institutions | 34,508 | - | - | - | 34,508 |
| Amounts owed to other customers | 45,065 | - | - | - | 45,065 |
| Derivative financial instruments | - | - | - | 666 | 666 |
| **Total financial liabilities** | **309,518** | **-** | **-** | **666** | **310,184** |
| Total non-financial liabilities | | | | | 822 |
| General reserve and other reserves | | | | | 21,899 |
| **Total reserves and liabilities** | | | | | **332,905** |

## Notes to the Accounts

**For the Year Ended 31 December 2020**
**Continued…**

| As at 31 December 2019 | At amortised cost £000 | Loans and receivables £000 | Available-for-sale £000 | Fair value through IS £000 | Total £000 |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash in hand and balances with the Bank of England | 57,385 | - | - | - | 57,385 |
| Loans and advances to credit institutions | - | 5,809 | - | - | 5,809 |
| Debt securities | - | - | 502 | - | 502 |
| Derivative financial instruments | - | - | - | 22 | 22 |
| Loans and advances to customers | - | 231,416 | - | - | 231,416 |
| **Total financial assets** | **57,385** | **237,225** | **502** | **22** | **295,134** |
| Total non-financial assets | | | | | 1,434 |
| **Total assets** | | | | | **296,568** |
| **Liabilities** | | | | | |
| Shares | 212,326 | - | - | - | 212,326 |
| Amounts owed to credit institutions | 29,557 | - | - | - | 29,557 |
| Amounts owed to other customers | 32,259 | - | - | - | 32,259 |
| Derivative financial instruments | - | - | - | 451 | 451 |
| **Total financial liabilities** | **274,142** | **-** | **-** | **451** | **274,593** |
| Total non-financial liabilities | | | | | 555 |
| General reserve and other reserves | | | | | 21,420 |
| **Total reserves and liabilities** | | | | | **296,568** |

### b) Fair values

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

| 31 December 2020 | Note | Level 1 £000 | Level 2 £000 | Level 3 £000 | Total £000 |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash in hand and balances with the Bank of England | | 70,509 | - | - | 70,509 |
| Loans and advances to credit institutions | i. | - | 7,411 | - | 7,411 |
| Debt securities | ii. | - | 501 | - | 501 |
| Derivative financial instruments | iii. | - | - | - | - |
| Loans and advances to customers | iv. | - | - | 253,161 | 253,161 |
| **Total financial assets** | | **70,509** | **7,912** | **253,161** | **331,582** |
| **Liabilities** | | | | | |
| Shares | | - | 229,945 | - | 229,945 |
| Amounts owed to credit institutions | i. | - | 34,508 | - | 34,508 |
| Amounts owed to other customers | ii. | - | 45,065 | - | 45,065 |
| Derivative financial instruments | iii. | - | 666 | - | 666 |
| **Total financial liabilities** | | **-** | **310,184** | **-** | **310,184** |

| 31 December 2019 | Note | Level 1 £000 | Level 2 £000 | Level 3 £000 | Total £000 |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash in hand and balances with the Bank of England | | 57,385 | - | - | 57,385 |
| Loans and advances to credit institutions | i. | - | 5,809 | - | 5,809 |
| Debt securities | ii. | - | 502 | - | 502 |
| Derivative financial instruments | iii. | - | 22 | - | 22 |
| Loans and advances to customers | iv. | - | - | 231,416 | 231,416 |
| **Total financial assets** | | **57,385** | **6,333** | **231,416** | **295,134** |
| **Liabilities** | | | | | |
| Shares | | - | 212,326 | - | 212,326 |
| Amounts owed to credit institutions | i. | - | 29,557 | - | 29,557 |
| Amounts owed to other customers | ii. | - | 32,259 | - | 32,259 |
| Derivative financial instruments | iii. | - | 451 | - | 451 |
| **Total financial liabilities** | | **-** | **274,593** | **-** | **274,593** |

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

i. The carrying value is assumed to be the fair value.
ii. Debt securities are measured at fair value by reference to market prices.
iii. Derivatives are used for economic hedging purposes and are determined by reference to market prices. The replacement value of the derivatives held by the Society approximates their fair values, as disclosed above.
iv. The fair value represents the discounted amount of estimated future cash flows after allowing for expected impairment provisions and early repayment charges discounted at current market rates.

**Valuation techniques**

Fair values are determined using the following fair value hierarchy that reflects the significance of the inputs in measuring fair value:

Level 1: Quoted prices for similar instruments
Level 2: Directly observable market inputs other than Level 1 inputs
Level 3: Inputs not based on observable market data

## c) Credit risk: loans and advances to customers

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

| | 2020 £000 | | 2019 £000 | |
|---|---|---|---|---|
| Loans fully secured on residential property | 251,448 | 99.3% | 229,688 | 99.3% |
| Other loans fully secured on land | 1,713 | 0.7% | 1,728 | 0.7% |
| | 253,161 | | 231,416 | |
| Provision for impairment losses | 218 | | 229 | |
| Unamortised loan origination fees | (131) | | (149) | |
| Fair value adjustments | (527) | | (390) | |
| **Loans and advances to customers** | 252,721 | | 231,106 | |

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

| | 2020 £000 | | 2019 £000 | |
|---|---|---|---|---|
| Residential | 251,535 | 99.5% | 229,768 | 99.4% |
| Non-residential | 1,713 | 0.7% | 1,728 | 0.7% |
| Fair value adjustments | (527) | (0.2%) | (390) | (0.1%) |
| **Loans and advances to customers** | 252,721 | 100.0% | 231,106 | 100.0% |

**Credit risk: risk concentrations**

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

| | 2020 | | 2019 | |
|---|---|---|---|---|
| | Residential | Non-residential | Residential | Non-residential |
| Less than or equal to 50% | 29.2% | 43.9% | 27.8% | 18.1% |
| More than 50% but less than or equal to 60% | 13.2% | 56.1% | 12.6% | 81.9% |
| More than 60% but less than or equal to 70% | 16.9% | - | 15.5% | - |
| More than 70% but less than or equal to 80% | 19.3% | - | 18.5% | - |
| More than 80% but less than or equal to 90% | 19.5% | - | 17.5% | - |
| More than 90% but less than or equal to 100% | 1.9% | - | 8.1% | - |
| More than 100% | 0.0% | - | 0.0% | - |
| | 100.0% | 100.0% | 100.0% | 100.0% |

The table below provides a break-down of secured lending by payment due status:

| | 2020 | | 2019 | |
|---|---|---|---|---|
| | Residential | Non-residential | Residential | Non-residential |
| Current | 99.7% | 100.0% | 99.6% | 100.0% |
| Past due up to 3 months | 0.2% | - | 0.3% | - |
| Past due 3 months up to 6 months | 0.1% | - | 0.1% | - |
| Past due 6 months up to 12 months | - | - | - | - |
| Past due over 12 months | - | - | - | - |
| Possessions | - | - | - | - |
| | 100.0% | 100.0% | 100.0% | 100.0% |

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

| | 2020 £000 | | 2019 £000 | |
|---|---|---|---|---|
| **Region** | | | | |
| South West | 57,723 | 23% | 51,738 | 23% |
| Greater London | 32,633 | 13% | 30,732 | 13% |
| Outer Metropolitan | 36,326 | 14% | 30,678 | 13% |
| South East/East of England | 36,296 | 14% | 33,307 | 14% |
| Midlands | 33,392 | 13% | 29,982 | 13% |
| North West/North of England | 46,709 | 19% | 45,670 | 20% |
| Wales and Scotland | 9,642 | 4% | 8,999 | 4% |
| | 252,721 | 100% | 231,106 | 100% |

Collateral values are updated at the date of each statement of financial position by reference to the Nationwide house price index (HPI). Based on these indexed valuations, the total collateral held against lending secured against land and residential property is estimated to be £632m (2019 : £573m). Any collateral surplus on the sale of repossessed properties, after the deduction for cost incurred in relation to the sale would be returned to the borrower.

### d) Credit risk: Treasury financial instruments

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

| | 2020<br>£000 | 2019<br>£000 |
|---|---|---|
| UK government securities and amounts held with central banks | 70,509 | 57,385 |
| UK financial institutions | 7,912 | 6,311 |
| Supranational securities | - | - |
| | 78,421 | 63,696 |

The following table shows exposure broken down by Fitch ratings.

| | 2020<br>£000 | 2019<br>£000 |
|---|---|---|
| AAA to AA- | 70,509 | 57,385 |
| A+ to A- | 7,411 | 5,809 |
| BBB+ to BBB- | - | - |
| Unrated | 501 | 502 |
| | 78,421 | 63,696 |

The geographical distribution of these exposures is as follows:

| | 2020<br>£000 | 2019<br>£000 |
|---|---|---|
| UK | 78,421 | 63,696 |
| | 78,421 | 63,696 |

### e) Liquidity risk

The following tables analyse the gross contractual cash flows payable under financial liabilities.

| 2020 | Total £000 | Less than 3 months £000 | Between 3 months and 1 year £000 | Between 1 year and 5 years £000 | More than 5 years £000 |
|---|---|---|---|---|---|
| **Non-derivative liabilities** | | | | | |
| Shares | 229,945 | 185,199 | 30,879 | 13,867 | - |
| Amounts owed to credit institutions | 34,508 | 2,001 | 4,501 | 28,006 | - |
| Amounts owed to other customers | 45,065 | 45,065 | - | - | - |
| | 309,518 | 232,265 | 35,380 | 41,873 | - |
| **Derivative liabilities** | | | | | |
| Interest rate swaps | 1,184 | 142 | 442 | 600 | - |

| 2019 | Total £000 | Less than 3 months £000 | Between 3 months and 1 year £000 | Between 1 year and 5 years £000 | More than 5 years £000 |
|---|---|---|---|---|---|
| **Non-derivative liabilities** | | | | | |
| Shares | 212,326 | 177,268 | 32,088 | 2,970 | - |
| Amounts owed to credit institutions | 29,557 | 2,505 | 3,007 | 24,045 | - |
| Amounts owed to other customers | 32,259 | 31,959 | 300 | - | - |
| | 274,142 | 211,732 | 35,395 | 27,015 | - |
| **Derivative liabilities** | | | | | |
| Interest rate swaps | 572 | 45 | 133 | 394 | - |

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

### f) Interest rate risk

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

To reduce the impact of an adverse change in interest rates on the Society's net interest income the net exposure (i.e. after offsetting assets and liabilities internally) is hedged using interest rate swaps within parameters set by the Asset and Liability Committee in accordance with the Society's risk appetite. Basis risk is mitigated by managing the exposure within risk limits set by the ALCO. In the past, these interest rate swaps have been linked to LIBOR, however with this benchmarking ceasing at the end of 2021, the Society has commenced transition to SONIA linked swaps. This will continue throughout the coming year.

By way of illustration, based on a static statement of financial position, a 2% parallel upward shift in interest rates would have a favourable impact on net interest income of £4k (2019: £20k) over a one-year period.

### g) Derivative financial instruments

The Society has entered into Credit Support Annexes (CSA's) for its derivative instruments which typically provide for the exchange of collateral on a daily basis to mitigate net mark to market credit exposure.

The following table shows the impact on derivative financial instruments after collateral:

| 2020 | Gross amounts * £000 | Financial collateral * £000 | Net amounts £000 |
|---|---|---|---|
| **Financial Assets** | | | |
| Derivative financial instruments | - | - | - |
| **Financial Liability** | | | |
| Derivative financial instruments | 666 | 800 | (134) |
| | 666 | 800 | (134) |

| 2019 | Gross amounts * £000 | Financial collateral £000 | Net amounts £000 |
|---|---|---|---|
| **Financial Assets** | | | |
| Derivative financial instruments | 22 | - | 22 |
| **Financial Liability** | | | |
| Derivative financial instruments | 451 | 540 | (89) |
| | 473 | 540 | (67) |

* As reported in the balance sheet
** The minimum transfer amount for financial collateral is £250,000 in either direction

### 26. Analysis of change in net debt

| | 2019 £000 | Cash Flows £000 | 2020 £000 |
|---|---|---|---|
| **Cash and cash equivalents:** | | | |
| Cash in hand and balances with the Bank of England | 57,385 | 13,124 | 70,509 |
| Loans and advances to credit institutions | 6,311 | 1,601 | 7,912 |
| | 63,696 | 14,725 | 78,421 |
| **Borrowings:** | | | |
| Amounts owed to credit institutions | (29,557) | (4,951) | (34,508) |
| | 34,139 | 9,774 | 43,913 |

### 27. Capital

The objective of the Board is to maintain a strong capital base to provide protection for members, promote market confidence and support future growth. The Society is required to manage its capital to meet the requirements of the Capital Requirements Directive (CRD IV) and related requirements set by the Prudential Regulation Authority.

The Society operates a formal Internal Capital Adequacy Assessment Process (ICAAP) to determine and demonstrate how these requirements are met. As part of the ICAAP the Board has established an internal minimum threshold for capital that is sufficient to support present and future capital requirements, withstand a severe but plausible stress and ensure the minimum regulatory requirement is adhered to. Compliance with capital requirements is monitored monthly, the results of which are reported to the Board. The Society complied with and maintained surplus capital requirements above the regulatory minimums during the reporting period.

More details regarding the Society's current capital position are contained within the Pillar 3 disclosure available from the Teachers Building Society website.

### 28. Country-by-country reporting

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

| | 2020 | 2019 |
|---|---|---|
| Location of operations | United Kingdom | |
| Nature of activities | Deposit taking, mortgage lending | |
| Turnover* | £5,112k | £4,600k |
| Average number of colleagues | 48 | 46 |
| Profit before tax | £578k | £249k |
| Cash tax paid | £(35)k | £(192)k |
| Public subsidies | £nil | £nil |

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

# Annual Business Statement
## For the Year Ended 31 December 2020

### 1. Statutory percentages

| | 2020 | Statutory Limit |
|---|---|---|
| Lending limit | 0.7% | 25% |
| Funding limit | 25.7% | 50% |

The above percentages have been calculated in accordance with the provisions of the Building Societies Act 1986 as amended by the Building Societies Act 1997.
The lending limit measures the proportion of business assets not in the form of loans fully secured on residential property. The funding limit measures the proportion of shares and borrowings other than those from individuals.
The statutory limits are the maxima laid down under the Building Societies Act 1986 as amended by the Building Societies Act 1997 and ensure that the principal purpose of a building society is that of making loans which are secured on residential property and that the Society is funded substantially by its members.

### 2. Other percentages

| | 2020 | 2019 |
|---|---|---|
| **As a percentage of shares and borrowings** | | |
| Gross capital | 7.1% | 7.8% |
| Free capital | 6.8% | 7.5% |
| Liquid assets | 25.3% | 23.2% |
| **As a percentage of mean total assets** | | |
| Profit after tax | 0.15% | 0.07% |
| Management expenses | 1.44% | 1.48% |

The above percentages have been prepared from the Society's accounts.
Shares and borrowings represents the aggregate of shares, amounts owed to credit institutions and amounts owed to other customers.
'Gross capital' comprises reserves and revaluations reserves.
'Free capital' comprises gross capital and collective provisions less tangible fixed assets.
'Liquid assets' represents the total of cash in hand, loans and advances to credit institutions, debt securities and other liquid assets shown as in the statement of financial position.
'Mean total assets' is the average of the total assets at the beginning and end of the relevant financial years.
'Profit after tax' represents the profit for the financial year as shown in the income statement.
'Management expenses' represent the aggregate of administrative expenses and depreciation and amortisation costs.

### 3. Information relating to directors and other officers

a) At 31 December 2020 the Directors were:

| Name | Date of Birth | Occupation | Date of Appointment | Other Directorship |
|---|---|---|---|---|
| S Beresford | 14/03/1963 | Chief Executive | 17/02/2017 | Simon Beresford Associates Ltd<br>Teachers Housing Association<br>BSA Pension Trustees Ltd |
| I Grayson | 07/10/1963 | Teacher | 08/07/2015 | West End Rugby Football Club Ltd |
| M Himsworth | 29/03/1955 | Director | 07/11/2018 | CAF Bank Ltd<br>RCI Bank UK Ltd |
| P E Jarman | 29/02/1964 | Legal Director & Secretary | 11/05/2015 | Diocese of Salisbury Academy Trust |
| A P Lee | 14/08/1963 | Director | 29/07/2014 | Solihull Masonic Temple Ltd<br>Angel Square Investments Ltd<br>CFS Management Services Ltd<br>St Andrews Healthcare |
| R K Patel | 12/10/1969 | Finance Director | 10/07/2019 | None |
| J Nicholson | 29/04/1965 | Director | 26/04/2018 | Reliance Bank Ltd<br>Amitra Capital Ltd<br>Beryllium 1 GP Ltd<br>Beryllium 2 GP Ltd |
| P Winter | 20/10/1950 | Director | 29/06/2017 | Eastern Angles Theatre Company Ltd<br>University of Suffolk Ltd |

Documents may be served on Directors c/o BDO LLP, Chartered Accountants, Bridgwater House, Counterslip, Bristol BS1 6BX.

At 31 December 2020 none of the Directors has service contracts except Simon Beresford (dated 17.02.2017), Patrick Jarman (dated 06.12.2011) and Rajesh Patel (dated 17.06.2019). Their contracts may be terminated by either side on six months' notice.

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