ANNUAL REPORT & ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2019

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
A L Pike, Non-executive Director
I Grayson, Non-executive Director
A P Lee, Non-executive Director
P Winter, Non-executive Director
M Himsworth, Non-executive Director

Auditor

Deloitte LLP, Birmingham, 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 Statement

I am pleased to present the Annual Report and Accounts of Teachers Building Society for the year ended 31 December 2019.

Financial performance this year reflects a challenging economic and political environment combined with a fiercely competitive mortgage market driven by existing providers refocusing their business as well as new entrants.

As a result, profitability has reduced in 2019, which is in line with our expectations. As a mutually owned organisation we focus on making sufficient profit that balances the interest of our mortgage and savings members whilst maintaining our capital strength and to invest for the future.

Our capital and liquidity positions remained strong in 2019, which provides a solid platform for a sustainable and resilient business into the future. Our tier 1 capital ratio continues to be significantly in excess of regulatory requirements. The Society's strong liquidity and funding position allowed a proportion of our funding from the Bank of England's Term Funding Scheme to be repaid early.

As part of the continued investment in the business, administrative expenses increased in 2019 which was in line with the plan for the year. The Board is responsible for the long-term sustainability of the Society, and the continued investment in the business has built a strong platform for controlled future growth and profitability.

Lending

Bank of England statistics highlight that demand for mortgages was broadly flat across the year and similar to 2018 remortgage activity took a major share of the gross lending market. Whilst demand has been broadly flat, the supply of mortgages has increased as the UK ring fenced banks have refocused their UK operations as well as challenger banks and new entrants taking market share. This dynamic of flat demand combined with increasing supply has resulted in average rates for both fixed rate and variable rate products reducing over the year. In a highly competitive market we are pleased to have maintained our mortgage book balance broadly in line with the 2018 position, further details are included in the Chief Executive report.

Savings

Household savings balances in the UK grew £64bn in 2019 a 36% increase compared to 2018. The increase has been driven by growing real wages and a shift from riskier assets into cash savings. We have performed well in 2019 with steady increase in our retail savings balances, further details are set out in the Chief Executive report.

Board

During the year, following a rigorous and broadly based search and selection process, the Board were delighted to confirm Rajesh Patel as the Society's new Finance Director and co-opt him as an Executive Director of the Teachers Building Society. Rajesh was previously Finance Director at the Buckinghamshire Building Society for nine years. Rajesh has relocated with his family to Dorset, and most importantly shares the ethos of the Society. The Board is confident that Rajesh is an excellent appointment to serve the members of this Society and I recommend you support his appointment with your vote.

Following Rajesh's appointment Paul Marsden our interim Finance Director stood down. I wish to record our appreciation for the excellent work Paul has done for our Society.

I would like to put on record my thanks to Alex Pike who is standing down from the Board at this year's AGM. Alex has served on the Board for over seven years and has been a valuable member of the team.

Our Colleagues

We have a highly committed team, who strive to provide the highest customer satisfaction levels. In late 2018, the Society commissioned a member satisfaction survey, the results of which were received in 2019, I am extremely proud of the results of this survey, in particular, in two questions 'the helpfulness and friendliness of Teachers Building Society' we achieved scores of 9.2 and 9.3 out of 10 respectively, and an overall member satisfaction of 82.7%.

I would like to take the opportunity to thank the staff of the Society for their diligence and hard work over the last year.

Community

The Society continues to be committed to supporting the community in which it operates. During 2019 we are proud to have been involved in multiple educational community activities such as supporting our local schools with Financial Education and Employability training. In addition we continue to support our local community via activities such as weekly volunteering and donations at the Wimborne Food Bank. Our colleagues continue to support a selection of both local and national charities on a monthly basis and any money raised is matched by the Society. Through our Charity Saver Account we were able to provide circa £5k to support teachers experiencing mental health challenges through our association with the Education Support Partnership. In 2020 we will continue to back appropriate local causes and charities with an educational focus and we are also working with several partners in the educational sector and expect to announce further initiatives in 2020.

Looking Forward

The election on 12 December 2019 delivered a majority for the Conservative party and with this majority the withdrawal bill was passed and the UK left the European Union (EU) on 31 January 2020. However the next challenge is securing a trade agreement and new partnership with the EU. During this phase of discussions it is expected that the uncertainty that existed during the Brexit negotiations may continue to dominate the political and economic landscape.

This uncertainty will impact our core markets of mortgage and savings. Mortgage margins will continue to be under pressure, which in turn will impact the rates available to be passed on to savers. In the medium term, competition for savings will intensify as many institutions seek to replace balances from the term funding scheme, putting further pressure on margins.

With strong capital and liquidity, combined with the investment made over the last two years, I believe that Teachers Building Society is better placed than ever to respond to these uncertainties with confidence.

Julie Nicholson
Chair
27 February 2020

Chief Executive's Report

I am pleased to offer my annual update to the membership of the Society. With the backdrop of Brexit and fractious international trade negotiations, we see headwinds in the global and domestic economies. Despite these factors, there is a place for a strong mutual that takes a long term view and holds its membership's interests at heart.

Last year was particularly difficult for the Society with a challenging housing market, fiercely competitive remortgage pricing and a sizeable proportion of our mortgage book again reaching deal maturity. Despite this, we performed positively against most of our targeted objectives.

Mortgage lending started the year slowly, but gathered momentum in the second half. Overall the mortgage book was broadly flat, supported by £42.2m of gross lending which was £11.4m down on the £53.6m gross lending achieved in 2018. We chose not to compete in the more price sensitive sectors of the market, instead focusing on our teacher proposition combined with areas of the mortgage market where our manual underwriting provides a competitive advantage. We achieved £30.6m of retained business, which combined with our new lending resulted in a broadly flat mortgage book up 0.2% (2018: reduction of 0.3%).

The dynamic of fierce competition combined with broadly static demand in the mortgage market is expected to continue and possibly intensify further.

The mortgage book continues to be of the highest quality with cases three months or more in arrears representing 0.14% compared to 0.13% in 2018.

The year saw many institutions periodically reduce savers' rates and whilst we are consistently paying higher against the average for the industry we have to balance the rates we offer to savings members with rates we offer mortgage members. So as mortgage rates have come down we have had to selectively reduce some of our savings rates.

However our savings products remain competitive and the year saw retail savings balances grow by £10m compared to £7.6m growth in 2018.Our notice accounts proved popular in the year as well as our easy access ISA, and we continue to offer attractive products to the education and charity sectors

We performed well against our other suite of financial indicators and we are pleased to report your Society remains in a strong and sustainable position. We have again added to our capital; which exceeds regulatory requirements and supports future growth; have strong levels of liquidity and repaid a prudent amount of Government Term Funding Scheme borrowing. We will continue to do this in 2020.

As mentioned, the Brexit story continues to grind on bringing uncertainty to all walks of life. We anticipate and plan for further volatility in markets and changes to valuations in the UK housing market. This plays out against a backdrop of limited inflationary pressure driven by capacity constraints in the UK economy. In addition, the Bank of England have signaled both the potential for further interest rate rises in the longer term and possible moves either way in response to Brexit developments. The structural shortage in the housing market remains in place and will continue to prove a major factor for potential homebuyers. Against this setting, we will invest carefully in the capabilities of the Society including our member facing technology, infrastructure and people. We have strengthened the Executive team with new appointments including Finance Director, Chief Operating Officer and Head of Marketing positions. We do this to ensure we have a sustainable Society to serve our current and future members.

2019 saw a heightened focus on environmental, social and governance issues. This included, increased concerns about the impact of climate change and the impact of plastic on our oceans. Your Society has an active Environmental Committee with volunteers throughout the business. We have an energetic recycling programme and have partnered with Wimborne War on Waste who have awarded Teachers 'Plastic Free Status'; and participated in beach cleaning and a tree planting initiative with Moors Valley Country Park, a joint venture between Dorset Council and Forestry England, which off-set our carbon footprint for 2018. We will continue to elevate our focus on this area in 2020.

We have carried out further training to equip our people with the tools to deal appropriately and sympathetically with vulnerable members and those with mental health issues. We have reviewed our approach to Inclusion & Diversity, as set out on our website. Whilst we are confident that our pay and reward structures are fair and pay men and women in similar roles equally, we recognise there is a representation issue within the Society with more men holding senior roles and more women holding junior roles. We have policies in place to ensure that we take positive action to address this, but recognise there is always more to do.

We are proud to be shortlisted for six awards this year, winning the What Mortgage Awards 'Best Lender Website' and were highly commended for both the What Mortgage 'Best Local Building Society' and Personal Finance 'Best Building Society – Customer Service' awards.

Data security remains an area of focus in work and in our private lives. We take this area very seriously and invest in training and systems development, where necessary, working with expert partners to benefit from their state of the art capabilities. We have recently attained the Cyber Essential kite mark in recognition of our continued focus in this area.

The Society plan for 2020 focuses on sustainable growth in mortgage and savings balances; delivering an excellent service experience; all underpinned by a sharp focus on core financial measures. Our vision is to build an outstanding modern mutual that places its membership at the centre of all we do.

I would like to take this opportunity to thank all our members for their continued support and look forward to working with my team to ensure your Society continues to thrive and grow.

Simon Beresford
Chief Executive Officer
27 February 2020

Strategic Report

The Directors have pleasure in presenting the Strategic Report for the year ended 31 December 2019.

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 maintained its asset position in 2019 with a slight increase in mortgage assets and generated a profit for the year of £201k (2018: £921k). Profit is lower in 2019 due to the combination of increased overheads and the contribution that effective interest rate (EIR) and fair value accounting had, which adversely impacted the 2019 position compared to the positive impact on 2018 profit. 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 21.6% (2018: 22.2%). 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 employees 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 2019 with around 47% (2018: 56%) of new lending being to first-time buyers including through schemes such as Help to Buy. New mortgage lending for the year was £42.2m (2018: £53.6m) with net lending increasing marginally by £0.1m (2018: reduced by £1.2m).

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 was stable at £229k representing 0.1% of the mortgage book balance (2018: £229k – 0.1%).

Savings and Funding

The overall funding balance increased marginally to £274.1m (2018: £272.6m). The shares and other customer deposits balance increased to £244.6m (2018: £234.7m), this increase facilitated the planned repayment of £6m acquired from the Bank of England's Term Funding Scheme (TFS). The outstanding TFS balance was £24m (2018: £30m), the Society plans to make further repayments of TFS in 2020 ahead of the first contractual repayments due in 2021. The increase in share and other customer deposit balances also allowed the Society to reduce its borrowings from other financial institutions to £5.5m (2018: £7.8m).

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 23.2% (2018: 22.8%), the increase reflects modest increase in the funding balance combined with a broadly flat mortgage growth

Serving our Community

We remain committed to serving our local community, and continued to support local schools and causes throughout the year. Details of some of the work we have done in the community is set out in the Chair's statement.

As a Society, we are determined to reduce our carbon footprint, some of the important initiatives undertaken in 2019 are highlighted in the Chief Executive's report.

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 improve our digital capability, products and service. We have been progressively strengthening the resilience of our IT systems and security to protect the Society against the threat of cybercrime.

The uncertainty about the outcome of Brexit negotiations continues and the economic impact could adversely impact the Society. 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 ('KPIs'). For 2019, the results for the primary KPIs used by the Board were:

Key Performance Indicators	2019	2018
Total profit for the year	£201k	£921k
Net interest margin	1.58%	1.75%
Growth/reduction in mortgage balances	+0.2%	-0.3%
Common equity tier 1 capital ratio	21.6%	22.2%
Cost to income ratio	94.8%	81.5%
Total liquid asset ratio	23.2%	22.8%
Mortgages > 3 months in arrears	0.14%	0.13%

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 £201k (2018: £921k) 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 reduced to 1.58% from 1.75% in 2019. The 2018 result was positively impacted by EIR (Effective Interest Rate) accounting adjustments. 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.

Gross lending volumes were lower than in 2018. Overall, total mortgage balances increased by 0.2% from £230.9m to £231.4m.

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 2019 was 21.6% (2018: 22.2%), 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 2019 this was 94.8% (2018: 81.5%). The increase reflects the investment in the business that has taken place over the last two years resulting in greater overheads. It is planned that the investment in the business will generate increased income in future years which will reduce the cost income ratio in future years.

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 23.2% (2018: 22.8%).

Mortgages Greater Than Three Months in Arrears

The value of mortgage accounts three months or more in arrears is expressed as a percentage of total mortgage balances outstanding at the period-end. At the end of 2019 the percentage of mortgage arrears remains low by historic standards at 0.14% (2018: 0.13%). The Society closely monitors accounts in arrears and the recoverability of amounts outstanding. It is satisfied that appropriate action is taken to control the risk of loss, whilst ensuring the fair treatment of customers in arrears. At the end of 2019 the Society had 1 property in possession (2018: 0)

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 categories)	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. • Bespoke individual underwriting on a case-by-case basis. • Mortgage Indemnity Guarantee (MIG) insurance where the LTV (loan to property value ratio) exceeds 80%. • Financial Risk Policy sets treasury limits on credit exposures to countries, groups and individual counterparties. • Lending Policy and Financial Risk Policy sets limits to mitigate concentration risk.
Financial	Market and Interest Rate risk 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 Assets and Liabilities Committee. • Financial Risk Policy (sets requirements for use of financial instruments, mainly interest rate swaps, to hedge interest rate risk). • Basis risk exposure managed within risk limits set in Financial Risk Policy. • Stress testing.
	Capital or Solvency risk 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. • Stress testing and monitoring of key ratios by the Assets and Liabilities Committee.
	Liquidity and Funding risk 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. • Maintaining appropriate levels of High Quality Liquid Assets. • The Society's Individual Liquidity Adequacy Assessment Process ('ILAAP') and Contingency Funding Plan. • Stress testing. • Assets and Liability Committee oversight.
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.	• Investment in people, systems and processes. • Effective policies and procedures including those designed to support operational resilience. • Training and competence scheme for key colleagues detailing proficiency and supervision requirements. • Insurance. • Conduct and Operational Risk Committee oversight.
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. • Ongoing 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. • Robust culture of compliance with legal and regulatory requirements.
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 Conduct and Operational Risk Committee. • Training and awareness for key colleagues • Culture of putting members first.
Other	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.

On behalf of the Board

Julie Nicholson
Chair of the Board
27 February 2020

Directors' Report

The Directors have pleasure in presenting the Annual Report and Accounts for the year ended 31 December 2019. 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 Statement, Chief Executive's Report and 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 26 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 2019, the average number of days which the Society took to settle amounts owing to trade creditors was 16 (2018: 15).

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 27 to the Accounts.

Donations

The Society and its employees gave £1,605 (2018: £1,676) in charitable donations during the year.

It is the Society's policy not to make political donations; none were made in the year (2018: nil).

Land and Buildings

The Directors consider that the overall market value of the Society's Principal Office is in excess of the book value.

Mortgage Arrears and Forbearance

At 31 December 2019, there were no mortgage accounts more than 12 months in arrears (2018: nil) and the Society has offered forbearance concessions to nine borrowers (2018: 15), representing a total mortgage balance of £321k (2018: £651k). These loans are considered within the Society's impairment provisioning as described in note 1(l) to the accounts.

Auditor

During 2019 a tender exercise was completed for the provision of External Audit Services. Following the exercise, the Audit and Risk Committee and Board are recommending the appointment of BDO LLP to replace Deloitte LLP. In accordance with Section 77 of the Building Societies Act 1986, a resolution appointing BDO LLP will be proposed at the Annual General Meeting.

Going Concern

The Society's business activities, together with the factors likely to affect its future development, performance and position are set out in the accompanying Chair's Statement and the Strategic Report. Information concerning the policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities and its exposures to credit risk and liquidity risk are also included elsewhere in the Strategic Report and in note 26 to the Accounts. The Directors have considered the prospects of the Society in the light of the current position and risks to the business. Their review included consideration of likely default rates on loans, house price movements and the Society's capital and liquidity position in stressed conditions.

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

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
A P Lee
P Winter
M Himsworth

Executive Directors.

S Beresford	Chief Executive
P G Marsden, resigned 10 July 2019	Finance Director
R K Patel, appointed 10 July 2019	Finance Director
P E Jarman	Legal Director

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 2019 can be found in the Annual Business Statement.

At the next Annual General Meeting, on 26 April 2019, Rajesh Patel will offer himself for election and all the remaining Directors will offer themselves for re-election except Alex Pike who will be retiring from the Board.

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
27 February 2020

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 employees, therefore, have an opportunity to participate in at least one of these meetings. Points made by employees during these quarterly meetings are fed back to the Board. Mr. Winter and Mr. Grayson will, additionally, highlight any employee views relevant to any matters discussed by the Board as and when they arise. The Society also has a process, overseen by the Senior Independent Director, Alex Pike, to enable employees to raise concerns in confidence, and anonymously if they wish to.

Culture

The Board seeks to ensure that that 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 employee 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 employees. This is done on a one-to-one basis or through regular lunches between groups of employees 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. 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.

Employee investment and reward

The Board attaches a high priority to investing in the Society's employees 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 employees – more particularly described in the Remuneration Report – is to ensure that employees are rewarded fairly but also that reward supports the alignment of values and culture.

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 has had, throughout the reported year, nine directors serving at any one time: six 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	8 (8)
Ian Grayson	8 (8)
Malcolm Himsworth	8 (8)
Andrew Lee	8 (8)
Alex Pike	7 (8)
Paul Winter	8 (8)
Simon Beresford*	8 (8)
Patrick Jarman*	8 (8)
Paul Marsden*	4 (4)
Rajesh Patel*	4 (4)
Total meetings:	8

*Executive Directors. Mr. Patel replaced Mr. Marsden as Finance Director during the year.

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.
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,
Alex Pike, Senior Independent Director,
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.

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)	8 (8)
Ian Grayson	8 (8)
Andrew Lee	7 (8)
Paul Winter	8 (8)
Total meetings:	8

Remuneration Committee

Members:	Attendance
Ian Grayson (Chair)	5 (5)
Malcom Himsworth	5 (5)
Julie Nicholson	5 (5)
Alex Pike	4 (5)
Paul Winter	5 (5)
Total meetings:	5

Nomination Committee

Members:	Attendance
Julie Nicholson (Chair)	1 (1)
Simon Beresford	1 (1)
Malcom Himsworth	1 (1)
Alex Pike	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:

Alex Pike	Neilson Active Holidays Group Ltd
Julie Nicholson	Amitra Capital Ltd
Malcolm Himsworth	RCI Bank UK 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.

During the reported year, the Board also agreed to the appointment of Simon Beresford to the boards of Teachers Housing Association and BSA Pension Trustees Ltd, both of which are unpaid. Teachers Housing Association is a charity supporting the housing needs of teachers. BSA Pension Trustees Ltd is responsible for the employees' pension scheme of the Building Societies Association, the trade body representing the building society sector. The Board's rationale for approving these appointments is that they support the Society's corporate social responsibility objectives. The Board was also satisfied that the time commitment could be managed without material impact on Mr. Beresford's 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. One appointment to the Board was made during 2019: that of Rajesh Patel as Finance Director. The appointment was made following a rigorous recruitment process led by the Committee.

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 Board composition would benefit from having a Non-Executive Director with a strong IT background and that the management information provided to the Board should be reviewed to ensure that it is optimised. It was agreed that these matters would be actioned during 2020.

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 an annual report on the Society's recruitment activities to ensure that best practice is followed in relation to gender. Going forward, the scope of this report will be expanded to cover diversity in recruitment generally and will be reviewed by the Nomination Committee.

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.

Elections and re-elections at the AGM

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

At the 2020 AGM, Alex Pike will be retiring from the Board and will not be seeking re-election. Rajesh Patel, having been appointed after the last AGM, will be offering himself for election for the first time. All other Directors will be offering themselves for re-election.

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, Deloitte, and approved their remuneration and terms of engagement and considered in detail the results of the audit, Deloitte's performance and independence and the effectiveness of the overall audit process. Deloitte provided no non-audit services during the reported year.

Deloitte and its predecessor firms have been the Society's auditors for twenty five years. Under the maximum tenure requirements of the applicable audit legislation, Deloitte cannot be re-appointed after the audit of the 2019 financial year. As a result a rigorous selection process to appoint new auditors was conducted by the Committee during 2019 and BDO LLP was selected by the Board to succeed Deloitte on the Committee's recommendation. BDO's appointment will be proposed at the 2020 AGM.

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 Statement, the Chief Executive's Report, 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
27 February 2020

Report of the Directors on Remuneration

Unaudited information

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.

The current version of the Code specifies that the Chair of the Remuneration Committee should have served as a committee member for at least 12 months before appointment. The current Chair of the Committee, Ian Grayson, was appointed at the beginning of 2016 because of his extensive experience of Human Resources matters. His appointment, however, would not have complied with this Code provision as he had, at that point, only served for six months as a Committee member. At the time of his appointment, 12 months committee membership was not a Code requirement.

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 employees, 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 Directors 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 employees. For example, in 2019 Executive Directors individual salaries were increased by 2½%, the same as the standard increase for all other employees.

'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.

- 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 was agreed at the beginning of the period to reflect 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 employees. In 2019, 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

Audited information

Director	2019 £000	2018 £000
Fees paid to Non-executive Directors		
J Nicholson (from 26.04.18)	33	23
R J Spragg (until 26.04.18)	-	11
A P Lee	21	23
A L Pike	22	21
I Grayson	21	21
P Winter	21	21
M Himsworth (from 07.11.18)	24	6
Total	142	126
Executive Directors' remuneration		
S Beresford		
Salary	156	152
Bonus	20	28
Pension contributions	16	15
Total	192	195
P G Marsden (until 10.07.19)		
Salary	76	142
Bonus	-	5
Relocation allowance	-	2
Pension contributions	3	3
Total	79	152
P E Jarman		
Salary	81	79
Bonus	11	17
Pension contributions	3	1
Total	95	97
R K Patel (from 10.07.19)		
Salary	68	-
Bonus	8	-
Relocation allowance	6	-
Pension contribution	7	-
Total	89	-
Total Directors' remuneration	597	570

Ian Grayson
Chair of the Remuneration Committee
27 February 2020

Independent Auditor's Report to the Members of Teachers Building Society

Report on the audit of the 2019 financial information

1. Opinion

In our opinion the financial statements of Teachers Building Society (the 'Society'):

- give a true and fair view of the state of the Society's affairs as at 31 December 2019 and the Society's income and expenditure for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the requirements of the Building Societies Act 1986.

We have audited the financial statements which comprise:

- the Society income statements;
- the Society statements of comprehensive income;
- the Society statements of financial position;
- the Society statement of changes in members' interests;
- the Society cash flow statements; and
- the related notes 1 to 27.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

2. 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 are 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 Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the Society.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

3. Summary of our audit approach

Key audit matters	The key audit matters we identified in the current year are: • Loan loss provision • Revenue Recognition Within this report, key audit matters are identified as follows: Increased level of risk Similar level of risk Decreased level of risk
Materiality	The materiality that we used for the Society financial statements was £107,000 which was determined on the basis of 0.5% of net assets.
Significant changes in our approach	There have been no significant changes in our audit approach.

4. Conclusions relating to going concern, principal risks and viability statement

We are required by ISAs (UK) to report in respect of the following matters where: • the directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or • the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the society's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue. We considered as part of our risk assessment the nature of the Society, its business model and related risks including where relevant the impact of Brexit, the requirements of the applicable financial reporting framework and the system of internal control. We evaluated the directors' assessment of the Society's ability to continue as a going concern, including challenging the underlying data and key assumptions used to make the assessment, and evaluated the directors' plans for future actions in relation to their going concern assessment.	We have nothing to report in respect of these matters.

5. 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. These matters included 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.

5.1. Loan loss provision

Key audit matter description	This is a complex accounting area which required considerable judgement, interpretation and modelling complexity to estimate provisions. As a building society it is necessary for management to make significant judgement in order to estimate incurred losses within the mortgage book. In making this judgement, management have considered both Society specific historic data as well as their experience and knowledge of their current mortgage book. Given the level of management judgement applied to the calculations of provisions, we consider there to be a potential risk of fraud within this balance. The Society held £229,000 of impairment provisions against such loans at year-end (2018: £229,000) against total loans and advances to customers of £231.4m (2018: £231.0m). The significance of these judgements is increased as a result of the Society having been involved with a limited number of forced sales since 2008 and hence having a lack of historic data on which to base their estimate. This also increases the significance of the judgement involved in regards to propensity to default assumptions and as to whether or not management overlays are necessary, and if so, how to estimate the amount required Additionally, recent macro-economic events including the continually low interest rate environment could also impact overlays applied by management. The uncertainty around interest rates and house prices in addition to the future of the UK following exit from the European Union increases uncertainty and reinforces the challenge to management as to whether historic experience and models currently used by the Society will be indicative of future behaviour of the book. The assumptions that are most judgemental and have the most significant impact on the provision are appropriateness of overlays applied by management and the propensity to default applied to loans within management's collective provision model. The Society's loan loss provision balances are detailed within note 9 to the financial statements. Management's associated accounting policies are detailed on pages 31 with detail about judgements in applying accounting policies and critical accounting estimates on page 33.

Independent Auditor's Report to the Members of Teachers Building Society

Continued….

How the scope of our audit responded to the key audit matter	We obtained an understanding of relevant controls over the loan loss provision and management's lending business cycle, including controls over the provision model, and the flow of the output from the model to the general ledger. We performed a walk-through to identify relevant controls, data flows and supporting systems. We performed sensitivity analysis and stress tested key judgements to assess the impact on the provision as a whole. From this testing, we identified the most sensitive judgements are in respect of managements overlays and propensity to default therefore focused our testing on these judgements. We assessed the Society's position regarding overlays and propensity to default assumptions by benchmarking against peers and wider industry economic data. This allowed us to identify whether the Society has incorporated all key factors indicating increased risk into their provisioning model whilst also assessing the appropriateness of the overlays and propensity to default assumptions being applied. We also performed a recalculation of the provision to test that it has been calculated with mechanical accuracy. To do this, we considered the data inputs, calculation and outputs to test the data was complete, accurate and appropriately flowed through the model.
Key observations	Based on the evidence obtained, we found that the assumptions underpinning the impairment model were appropriate but towards the conservative end of a reasonable range. We concluded that the loan loss provision is free from material error.

5.2. Revenue recognition

Key audit matter description	According to FRS 102, income on mortgages is required to be recognised on an effective interest rate (EIR) basis. Total mortgage income under effective interest rate accounting is £7.9 million (2018: £7.8 million). As part of the effective interest rate accounting management has made significant judgements, especially in relation to the behavioural life of the assets. Therefore, we consider a potential risk of fraud within this balance. The impact of the effective interest rate accounting, as opposed to cash accounting, has decreased profit by £52,000 in 2019 (2018: increased by £331,000) This movement is largely driven by a change in behavioural life assumption as well as changes in the Bank of England base rate. Management's associated accounting policies and critical judgements are detailed in in Report on Corporate Governance page 15 and in note 1 and 2 and the impact of the effective interest rate accounting is disclosed in note 5 to the financial statements.
How the scope of our audit responded to the key audit matter	We gained an understanding of the Society's process around recognising interest, including an assessment of the automatic calculation of interest on the mortgage book. We also performed a walkthrough of the process undertaken by management to calculate the necessary EIR adjustment, including assessing the data inputs, data flows, calculations and assumptions. We obtained an understanding of relevant controls management has in place to mitigate the associated risks. We developed an independent expectation of the behavioural life assumption as, following the sensitivity analysis, we identified that the model output is highly sensitive to this assumption. We performed sensitivity analysis of the interest income balance to assess how the movement in behavioural life impacts the interest income. We performed procedures to assess the completeness and accuracy of the underlying data inputs and assessed the reasonableness of the calculation, by verifying the formulae used within the model and through recalculation of adjustments for a sample of loans. We challenged management on the judgements applied in reaching the appropriate behavioural life by considering the appropriateness of the historic data and behavioural life through benchmarking relevant assumptions against peer Building Societies to assess whether these are reasonable.
Key observations	Based on our audit procedures above, we are satisfied that the reported figure is a materially appropriate estimation of the impact of the effective interest rate requirements outlined per IAS 39.

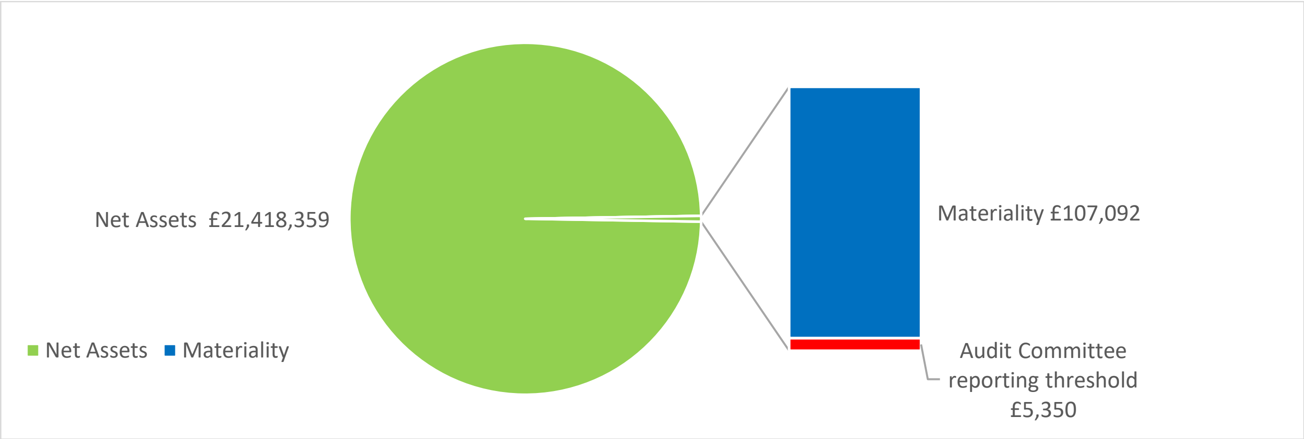
6. Our application of materiality

6.1. Materiality

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

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

	Society financial statements
Materiality	£107,000 (2018: £103,000)
Basis for determining materiality	0.5% of net assets (2018: 0.5% of net assets)
Rationale for the benchmark applied	As a mutual Society, the equity figure represents the amounts due to members and is therefore considered a key area of interest to members. Net Assets represent the capital position of the Society which is a key measure that key stakeholders are most interested in and the profit does not provide an appropriate reflection of the size of the business. Net assets is therefore of significant interest to users.



6.2. Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Performance materiality was set at 70% of materiality for the 2019 audit (2018: 70%). In determining performance materiality, we considered the maturity and stability of the Society's operations and the low level of corrected and uncorrected misstatements identified in the previous audits.

6.3. Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £5,350 (2018: £5,100), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

Independent Auditor's Report to the Members of Teachers Building Society

Continued….

7. An overview of the scope of our audit

Our audit was scoped by obtaining an understanding of the entity and its environment, including internal controls, and assessing the risks of material misstatement. Based on that assessment, we performed an audit of the Society, executed at levels of materiality applicable to the entity.

8. Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, 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.

In connection with our audit of the financial statements, 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 audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

9. Responsibilities of directors

As explained more fully in the directors' responsibilities statement, 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.

10. 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.

Details of the extent to which the audit was considered capable of detecting irregularities, including fraud and non-compliance with laws and regulations are set out below.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

11. Extent to which the audit was considered capable of detecting irregularities, including fraud

We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and then design and perform audit procedures responsive to those risks, including obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion.

11.1. Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the Society's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- results of our enquiries of management, internal audit,and the Audit Committee about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the Society's documentation of their policies and procedures relating to:
    - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
    - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
    - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations;
- the matters discussed among the audit engagement team and involving relevant internal specialists, including tax, financial instrument, valuations, and IT specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the following areas: loan loss provisioning and revenue recognition. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory frameworks that the Society operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the Building Societies Act 1986 for the Society and the UK Companies Act for the subsidiaries.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the Society's ability to operate or to avoid a material penalty. These included the regulations set by the Financial Conduct Authority in respect of the misspelling of payment protection insurance and other conduct related matters and the Prudential Regulation Authority relating to regulatory capital and liquidity requirements.

11.2. Audit response to risks identified

As a result of performing the above, we identified loan loss provisioning and revenue recognition as a key audit matter related to the potential risk of fraud. The key audit matters section of our report explains the matter in more detail and also describes the specific procedures we performed in response to that key audit matter.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management, the Audit Committee and in-house legal counsel concerning actual and potential litigation and claims;
- 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 reviewing correspondence with the Prudential Regulation Authority and the Financial Conduct Authority; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; 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.

Independent Auditor’s Report to the Members of Teachers Building Society

Continued....

Report on other legal and regulatory requirements

12. Opinions on other matters prescribed by the Building Societies Act 1986

In our opinion, based on the work undertaken in the course of the audit:

- the annual business statement and the directors’ report have been prepared in accordance with the requirements of the Building Societies Act 1986;
- the information given in the directors’ report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the information given in the annual business statement (other than the information upon which we are not required to report) gives a true representation of the matters in respect of which it is given.

In the light of the knowledge and understanding of the Society and their environment obtained in the course of the audit, we have not identified any material misstatements in the directors’ report.

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

In our opinion the information given on page 52 for the financial year ended 31 December 2019 has been properly prepared, in all material respects, in accordance with the Capital Requirements (Country-by Country Reporting) Regulations 2013.

14. Matters on which we are required to report by exception

14.1. Adequacy of explanations received and accounting records

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

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

We have nothing to report in respect of these matters.

15. Other matters

15.1. Auditor tenure

We were appointed by The Board of Directors of the Society; and ratified the Members at the AGM, in 1994 to audit the financial statements of the Society for the period ending December 1994 and subsequent financial periods. Following a competitive tender process we were reappointed as auditor of the Society for the period ending 31 December 2016 and subsequent periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 25 years.

The 2019 year-end is the fourth year of involvement of Kieren Cooper has had with the audit of the Society.

15.2. Consistency of the audit report with the additional report to the Audit Committee

Our audit opinion is consistent with the additional report to the Audit Committee we are required to provide in accordance with ISAs (UK).

16. 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.

Kieren Cooper (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor

Birmingham, United Kingdom
27 February 2020

Income Statement

For the Year Ended 31 December 2019

	Notes	2019 £000	2018 £000
Interest receivable and similar income	5	7,922	7,797
Interest payable and similar charges	6	(3,242)	(2,810)
Net interest income		**4,680**	**4,987**
Fees and commission receivable		262	279
Fees and commission payable		(356)	(396)
Net fees and commission expense		**(94)**	**(117)**
Other operating income	16	96	93
Other fair value (losses)/gains	7	(82)	53
Net operating income		**4,600**	**5,016**
Administrative expenses	8	(4,248)	(3,971)
Depreciation and amortisation	14,15	(114)	(117)
Operating expenses		**(4,362)**	**(4,088)**
Operating profit before provisions		**238**	**928**
Impairment provisions for losses on loans and advances	9	-	185
Provisions for other liabilities and charges	21	11	9
Operating profit		**249**	**1,122**
Taxation expense	10	(48)	(201)
Total profit and comprehensive income for the year		**201**	**921**

All results arise from continuing operations.

Statement of Financial Position

At 31 December 2019

Assets	Notes	2019 £000	2018 £000
Liquid assets:			
Cash in hand and balances with the Bank of England		57,385	55,555
Loans and advances to credit institutions	11	6,311	6,617
		63,696	**62,172**
Loans and advances to customers:			
Loans fully secured on residential property		229,688	229,153
Other loans fully secured on land		1,728	1,752
	12	**231,416**	**230,905**
Derivative financial instruments	13	22	204
Intangible fixed assets	14	63	140
Tangible fixed assets	15	261	213
Investment property	16	878	878
Prepayments and accrued income		196	149
Other assets	17	36	40
Total assets		**296,568**	**294,701**

Liabilities	Notes	2019 £000	2018 £000
Shares and customer deposits:			
Shares	18	212,326	213,942
Deposits owed to other customers	19	32,259	20,800
		244,585	**234,742**
Amounts owed to credit institutions	20	29,557	37,887
Derivative financial instruments	13	451	96
Current tax liabilities		36	192
Provisions for liabilities and charges	21	-	33
Accruals and deferred income	22	346	337
Deferred tax liabilities	23	62	50
Other liabilities	24	111	145
Total liabilities		275,148	273,482
Total equity attributable to members		21,420	21,219
Total equity and liabilities		**296,568**	**294,701**

These accounts were approved by the Board of Directors on 27 February 2020

Julie Nicholson
Chair

Simon Beresford
Chief Executive

Rajesh Patel
Finance Director

Statement of Changes in Members' Interests

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

At 31 December 2018

	Revaluation reserve £000	General reserves £000	Total equity attributable to members £000
At 1 January 2018	749	19,549	20,298
Profit for the year	-	921	921
Transfer to general reserve - depreciation on revaluation surplus	(3)	3	-
At 31 December 2018	746	20,473	21,219

Statement of Cash Flows

For the year ended 31 December 2019

	2019 £000	2018 £000
Net cash inflow from operating activities (see below)	1,609	20,322
Cash flows from investing activities		
Purchase of intangible assets and property, plant and equipment	(85)	(111)
Increase in cash and cash equivalents	1,524	20,211
Cash and cash equivalents at beginning of year	62,172	41,961
Cash and cash equivalents at end of year	**63,696**	**62,172**
Represented by:		
Cash and balances with the Bank of England	57,385	55,555
Loans and advances to credit institutions repayable on demand	6,311	6,617
	63,696	**62,172**

Net cash inflow from operating activities	2019 £000	2018 £000
Operating profit	249	1,122
Adjusted for:		
Depreciation and amortisation	114	117
Impairment losses on loans and advances to customers	-	(185)
Fair value (gain) on investment property	-	(18)
Fair value loss/(gain) on derivative financial instruments	82	(35)
Effective interest rate accounting adjustment	52	(331)
Changes in net operating assets		
(Increase)/decrease in loans and advances to customers	(563)	1,273
Decrease/(increase) in other assets	4	(11)
(Increase) in prepayments and accrued income	(47)	(5)
Change in derivative financial instruments	455	(123)
Increase in shares, deposits and amounts owed to credit institutions	1,513	18,481
(Decrease)/increase in other liabilities	(34)	19
(Decrease)/increase in provisions for liabilities	(33)	2
Increase in accruals and deferred income	9	12
Taxation paid	(192)	4
Net cash inflow from operating activities	**1,609**	**20,322**

Notes to the Accounts

For the Year Ended 31 December 2019

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 10, 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. The investment property was valued at 1 January 2014 on transition to FRS 102 giving rise to an increase in value of £666k and this is all allocated to reserves in the prior period. Any subsequent 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 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 on a triennial basis. 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 comparative investment method of valuation has been used which is based on current rents and capitalisation yields in the area where the property is located.

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. 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.

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 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 ratio of the loan to the value of the security, the probability of eventual repossession, the value of the property in the event of a forced sale and the costs of sale together with the general economic climate, which may ultimately result in a loss being realised. The probability of eventual repossession is a judgement made by management based on the proportion of the mortgage book to historically experience either arrears or forbearance.

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) Funding for Lending Scheme (FLS)

The Society's policy is to permit the encumbrance of assets where it is necessary to obtain central bank funding facilities or liquidity insurance, or where collateral may be pledged under credit support annex arrangements with swap counterparties for hedging interest rate risk. As a precondition of the Bank of England's Funding for Lending Scheme (FLS), the Society positioned a portfolio of residential mortgage loans in 2013 as security with the Bank of England.

The Society participated in the FLS, which provided Treasury Bills in return for eligible collateral including approved mortgage portfolios. FLS transactions did not involve the transfer of risk on the collateral. Therefore, for accounting purposes, the underlying collateral was retained on the statement of financial position and the Treasury Bills were not recognised on the statement of financial position. When a Treasury Bill was sold or repo'd in the market, the net proceeds were recognised on the statement of financial position together with a corresponding liability. The liability was measured as the value of the Treasury Bill sold. Any premium or discount arising on the sale of Treasury Bills was amortised to the income statement over the life of the scheme.

All FLS Treasury Bills were returned to the Bank of England by 31 December 2018.

o) 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. The Society is required to pledge additional collateral against this new funding.

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.

The Society used TFS to refinance the maturing FLS funding and to provide an additional source of funding for future growth.

p) Employee benefits

Pensions

The Society's defined benefit scheme was closed to accrual of future service years in 2002 and was replaced by a defined contribution scheme. A full buy-out of the Society's defined benefit scheme was completed in 2014 when the pension plan's obligations transferred out in full by the Society purchasing a deferred annuity policy from Aviva and the trustees wound-up the pension plan.

The Society operates a defined contribution arrangement whereby the Society, and the employee, 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 employee 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 employees render the related service and when there is an obligation to pay a bonus under the terms of the scheme.

Short-term employee benefits

The cost of short-term employee benefits, including wages and salaries, social security costs and healthcare for current employees, 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 any account 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 1%, the impact on provisions would be £24k. The impact of a 1% change in the forced sale discounts currently being experienced would impact provisions by £30k and the impact of a 1% change in probability of default would impact provisions by £128k.

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 £23k/ (£22k) respectively. The impact of a 10% change in the anticipated level of early redemption would result in an increase/decrease in the value of the loans in the statement of financial position by £5k/ (£5k) 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.

3. Directors

(a) Directors Remuneration

Directors' remuneration totalled £597,000 (2018: £570,000). Full details are given in the Report of the Directors on Remuneration on page 17.

(b) Transactions with Directors and connected persons

At 31 December 2019 one mortgage loan totalling £90,044 (2018: none) made in the ordinary course of business and falling within section 65 of the Building Societies Act 1986 was outstanding to one connected person (2018: none).

Amounts deposited by directors and their close family members earn interest at the same rates offered to the public and interest received totalled £534 (2018: £82).

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. Employees

	2019 Number	2018 Number
Average number of persons employed by the Society		
Full-time	40	37
Part-time	6	9
	46	**46**

5. Interest receivable and similar income

	2019 £000	2018 £000
On loans fully secured on residential property	7,578	7,248
On other loans fully secured on land	93	98
Effective interest rate accounting adjustment	(52)	331
	7,619	**7,677**
On debt securities	2	-
On other liquid assets	448	309
On derivative financial instruments	(147)	(189)
	7,922	**7,797**

6. Interest payable and similar charges

	2019 £000	2018 £000
On shares held by individuals	2,976	2,542
On deposits and debt securities	273	260
On derivative financial instruments	(7)	8
	3,242	**2,810**

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:

	2019 £000	2018 £000
Fair value movements through the income statement		
Hedging and derivatives	(82)	35
Investment property	-	18
Other fair value gains	**(82)**	**53**

8. Administrative expenses

	2019 £000	2018 £000
Employee costs		
Wages and salaries	2,190	2,010
Social security costs	242	218
Pension costs - defined contribution scheme	133	95
	2,565	2,323
Auditor remuneration		
for audit of the Society's annual accounts	85	65
other fees paid to auditor	-	15
Total auditor remuneration	85	80
Other expenses	1,598	1,568
	4,248	**3,971**

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

Loans fully secured on residential property	2019 £000	2018 £000
At 1 January		
Collective provision	225	399
Individual provision	4	-
	229	**399**
Income and expenditure (credit)/charge for the year		
Collective provision	4	(174)
Individual provision	(4)	4
	-	**(170)**
At 31 December		
Collective provision	229	225
Individual provision	-	4
	229	**229**

The (credit)/charge to income and expenditure is made up as follows:	2019 £000	2018 £000
Movements in provisions as above	-	(170)
Amounts written off during the year	-	7
Recoveries of amounts previously written off	-	(22)
	-	(185)

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

	2019 £000	2018 £000
Current tax:		
UK Corporation Tax	36	192
Adjustment in respect of previous periods	-	-
Total current tax charge	36	192
Deferred tax:		
Origination and reversal of timing differences	12	9
Deferred tax charge	12	9
Total charge on profit on ordinary activities.	**48**	**201**

Current tax has been provided at the rate of 19% (2018: 19%). Deferred tax has been provided at 17% (2018: 17%), being the substantively enacted rate at the balance sheet date.

	2019 £000	2018 £000
Tax charged on profit at the average standard rate	**47**	**213**
Effects of:		
Depreciation in excess of capital allowances	1	(8)
Income not taxable for tax purposes	2	(3)
Effect of reduction in tax rate	(2)	(1)
Adjustment in respect of prior periods		-
	48	**201**

11. Loans and advances to credit institutions

	2019 £000	2018 £000
Loans and advances to credit institutions mature from the date of the statement of financial position as follows:		
Accrued interest	3	1
Repayable on demand	5,268	6,616
Maturing in not more than three months	500	-
Maturing in more than three months but not more than one year	-	-
Maturing in more than one year but not more than five years	540	-
	6,311	**6,617**

12. Loans and advances to customers

	2019 £000	2018 £000
Loans and advances to customers are repayable from the statement of financial position date as follows:		
- repayable in not more than three months	1,997	2,043
- repayable in more than three months but not more than one year	5,713	5,987
- repayable in more than one year but not more than five years	36,731	36,842
- repayable in more than five years	186,665	186,125
	231,106	230,997
Less:		
- impairment provisions (see note 9)	(229)	(229)
- unamortised loan origination fees	149	201
Add:		
- fair value adjustment	390	(64)
	231,416	**230,905**

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.

	2019 Assets £000s	2019 Liabilities £000s	2018 Assets £000s	2018 Liabilities £000s
Financial instruments measured at fair value				
Interest rate swaps in an effective hedging relationship	22	451	204	96
Fixed rate mortgages	390		(64)	-
Fixed rate savings			-	-
Total hedged position	**412**	**451**	**140**	**96**
Hedge ineffectiveness (loss)/gain	39		-	44
Total	**451**	**451**	**140**	**140**

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.

Hedge ineffectiveness resulted in a loss of £82k (2018: gain £35k) which was recognised in the income statement.

Notes to the Accounts
For the Year Ended 31 December 2019
Continued…

14. Intangible fixed assets

	Computer Software £000	Total £000
Cost or valuation at 1 January 2019	698	698
Additions	-	-
Disposals	(11)	(11)
At 31 December 2019	**687**	**687**
Accumulated amortisation at 1 January 2019	558	558
Charge for the year	77	77
Eliminated on disposal	(11)	(11)
At 31 December 2019	**624**	**624**
Net book values		
At 31 December 2019	63	63
At 31 December 2018	140	140

15. Tangible fixed assets

	Freehold land and buildings £000	Equipment, fixtures, fittings, and vehicles £000	Total £000
Cost or valuation at 1 January 2019	258	344	602
Additions	10	75	85
Disposals	-	(13)	(13)
Transfer form investment property	-	-	-
At 31 December 2019	**268**	**406**	**674**
Accumulated depreciation at 1 January 2019	114	275	389
Charge for the year	3	34	37
Eliminated on disposal	-	(13)	(13)
At 31 December 2019	**117**	**296**	**413**
Net book values			
At 31 December 2019	151	110	261
At 31 December 2018	144	69	213

Cost or valuation of freehold land and buildings	**2019 £000**	**2018 £000**
Valuation at 31 December 1983	150	150
Cost of freehold improvements	39	39
	189	**189**

The historical cost of the revalued assets is £101,100 (2018: £101,100). The accumulated historical cost of depreciation on these re-valued assets is £58,200 (2018: £55,800). Included in the total net book value of freehold land and buildings is £37,500 (2018: £37,500) in respect of land on which no depreciation is provided.

16. Investment property

	2019 £000	2018 £000
Fair value at 1 January	878	925
Transfer to freehold land and buildings	-	(65)
Net gain from fair value movements	-	18
At 31 December	**878**	**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 2018, 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 £98k (2018: £90k). This is included within 'Other operating income'.

17. Other assets

	2019 £000	2018 £000
Rents receivable from investment property	28	28
Interest due from swap counterparties	6	10
Refundable deposit paid	2	2
	36	**40**

18. Shares

	2019 £000	2018 £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:		
- accrued interest	1,017	940
- on demand	76,766	75,820
- in not more than three months	99,660	88,746
- repayable in more than three months but not more than one year	31,940	35,979
- repayable in more than one year but not more than five years	2,943	12,457
	212,326	**213,942**

19. Deposits owed to other customers

	2019 £000	2018 £000
Deposits owed to other customers are repayable from the statement of financial position date in the ordinary course of business as follows:		
- accrued interest	36	43
- on demand	2,278	1,076
- repayable in not more than three months	29,645	18,663
- repayable in more than three months but not more than one year	300	1,018
	32,259	**20,800**

20. Amounts owed to credit institutions

	2019 £000	2018 £000
Amounts owed to credit institutions are payable from the statement of financial position date in the ordinary course of business as follows:		
- accrued interest	57	87
- repayable in not more than three months	2,500	2,800
- repayable in more than three months but not more than one year	3,000	5,000
- repayable in more than one year	24,000	30,000
	29,557	**37,887**

21. Provisions for liabilities and charges

	2019 £000	2018 £000
Provisions for contributions to Financial Services Compensation Scheme (FSCS)	-	-
Payment protection insurance provision	-	10
Under-paid interest provision	-	1
Under-funded mortgage provision	-	22
	-	**33**
The change to income and expenditure is made up as follows:		
FSCS charge for year	-	(9)
Provision for automatic interest capitalisation customer redress	-	-
Payment protection insurance provision	(10)	-
Under-paid interest provision	(1)	-
	(11)	**(9)**
Provisions for contributions to FSCS		
Movement in year		
At 1 January	-	17
Charge for year	-	(9)
Paid in year	-	(8)
At 31 December	**-**	**-**
Payment protection insurance provision		
Movement in year		
At 1 January	10	10
Charge for year	(10)	-
At 31 December	**-**	**10**
Under-paid interest provision		
Movement in year		
At 1 January	1	4
Charge for year	(1)	-
Paid in year	-	(3)
At 31 December	**-**	**1**
Under-funded mortgage provision		
Movement in year		
At 1 January	22	-
Charge for year	-	22
Paid in year	(22)	-
At 31 December	**-**	**22**

Financial Services Compensation Scheme

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

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

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

To recover the interest cost the FSCS charged a management expense levy to all UK deposit takers, including Teachers Building Society. During 2018 the Society paid £8,000 (which was provided in the 2017 accounts) in respect of the levy for the 2017/2018 scheme year. This amount was based on the Society's deposit balances at 31 December 2016. At 31 December 2019 the Society made no provision as the payments made in 2018 were the final contributions due.

Provision for automatic interest capitalisation customer redress

Where it was established that remediation was required and a payment of compensation was likely to be made to the customer a provision was included last year in the accounts based on the Society's experience and the anticipated profile of future remediation costs.

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 has been released.

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 has now been settled in full.

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 has now been settled in full.

22. Accruals and deferred income

	2019 £000	2018 £000
Falling due within one year:		
Accruals	287	304
Deferred income	33	33
Interest due to swap counterparties	26	-
	346	**337**

23. Deferred taxation

	2019 £000	2018 £000
Deferred taxation balance in the period at 1 January	(50)	(41)
(Decrease) in asset recognised	(12)	(9)
At 31 December	**(62)**	**(50)**
Analysis of deferred taxation balance:		
Depreciation difference to capital allowances	(12)	(11)
Short-term differences (less than three years)	59	70
Fair value of investment property	(109)	(109)
	(62)	**(50)**

24. Other liabilities

	2019 £000	2018 £000
Falling due within one year:		
Mortgage application fees received in advance	1	1
Other creditors	110	144
	111	**145**

25. Financial commitments

a) Capital commitments

At 31 December 2019 there was £nil capital expenditure contracted for but not provided in the accounts (2018: £nil).

26. 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 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					556
General reserve and other reserves					21,419
Total reserves and liabilities					**296,568**

As at 31 December 2018	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	55,555	-	-	-	55,555
Loans and advances to credit institutions	-	6,617	-	-	6,617
Debt securities	-	-	-	-	-
Derivative financial instruments	-	-	-	204	204
Loans and advances to customers	-	230,905	-	-	230,905
Total financial assets	**55,555**	**237,522**	**-**	**204**	**293,281**
Total non-financial assets					1,420
Total assets					**294,701**
Liabilities					
Shares	213,942	-	-	-	213,942
Amounts owed to credit institutions	37,887	-	-	-	37,887
Amounts owed to other customers	20,800	-	-	-	20,800
Derivative financial instruments	-	-	-	96	96
Total financial liabilities	**272,629**	**-**	**-**	**96**	**272,725**
Total non-financial liabilities					757
General reserve and other reserves					21,219
Total reserves and liabilities					**294,701**

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 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		**57,887**	**5,831**	**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**

31 December 2018	Note	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Assets					
Cash in hand and balances with the Bank of England		55,555	-	-	55,555
Loans and advances to credit institutions	i.	-	6,617	-	6,617
Debt securities	ii.	-	-	-	-
Derivative financial instruments	iii.	-	204	-	204
Loans and advances to customers	iv.	-	-	230,905	230,905
Total financial assets		**55,555**	**6,821**	**230,905**	**293,281**
Liabilities					
Shares		-	213,942	-	213,942
Amounts owed to credit institutions	i.	-	37,887	-	37,887
Amounts owed to other customers	ii.	-	20,800	-	20,800
Derivative financial instruments	iii.	-	96	-	96
Total financial liabilities		**-**	**272,725**	**-**	**272,725**

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:

	2019 £000		2018 £000	
Loans fully secured on residential property	229,688	99.3%	229,153	99.2%
Other loans fully secured on land	1,728	0.7%	1,752	0.8%
	231,416		230,905	
Provision for impairment losses	229		229	
Unamortised loan origination fees	(149)		(201)	
Fair value adjustments	(390)		64	
Loans and advances to customers	231,106		230,997	

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

	2019 £000		2018 £000	
Residential	229,768	99.4%	229,181	99.0%
Non-residential	1,728	0.7%	1,752	1.2%
Fair value adjustments	(390)	(0.2%)	64	(0.2%)
Loans and advances to customers	231,106	100.0%	230,997	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:

	2019		2018	
	Residential	Non-residential	Residential	Non-residential
Less than 70%	55.9%	100.0%	57.6%	100.0%
More than 70% but less than 80%	18.5%	-	17.8%	-
More than 80% but less than 90%	17.5%	-	17.2%	-
More than 90% but less than 100%	8.1%	-	7.4%	-
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:

	2019		2018	
	Residential	Non-residential	Residential	Non-residential
Current	99.6%	100.0%	99.5%	100.0%
Past due up to 3 months	0.3%	-	0.4%	-
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.

	2019 £000		2018 £000	
Region				
South West	51,738	23%	51,784	22%
Greater London	30,732	13%	31,599	14%
Outer Metropolitan	30,678	13%	28,915	13%
South East/East of England	33,307	14%	31,323	14%
Midlands	29,982	13%	32,251	14%
North West/North of England	45,670	20%	46,273	20%
Wales and Scotland	8,999	4%	8,852	4%
	231,106	100%	230,997	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 £573m (2018 : £563m). 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.

	2019 £000	2018 £000
UK government securities and amounts held with central banks	57,385	55,555
UK financial securities	6,311	6,617
Supranational securities	-	-
	63,696	62,172

The following table shows exposure broken down by Fitch ratings.

	2019 £000	2018 £000
AAA to AA-	57,385	55,555
A+ to A-	5,809	2,012
BBB+ to BBB-	-	4,605
Unrated	502	-
	63,696	62,172

The geographical distribution of these exposures is as follows:

	2019 £000	2018 £000
UK	63,696	62,172
	63,696	62,172

e) Liquidity risk

The following tables analyse the gross contractual principal cash flows payable under financial liabilities, excluding accrued interest and fair value adjustments. These balances will not agree directly to the balance in the statement of financial position as the table incorporates only principal amounts and does not reflect accrued interest or fair value adjustments.

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	211,309	176,426	31,940	2,943	-
Amounts owed to credit institutions	29,500	2,500	3,000	24,000	-
Amounts owed to other customers	32,223	31,923	300	-	-
	273,032	210,849	35,240	26,943	-
Derivative liabilities					
Interest rate swaps	572	45	133	394	-

2018	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	213,002	164,566	35,979	12,457	-
Amounts owed to credit institutions	37,800	2,800	5,000	30,000	-
Amounts owed to other customers	20,757	19,739	1,018	-	-
	271,559	187,105	41,997	42,457	-
Derivative liabilities					
Interest rate swaps	363	19	62	282	-

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.

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.

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 £20k (2018: £634k) 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:

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)

2018	Gross amounts * £000	Financial collateral £000	Net amounts £000
Financial Assets			
Derivative financial instruments	204	-	204
Financial Liability			
Derivative financial instruments	96	-	96
	300	-	300

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

27. Country-by-country reporting

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

	2019	2018
Location of operations	United Kingdom	
Nature of activities	Deposit taking, mortgage lending	
Turnover*	£4,600k	£5,016k
Average number of employees	46	46
Profit before tax	£249k	£1,122k
Cash tax paid	£(192)k	£4k
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 2019

1. Statutory percentages

	2019	Statutory Limit
Lending limit	0.9%	25%
Funding limit	22.5%	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

	2019	2018
As a percentage of shares and borrowings		
Gross capital	7.8%	7.8%
Free capital	7.5%	7.5%
Liquid assets	23.2%	22.8%
As a percentage of mean total assets		
Profit after tax	0.07%	0.32%
Management expenses	1.48%	1.43%

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 2019 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 Teachers Housing Association 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 RCI Bank UK Ltd
P E Jarman	29/02/1964	Legal Director	11/05/2015	Diocese of Salisbury Academy Trust
A P Lee	14/08/1963	Director	29/07/2014	Solihull Masonic Temple Ltd Angel Square Investments Ltd CFS Management Services Ltd
R K Patel	12/10/1969	Finance Director	10/07/2019	None
A L Pike	15/09/1963	Director	01/11/2012	Neilson Active Holidays Group Ltd
J Nicholson	29/04/1965	Director	26/04/2018	Reliance Bank Ltd Amitra Capital Ltd
P Winter	20/10/1950	Director	29/06/2017	Eastern Angles Theatre Company Ltd University of Suffolk Ltd

Documents may be served on Directors c/o Deloitte LLP, Chartered Accountants, 4 Brindley Place, Birmingham, B1 2HZ.

At 31 December 2019 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.

Teachers Building Society

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