

Teachers Provident Society Limited



*Annual Report and Financial Statements
For the year ended 31 December 2011*

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TEACHERS PROVIDENT SOCIETY LIMITED

Registered number 372F
Registered Office: Deansleigh Road, Bournemouth BH7 7DT
Telephone: 0800 7311093
www.teachersassurance.co.uk

Honorary President Christine Blower

COMMITTEE OF MANAGEMENT (BOARD OF DIRECTORS)

Chairman	John Sinclair*
Deputy Chairperson	Jane Clarkson*
Members of the Committee of Management	Neil Foden*
	Jerry Glazier*
	Gavin Hill* (appointed 1 November 2011)
	Pat O'Keeffe*
	David Furniss
	Ian Blanchard
	* denotes Non-Executive Director

EXECUTIVE MANAGEMENT

Chief Executive	David Furniss
Finance Director & Actuarial Function Holder	Ian Blanchard
Operations Director	Janet Shenton
Commercial Director	Wendie Michie

HEADS OF DEPARTMENT

Customer Services & Technical Administration	Peter Orvin
Membership Relations	Tina Flower
Compliance & Risk	Richard Dickinson
Finance	Eoin Lyon
Actuarial & Product Development	Patrick Phelps
Business Services & Group Secretary	Tom Smith
National Training Manager	Richard Crisp
Information Services	Ian Dave

ADVISERS

With-Profits Actuary	David Murray, Deloitte LLP
Auditors	Mazars LLP, Chartered Accountants
Bankers	The Royal Bank of Scotland
Custodian	The Northern Trust Company
Investments	Legal & General Investment Management
Property	Nettleship Sawyer, Chartered Surveyors



John Sinclair
Chairman

Chairman's Statement

Introduction

On behalf of the Committee of Management, I have pleasure in presenting the report and audited accounts of Teachers Provident Society and its subsidiaries for the year ended 31 December 2011.

2011 Review

I am pleased to be able to report that 2011 was another successful year for Teachers Assurance. Full details are set out in subsequent pages but in summary the main highlights were:

- Financial strength – Teachers Assurance enters 2012 with a substantial capital reserve;
- New business levels increased, year on year;
- Strong cost control was maintained once again;
- Payouts to members and customers reached almost £93 million;
- A Special Mutuality Bonus was approved, for distribution to With-Profits policyholders
- The With-Profits Fund achieved a positive return in difficult market conditions.

Your Society

In 2011, your Board undertook a fundamental strategic review. This was prompted by new regulation that is set to take effect within the Financial Services industry in January 2013; the Retail Distribution Review.

The Retail Distribution Review, introduced by our regulator, the Financial Services Authority, aims to ensure that customers better understand the nature and restrictions of a firm's service, the qualification level of its financial advisers and the cost of receiving financial advice.

Working with independent advisers KPMG and Evercore, your Board undertook this strategic review to determine how best to meet the regulatory requirements whilst continuing to act in the best interests of our customers and members at all times.

Having consulted widely within both the education and financial services community, the conclusion we drew was that, in the main, our customers and members simply want straightforward information about value for money products that allows them to make an informed choice about what to buy and when.

With this in mind, we have taken the decision to withdraw from providing traditional, regulated financial advice. Instead, we will focus on providing financial information, education and support to our customers and members via:

- School talks and seminars: a team of speakers, based across England & Wales, offering a menu of talks, free of charge.
- Our website: a series of interactive tools and calculators to help you decide which financial products you might require;
- Our Customer Support Team: based in our Head Office in Bournemouth.

Since it was formed over 135 years ago, your Society has evolved and grown to meet the changing needs of its members and customers. In doing so it has grown in financial strength, sustainability and profitability. 2012 will see the Society transform itself once again.

Performance Review

Strategic Review

Market Research

Resources and Support

In summary

Membership and mutuality

As a mutual organisation, Teachers Assurance exists for the sole benefit of its members and customers.

The Society has undoubtedly gone from strength to strength in recent years but we must not be complacent. The Financial Services industry is changing and we must change with it, if we are to continue to thrive.

It is our firm belief that by transforming our services to meet the changing needs of our customers and members, we will not only serve them better but will ensure the ongoing sustainability and long term profitability of the Society.

Finally, I would like to thank management, staff and my fellow Board colleagues for their significant contribution in 2011. In particular I would like to thank Judy Moorhouse, who retired as a non-executive Director during the year, for her contribution during her tenure and especially for the insight she provided into the teaching profession. We wish her well in her retirement.

JOHN SINCLAIR

CHAIRMAN



David Furniss
Chief Executive

**Serving the
education
community for 135
years**

**Strongest With-
Profits Life Office
for 5th year running**

**Acting in your best
interests**

Independent

Mutual

Open for business

Chief Executive's Statement

Introduction

As a mutual, friendly society, Teachers Assurance exists for the sole benefit of its members and customers; there are no shareholders.

Over the last 135 years, our range of products and services has evolved to accommodate the changing financial needs of the education community; savings and investments, life assurance, sickness protection, mortgages and home and contents insurance.

It is vital that we continue to adapt and to grow if we are to fulfil our aim to be the 'first choice' financial services provider for those in the education community.

As a financially secure organisation, I believe we are well placed to achieve this. Teachers Assurance was ranked the strongest With-Profits Life Office* (when measured by free asset ratio) for the 5th year running in 2011. This means that we have the financial wherewithal to invest now for the benefit of both the current and future generations of customers and members.

* Source: Money Management August 2011 – results relate to 2010

Strategic Review 2011

In 2011, your Board undertook a strategic review with the assistance of a team of independent advisers, including KPMG and Evercore.

The review was conducted in the context of two key external regulatory factors:

- The Financial Services Authority's (FSA) Retail Distribution Review: new rules that take effect on 1 January 2013 and relate to the provision of regulated financial advice to customers;
- The European Union's Solvency II Directive: new rules that are expected to take effect by January 2014 and relate to the way in which solvency risks are monitored and assessed within firms.

The Board and its independent advisers agreed that the regulatory changes introduced by the Retail Distribution Review relating to charges for regulated financial advice meant that a strategic change was necessary to the Teachers Assurance customer proposition and distribution model.

The Board considered a number of strategies during the 10-month review. Central to the debate was one common goal: to act in the best interests of our members and customers at all times.

To assist the Board in making a decision as to the future direction of the Society, we conducted market research from both a customer and an industry perspective. For this, we enlisted the help of hundreds of members, customers and teachers across England and Wales.

My thanks to those of you who took part in our online customer surveys or focus groups. Your feedback gave us great insight into the products and services you really want from us.

Having weighed up a number of strategic options, the Board unanimously agreed that the preferred strategy, going forward, would be to remain:

- Independent: to continue as a customer focussed independent organisation and not to sell the company or merge with any other;
- Mutual: a member-owned organisation;
- Open for business: to continue to provide financial products and support services to both current and future generations of members and customers.

TEACHERS PROVIDENT SOCIETY LIMITED

As always, we will work with the FSA, our regulator, to ensure that:

- our strategy continues to protect the interests of our members, present and future;
- we meet our regulatory and financial obligations.

What does this mean for members?

Having decided to remain independent, mutual and open for business, we next considered how best to support you, our customers and members, when you need to think about money matters and your financial welfare.

10 things teachers say about financial services

1. I'm busy and have little time to sort out my finances.
2. I worry about money but find financial services a bit dull.
3. I often feel unsupported when it comes to understanding my staff benefits, especially my pension.
4. I sometimes lack confidence when it comes to choosing financial products because I find financial jargon confusing.
5. I don't like paying for things I don't need.
6. I'm not sure whether I can trust financial advisers.
7. I don't want to pay for advice (or not much anyway!).
8. I'd be happy to do my own research if there was somewhere I could go for unbiased information that relates directly to teachers.
9. I need to feel I can trust the financial companies I deal with.
10. I want financial products that are easy to understand, good value for money and, where possible, tailored for teachers.

As a result, Teachers Assurance will offer a range of products and resources to members to help them make confident financial decisions without the need to pay for regulated financial advice.

3 things we are doing to help:

Customer Support Line – Launched April 2012

- We've set up a Customer Support Line that is open from 8am to 9pm weekdays, 9am to 6pm Saturdays and 10am to 4pm on Sundays.
- The Customer Support Team are based at our Head Office in Bournemouth.
- You can ring us and ask us any financial question you like, free of charge.
- For those who wish to buy a financial product, our expert team can take instructions over the phone without the need to fill in lengthy application forms.

New website - Launching September 2012

- We're building a new website with appealing, quick and easy to use financial planning tools, many of which will be tailored specifically for teachers.
- There will also be plain English, unbiased guides covering various money matters, as they relate to education professionals.
- These resources will help you decide whether you need to do something about your pension, insurance, savings or investment provision.
- We're expanding our range of good value, simple products designed with the teacher in mind. You can buy these online or via our Customer Support Team.
- If you buy one of our products, you'll be able to track its progress online too, via our secure 'My Plans' member area.

Financial Education Programme – Booking now for September 2012 onward

- We're launching a new programme of interactive school talks and seminars to help teachers better understand their benefits and where their financial gaps might be.
- The talks will feature tutorials on how to use the simple online financial planning tools that we are building.
- We're recruiting a team of speakers across England & Wales to allow us to reach treble the number of teachers that we do now. We expect our audience numbers at our events to grow from 20,000 in 2011 to 60,000 by 2013.

Ask the experts

Use our online tools to improve your financial welfare

Attend one of our helpful and informative talks and seminars

Transformation

The coming year will be one of transformation, not only for Teachers Assurance, but also for the industry as a whole.

The Retail Distribution Review has shaken up the industry and, for our part, caused us to re-evaluate the way in which we do business with our customers and members.

Our new strategy will see the Society reach out to a much wider audience of teachers and education support staff than it has done to date.

The human touch

Although we are moving away from the traditional face-to-face individual advice services that we have operated historically, we do not intend to lose the human touch that characterises Teachers Assurance as a Friendly Society.

As we say goodbye to the Financial Consultant team that has provided advice services to our members in the past, I'd like to take this opportunity to thank them and wish them well for the future.

I'd also like to welcome to Teachers Assurance the host of people that are joining us to help ensure that our customers and members continue to receive relevant and timely information, education and support when it comes to money matters.

Trusted relationships

From school presenters to customer support staff and online innovators; their challenge will be to maintain and build upon the trusted relationships we have forged with the education community over many successful years of working together.

Building on our past success

I am proud of the successes that Teachers Assurance has achieved in recent years and 2011 was no exception. If 2012 is to be a year of transformation, it is vital that we start from a position of strength.

Highlights of 2011

Teachers Assurance had another successful year in 2011. The Society:

- Paid out nearly £93 million to members and customers;
- Increased new business volumes by 12.8%, resulting in a 99% increase over the last six years;
- Delivered strong control of costs;
- Approved a Special Mutuality Bonus for distribution to with-profits policyholders;
- Produced a 1.7% gross investment return on our With-Profits life fund.

£93 million paid out

Special Mutuality Bonus for Members

Although the outlook for the economy started to improve in the first half of 2011, the Eurozone crisis affected market sentiment and the threat of a double-dip recession remains.

Confidence and Trust

It is extremely important at times of such uncertainty that you can remain confident in the financial institution with which you trust your insurance, savings and investments.

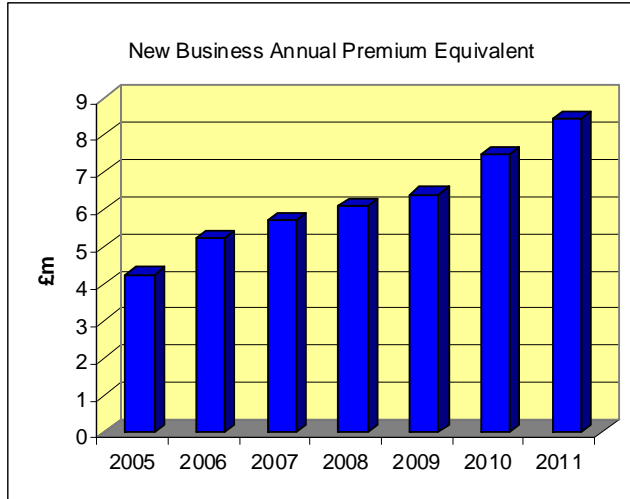
Peace of Mind

You can rest assured with Teachers Assurance; we had a capital buffer of £76.2m as at the end of 2011 to protect us during uncertain times, giving peace of mind to our members.

Value for money

New Business Growth

It is important for the future health of the organisation that we continue to provide products and services to members that are relevant and good value.



99% sales growth since 2005

One of the measures of how well we are achieving this is the growth in our new premium income. In 2011 our new premium income grew by 12.8% from the previous year. Since 2005, our sales have increased by 99%, an equivalent growth rate of 12.1% per annum.

We have consistently promoted a savings culture. This has proved particularly pertinent in recent times, as the balance between debt and savings has become out of kilter in the UK.

Investment guarantees

Member Returns

Teachers Assurance includes some important safeguards in its with-profit savings plans, to help protect members from poor investment conditions. The valuable guarantees that are built into with-profit policies are being communicated in your annual statements or bonus notices. This exemplifies our commitment to with-profits, a concept that many companies in the sector have withdrawn from despite its clear value to policyholders, particularly in volatile investment markets.

Notable investment returns

When conditions allow, we return additional value to with profits policyholders through the use of annual and/or final (terminal) bonuses. I am pleased to report that in the November 2011 edition of Money Management, the payout on a Teachers Assurance 10 year maturing taxable savings plan for a £50 per month premium was ranked 8th out of 28 companies with a payout of over 6% above the average.

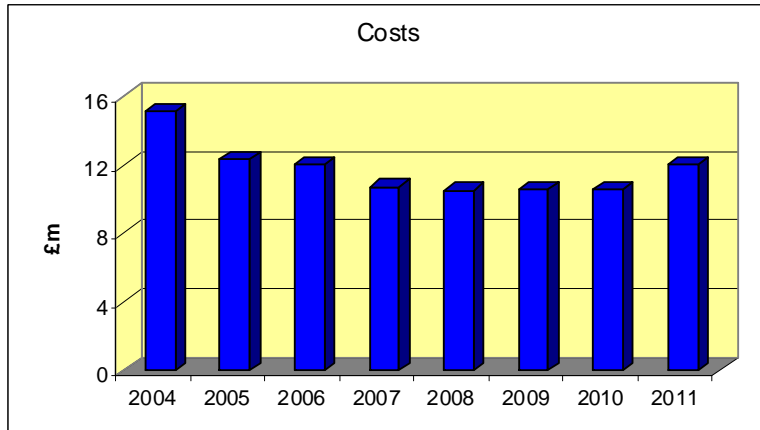
Special Mutuality Bonus for Members

We have, for the second year running and for the fourth time in six years, again decided to return additional value through the declaration of a Special Mutuality Bonus. The payment for with-profit members in respect of 2011 will total £3.3m. This bonus will increase the guaranteed benefits for our older style with-profits policies and increase the potential for a final (or terminal) bonus for both older and new style with-profits policies.

Prudent cost control

Costs

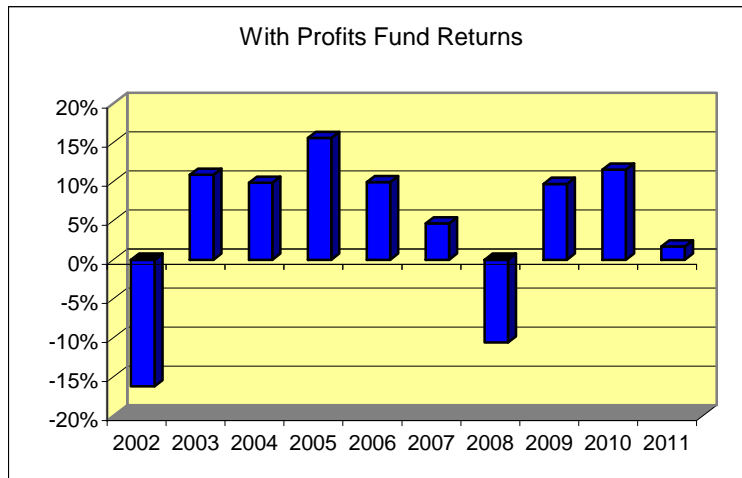
Having been flat at around £10.5m from 2008 to 2010, our costs increased during 2011 to £12.0m. Much of this increase was as a result of work undertaken on our strategic review, the results of which are covered earlier in this review. I am pleased to report that the costs incurred in the strategic review will not affect the return on our customers policies and will instead be met from our Free Assets. We endeavour to keep our costs under control whilst continuing to maintain the high quality customer service that our members expect. We will continue to examine our expenses closely to validate that they are appropriate and in the interests of our customers.



With Profits Fund Returns

Aside from cost control, the other major determinant of policy values is the return earned on investments. It is good to report a third year of positive investment returns, the with-profit fund achieving a return of 1.7% before tax in 2011.

Positive returns in uncertain market conditions



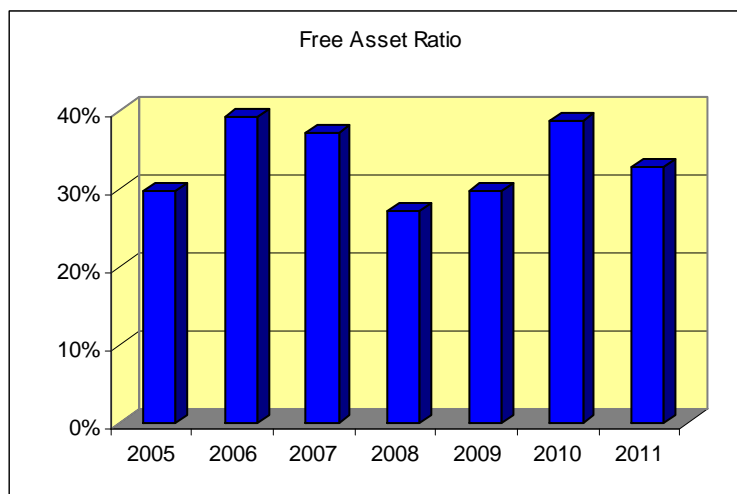
The fund holds a widely diversified portfolio to attempt to provide protection against undue influence from any one asset or class of assets. The Board of Teachers Assurance has a long held view that investment in equities (stocks and shares) can contribute significantly to increased payouts to policyholders.

During 2011, fixed interest and property investments performed well helping to offset the negative returns from equities. Our aim is to maintain a high percentage of the fund in equities and property as historically these have produced the best long-term returns. During 2011, we maintained our holdings in equities and property at around our target levels of 60% of the total assets invested in the with-profits fund. Over the past five years the fund has achieved an overall return of 16.5% before tax, over 10 years the figure is 51.2%.

Financial Strength

Teachers Assurance has promoted the benefits of its financial strength for a number of years and products have been bought on the basis that Teachers Assurance will remain financially strong.

Highest Free Asset Ratio – Independent Survey 2011



The graph shows how our financial strength has recovered from the market falls following the turn of the century and the market turbulence in 2008 ('Free Asset Ratio' measures the percentage by which assets exceed liabilities).

Our Free Asset Ratio of 38.7% at the end of 2010 was the highest in the August 2011 Money Management Survey.

In Summary

The Financial Services landscape is changing. We believe the Retail Distribution Review (effective January 2013) will change the way in which people buy financial products and we intend to be ready to meet those changing needs.

As we develop our plans, there will undoubtedly be challenges along the way but we believe we are well placed to deliver a modern, relevant and vibrant Society within the new regulatory framework.

Strength

Cohesion

Motivation

Advocacy

- We have a strong capital base to provide security during this period of change and growth.
- We have a cohesive and stable senior management team, with a track record of success in achieving growth and profitability for the Society;
- We have a skilled, motivated and committed staff, ready and willing to embrace new ways of supporting our customers and members;
- We have an excellent relationship with the National Union of Teachers (NUT). The advocacy of the NUT continues to play a pivotal role in the success of the Society.
- We have a single aim; to act in the best interests of our members and customers at all times.

In short, the Board considers we have all the elements we need to succeed.

My thanks in advance to our staff, the NUT and our members and customers for their continued support in 2012.

DAVID FURNISS
CHIEF EXECUTIVE

TEACHERS PROVIDENT SOCIETY LIMITED

DIRECTORS' REPORT

Registered number 372F

INTRODUCTION

The Directors have pleasure in presenting the report and audited accounts of Teachers Provident Society (the Society) and its subsidiaries for the year ended 31 December 2011. A review of the activities conducted by Teachers Assurance is contained in the Chief Executive's Operating Review for 2011.

The Board is committed to a high standard of corporate governance, which is kept under regular review. The Board considers that, throughout the period under review, it has applied the relevant principles and complied with the relevant provisions of The UK Corporate Governance Code An Annotated Version for Mutual Insurers (October 2010) (the Annotated Code) apart from the introduction of the annual election of Board Directors by members. The Board is satisfied that the current approach remains in the best interest of members. This will be kept under review. The Board does not regard this exception as a material departure.

The auditors have reviewed compliance with those provisions of The Annotated Combined Code that are specified for review under the FSA listing rules.

STRUCTURE

The Board

The Board is the senior decision making body in Teachers Assurance. It met ten times during 2011 and considered the current performance, future strategy and plans as well as systems of internal control and other relevant matters. The non-executive directors meet without the executive directors present as deemed necessary. To assist it in carrying out its duties the Board delegates certain responsibilities to sub-committees and to the executive management of the Society. The Board and each of its committees have in place documented terms of reference that set out specific reserved matters that need full board approval. Information about the role of board committees is set out below. The executive management are responsible for the day-to-day running of the business. This includes implementation of strategy, monitoring and reporting of performance, maintaining regulatory compliance and control of budgets.

The Society maintains links with members and the education sector in general through the active participation of both executive and non-executive directors. This includes making good use of attendance at NUT Annual Conference, regular meetings with a NUT membership liaison group, the conducting of seminars and attendance at other meetings. The non-executives drawn directly from the education sector are particularly valuable in maintaining links with our membership roots.

Jerry Glazier has been appointed as the Senior Independent Director, whose role is to be available to members if they have concerns that contact through normal channels has failed to resolve.

Copies of the terms of reference for the Board and Committees can be viewed on our website or obtained by writing to the Secretary.

Board Members

The Board currently consists of six non-executive directors plus the Chief Executive and Finance Director. Two of the non-executive directors are drawn from the education sector and four have a financial services background.

Following a Skills Gap Analysis the Board has approved the Nomination Committee's recommendation to recruit a new Non-Executive Director with accountancy experience in order to strengthen the Board further. The rules of the Society dictate that directors are submitted for re-election at the Annual General Meeting at least every three years. Where a director has served for nine or more years then re-election occurs annually. In addition, the continuing development of all directors is reviewed at least annually, having regard to their performance and ability to continue to contribute to the Board in the light of the knowledge, skills and experience required.

Angela Burns and Judy Moorhouse resigned as Board members on 31 May 2011 and 12 October 2011 respectively. Gavin Hill was co-opted as a Board member on 1 November 2011, the date of Financial Services Authority (FSA) approval, in order to strengthen the Board's knowledge and expertise in investment.

TEACHERS PROVIDENT SOCIETY LIMITED

DIRECTORS' REPORT

(Continued)

No members of the Board held any shares or had any other interest in the Society's subsidiaries. The following were Board members during 2011:-

John Sinclair (64) - Chairman

John Sinclair was appointed as a non-executive director in October 2010 and became Chairman in November that year. He also chaired the Nomination Committee during 2011. John is an actuary by profession and was with Guardian Royal Exchange plc (GRE) from 1967 until its acquisition by Axa in 2000. He was appointed to GRE's executive in 1987 and to the main Board in 1990 as Group Executive Director for life operations worldwide, together with general business operations in the UK and Ireland. Prior to that, he also held senior management roles with GRE in finance, sales and marketing, IT and product development. Most recently, John was a non-executive director at National Counties Building Society for ten years, including as Chairman for the last six years, he continues as a Trustee of the Staff Pension Fund. John is also a non-executive Chairman of Genworth Life Style protection, a non-executive director of Genworth Mortgage Insurance, GE Life Fund Management and a member of the With-Profits Committee at Windsor Life and Barclays Life. He was also formerly a director and Chairman of the Insurance Ombudsman Bureau, the forerunner of the Financial Services Ombudsman Bureau. Prior to his move to Dorset in 2010, John had been a school governor for over 25 years including as chairman of governors for the past 6 years. In addition, during the past 10 years John has been involved with various Charities including Chairman and Trustee of two Essex Hospices and Chairman and Trustee of an Essex Children's Society caring for disadvantaged children.

Jane Clarkson (55) – Deputy Chair

Jane Clarkson was appointed as a non-executive director in June 2004. She is Deputy Chair and chaired the Risk, Audit and Compliance Committee and was a member of the Investment Committee during 2011. She has a background in financial services, specialising in marketing and regulation. In addition to her role with Teachers Assurance, Jane is a non-executive group board director with Circle, one of the UK's largest housing associations. She was a founder member of the Royal Institution of Chartered Surveyors' Regulated Activities Committee and sits on the Law Society's Audit Committee. She is a magistrate and has served previously as a governor of a primary school. She is a member of the Institute of Risk Management.

Jerry Glazier (59) – Senior Independent Director

Jerry Glazier joined the Board as a non-executive director in July 2006. He is the Senior Independent Director and Chair of the Remuneration Committee. He is also a member of the Nomination Committee. Jerry has taught in Essex for over 35 years and has been a member of the National Executive of the National Union of Teachers (NUT) since 1984. He is also chair and a founding director of the Education Charity The Steve Sinnott Foundation. Jerry is General Secretary of the Essex and Southend Divisions of the NUT.

Gavin Hill (57)

Gavin Hill was co-opted as a non-executive director in November 2011. He was a member of the Investment Committee and the Risk, Audit and Compliance Committee during 2011. Gavin is a Fellow of the Institute and Faculty of Actuaries. A strong advocate of mutuality, Gavin has held a number of senior roles including Chief Executive (and prior to that Investment Director) of National Mutual Life Assurance Society, a mutual life office, for 14 years until 2002. He is currently Chief Investment Officer of the GE 1972 Pension Plan which has some £3 billion of assets under management. He formerly held a number of roles with GE as Director and Chief Investment Officer of GE Pensions Ltd and GE Life Ltd, where he chaired the Investment Committee and With Profit Committee. He is currently a school governor.

Pat O'Keeffe (67)

Pat O'Keeffe was appointed as a non-executive director in July 2008. He chaired the Investment Committee and was a member of the Risk, Audit and Compliance Committee and the Remuneration Committee during 2011. He is a Fellow of the Institute and Faculty of Actuaries. Pat worked in senior positions for life assurance companies in the UK and Europe for 25 years before becoming a partner of Bacon & Woodrow, a firm of consulting actuaries, and subsequently of Deloitte & Touche LLP. He retired in 2004. He was a member of the Council of the Institute of Actuaries for eleven years between 1994 and 2006 and is a former Treasurer of that organisation. In addition to his board responsibilities, he currently serves as the Independent Reviewing Director responsible for monitoring that the Society conducts its business in accordance with the statements in the Principles and Practices of Financial Management for the benefit of policyholders, this role will cease when he takes the role of Chair of our new With Profits Committee in 2012. He is currently a member of the Court and of the Audit Committee of the University of Bristol.

TEACHERS PROVIDENT SOCIETY LIMITED

DIRECTORS' REPORT

(Continued)

Neil Foden (54)

Neil Foden was appointed as a non-executive director in January 2009. In addition he was a member of the Risk, Audit and Compliance Committee during 2011. Neil has been Head Teacher of a large North Wales comprehensive school for over 14 years. He has held a number of positions within the NUT since 1983. He is a member of the NUT Executive and has been Chair of the Management Board of the NUT Training Centre at Stoke Rochford. He is a former president of the Welsh Secondary Schools' Association. He has a very good understanding of the education system in Wales and a good understanding of that which operates in England.

David Furniss (51) – Chief Executive

David Furniss joined Teachers Assurance in June 2003. On 1 November 2003 he became Chief Executive and was appointed to the Board. Prior to that he had been General Manager of BMA Services, the financial services arm of the British Medical Association. David first entered financial services in 1983 and has held senior management roles at both the Medical Sickness Society Limited and Standard Life. He is a business graduate and chartered insurer. David is Chair of the Society's Executive Committee and Director of the Society's subsidiary companies including Teachers Assurance Company Limited, Sovereign Unit Trust Managers Limited and Teachers Financial Services Limited.

Ian Blanchard (52) – Finance Director and Actuarial Function Holder

Ian Blanchard joined Teachers Assurance in October 2008 and was appointed as a Board member on 24 February 2009. He is also a member of the Investment Committee. Ian is a Fellow of the Institute and Faculty of Actuaries. He was formerly Group Actuary with Liverpool Victoria Friendly Society where he had been With Profits Actuary for two with profits funds from 2004. Prior to that he was Chief Actuary at Crown Financial Management. Ian is a member of the Society's Executive Committee and is the Society's Actuarial Function Holder. He is also a Director of Teachers Assurance Company Limited, Sovereign Unit Trust Managers Limited and Teachers Financial Services Limited. He has served previously as a school governor.

Independence of Directors

The Annotated Code states that the Board should consider whether each non-executive director is independent in character and judgement and whether there are relationships or circumstances which are likely to affect, or could appear to affect, the director's judgement.

John Sinclair, Jane Clarkson, Gavin Hill and Pat O'Keeffe do not have a significant business relationship with the Society. For this reason, the Board considers these directors to be independent.

The Society has a significant business relationship with the NUT. During the year three Non-Executive Directors, Neil Foden, Jerry Glazier and Judy Moorhouse (until 12 October 2011), either were, or had been, officers of the NUT. The Board considers that the motivation of these directors has been the well-being of members of the Society who are also NUT members and not the financial interests of the NUT. For this reason, the Board considers these directors to be independent.

The Board is committed to a programme of board refreshment that balances the need to maintain stability, continuity and relevant experience with a desire to inject new personnel. Gavin Hill was co-opted as a Board member on 1 November 2011, the date of FSA approval, in order to enhance the investment skills of the Board.

Board Evaluation Review

The Chairman carried out a Corporate Governance Review, supported by Mazars, during the first half of 2011. His paper (presented to the July 2011 Board meeting) contained a number of recommendations including:

- Splitting the Risk, Audit and Compliance Committee (RACC) into a separate Audit and Compliance Committee and Risk Committee with agreed Terms of Reference for both and close linkage between the two.
- Establishing a With Profits Committee, to replace the Independent Reviewing Director role,
- Expanding the role of the Nomination Committee.
- Refreshing the membership and Chairs of the Committees,
- Reviewing Board composition – executive representation, skills of existing NEDs, succession planning, refreshment matrix, induction, performance assessment and training.

DIRECTORS' REPORT

(Continued)

These recommendations were accepted and are being progressively implemented. The With Profits Committee will be effective from 1 April 2012, allowing the Independent Reviewing Director to complete and report on his review of the whole of 2011 at the March 2012 Board meeting.

Review of Systems of Control

The Board was able to confirm to its satisfaction that a review of effectiveness of systems of control indicated that TA's systems and controls operated satisfactorily during 2011.

Performance Appraisal of Board Members and Committees

The Chairman has conducted an appraisal of the performance of individual Non-Executive Directors plus the Chief Executive to confirm that they continue to contribute effectively and show commitment to the role. This assessment used the principles of 360 degree appraisal. This includes an assessment of individual training needs.

A similar process exists whereby the Senior Independent Director assesses the continuing effectiveness and suitability of the Chairman.

The Chief Executive uses the internal staff appraisal procedure in relation to the performance of the Finance Director.

The process for evaluating the continuing effectiveness of committees was conducted as part of the Board Evaluation Review which is described above.

Board Committees

With effect from 1 January 2012 the Risk, Audit and Compliance Committee was split into a Risk Committee and an Audit and Compliance Committee with separate terms of reference. The members of these committees are set out below:

Risk Committee - John Sinclair (Chair), Gavin Hill, Pat O'Keeffe. The new Non-Executive Director currently being recruited for will also become a member of this Committee.

Audit and Compliance Committee – Jane Clarkson (Chair), Neil Foden and Gavin Hill. The new Non-Executive Director currently being recruited for will also become a member of this Committee.

Also, with effect from 1 January 2012:

- Neil Foden was appointed as a member of the Remuneration Committee.
- Gavin Hill was appointed Chair of the Investment Committee and Jane Clarkson stepped down as a member of this committee.

With effect from 1 April 2012, the Board has agreed to establish a new With Profits Committee (WPC) comprising: Pat O'Keeffe (Chair), Gavin Hill, plus an independent member who will have no other connection with Teachers Assurance.

The reports on the Committees below relates to their constitution and activities during 2011.

The terms of reference for each committee are reviewed annually to ensure their continuing relevance.

Risk, Audit and Compliance Committee

Members: Jane Clarkson (Chair), Angela Burns (to 31.05.11), Judy Moorhouse (to 12.10.11), Pat O'Keeffe, John Sinclair (from 21.11.11)

The Risk, Audit and Compliance Committee met five times during 2011 and assisted the Board by:

- Ensuring that systems of control exist throughout the organisation to protect the interests of policyholders and the Society
- Ensuring that systems of control exist throughout the organisation to comply with all statutory and regulatory matters affecting the Society

TEACHERS PROVIDENT SOCIETY LIMITED

DIRECTORS' REPORT

(Continued)

- Ensuring that systems exist throughout the organisation for the identification of risk and appropriate mitigation
- Monitoring performance to ensure that these systems of control work effectively

The Committee discharged its responsibilities through

- Regular review of the organisation's Risk Register
- Review of audit reports, both internal and external, and follow-up on any items of concern
- Review of regular reports on regulatory compliance
- Review of the Annual Report and Financial Statements

The senior managers responsible for Risk Management, Compliance and Internal Audit attended meetings and had direct access to the Chair of the Committee. The external auditors also attended key meetings and had direct access to the Chair of the Committee. The external auditors met with the non-executive members of the Committee at least once a year, without any of the Teachers Assurance management team being present.

In addition to the receipt of its regular reports, in early 2012 the Audit and Compliance Committee, on behalf of the Board, conducted a review of the effectiveness of Teachers Assurance' system of internal control. This was achieved through the use of a set of structured questions that all directors and certain senior staff were asked to consider independently. Where necessary discussion followed up issues identified. The results enabled the Committee to confirm that for 2011 effective systems of internal controls existed within Teachers Assurance.

Investment Committee

Members: Pat O'Keeffe (Chair from 01.06.11), Angela Burns (Chair to 31.05.11), Jane Clarkson, Neil Foden, John Sinclair (from 21.02.11), Gavin Hill (from 21.11.11), David Furniss, Ian Blanchard

The Investment Committee met four times in 2011, it sets investment strategy and monitors investment performance. During 2011 it recommended to the Board, and had agreed, a change of the Group's investment manager. This will be announced and implemented during 2012. High level investment allocation is set by the Board. Monthly monitoring of performance is delegated to an Investment Performance Monitoring Group comprising of senior managers. The Committee receives presentations from the external fund managers responsible for the Society's investments.

Nomination Committee

Members: John Sinclair (Chair), Jane Clarkson, David Furniss, Jerry Glazier

The Nomination Committee met eight times during 2011 to consider vacancies occurring at the next AGM and lead the process for reviewing the reappointment of directors and making recommendations regarding suitable candidates for appointment to the Board.

When vacancies arise, the Committee considers the nature of the role and capabilities required, and draws up a list of possible candidates meeting the requirements. This list is then considered against all the criteria and a shortlist established. A short-list of candidates is then subject to a formal interview process. The Committee has powers to use external consultants and advertising to aid it in the search for suitable directors.

Following the resignation of Angela Burns, the Nomination Committee, after interview, recommended the co-option of Gavin Hill as a Board member, which was approved by the Board.

The Nomination Committee has appointed The Willis Partnership, as the search and selection organisation to help conduct the recruitment process for an additional Non-Executive Director with specialist accounting skills in order to strengthen the Board further. In addition, the post has been advertised on our website.

Under their terms of reference and following individual director appraisals, the Nomination Committee has confirmed the continued appointment of all Non Executive Directors, including those due to stand for re-election at the 2012 Annual General Meeting, having given due regard to their performance and ability to continue to contribute to the Board in the light of the knowledge, skills and experience required.

TEACHERS PROVIDENT SOCIETY LIMITED

DIRECTORS' REPORT

(Continued)

Remuneration Committee

Members: Jerry Glazier (Chair), Judy Moorhouse (to 12.10.11), Pat O'Keeffe, John Sinclair (from 21.02.11)

The Remuneration Committee met five times during 2011 and is responsible for noting recommendations from the Executive Directors concerning the terms and conditions of Non Executive Directors, recommending the remuneration of the Executive Directors and monitoring compliance with the Remuneration Code.

It is further responsible for commenting on the appropriateness of employment policies and remuneration terms of other employees. It takes external professional advice as required. More detail of the work of the Committee during 2011 is contained in the separate Remuneration Report. The Committee is able to confirm that no executive director holds any other remunerated directorships outside of Teachers Assurance.

Committee Attendance

The attendance record of directors at scheduled meetings of the Board and its sub-committees is set out below:

	Committee of Management	Committees			
		Risk, Audit and Compliance	Remuneration	Nomination	Investment
John Sinclair	10/10	2/2	5/5	8/8	4/4
Angela Burns	0/4	0/3	N/A	N/A	0/2
Jane Clarkson	10/10	5/5	N/A	8/8	3/4
Neil Foden	10/10	N/A	N/A	N/A	4/4
Jerry Glazier	10/10	N/A	5/5	8/8	N/A
Gavin Hill	2/2	N/A	N/A	N/A	2/2
Judy Moorhouse	7/8	4/4	2/3	N/A	N/A
Pat O'Keeffe	10/10	5/5	5/5	N/A	4/4
David Furniss	10/10	N/A	N/A	8/8	4/4
Ian Blanchard	10/10	N/A	N/A	N/A	4/4

An entry of 3/4 means 3 out of a possible 4 meetings were attended.

Remuneration Report

It is the Group's policy to recruit and retain high quality directors. An annual review of individual's remuneration is undertaken to ensure reward levels are appropriate to the duties and responsibilities of the roles but also taking into account the economic climate and the performance of the Group. No employee or Non-Executive Director is involved in the review of their own salary or other forms of remuneration and all changes are subject to independent review.

From time to time, the Committee makes use of the services of external specialists to refresh any remuneration benchmarks used. Towers Watson were appointed during 2010 to provide a benchmarking report on fees payable to Non-Executive Directors (NEDs). As a result some changes were made to NEDs remuneration in 2011 to draw this more closely into line with the peer group.

In November 2010, on the basis of TA's anticipated results, and taking into account the prevailing economic circumstances, a salary for the Chief Executive of £250,750 from 1 January 2011 was recommended by the Remuneration Committee and approved by the Board. This was in the light of good results and represented an increase in line with the general level of increase for staff. The Remuneration Committee and Board have agreed that external consultants should be appointed during 2012 to undertake some peer group benchmarking of Executive remuneration.

Teachers Assurance operates an annual Performance Related Pay (PRP) scheme for the benefit of the Chief Executive. The 2011 PRP measured performance against benchmarks related to new business acquisition, expense control, investment performance and a number of year specific targets derived from the agreed business plan. The maximum payable under this PRP scheme is 40% of basic salary.

TEACHERS PROVIDENT SOCIETY LIMITED

DIRECTORS' REPORT

(Continued)

Under the rules of the PRP scheme, a PRP payment was made to the Chief Executive in 2012 in respect of 2011 of £72,767.

The Remuneration Committee acknowledge that current economic conditions mean that many of Teachers Assurance' members and customers are facing financial strains - for example, teachers are affected by the current pay freeze. However it was felt that as the main contributors to the 2011 result were significant improvements against target in new business and operating surplus, this payment was well earned and entirely justified.

There is in force a Long-Term Incentive scheme (LTI) for the Chief Executive. The LTI for the period 2010-2012 uses the same PRP elements. The maximum sum that can be accumulated under this LTI arrangement is 20% of salary each year. An amount of £36,383 (being half the PRP payment) was earned in respect of the scheme for 2011 and is carried forward. This LTI will only be released if Mr Furniss remains in the employment of Teachers Assurance until the end of 2012.

The salary of the Finance Director was increased to £158,500 from 1 January 2011, in line with the general increase for staff. The Finance Director has an annual PRP scheme based on a number of specific projects derived from the agreed business plan. The maximum payable under this scheme is 10% of basic salary for achievement of deliverables in the Operating Plan. In addition the Finance Director is entitled to participate in the staff discretionary PRP scheme, which uses a measure related to the operating efficiency of Teachers Assurance.

Under the rules of the PRP scheme, a PRP payment was made to the Finance Director in 2012 in respect of 2011 of £14,265. In addition he benefited from the discretionary staff PRP scheme that resulted in a further payment of £4,755.

There is in force a LTI scheme for the Finance Director. The LTI for the period 2010-2012 uses the same PRP elements. An amount of £9,510 (being half the PRP payment) was earned in respect of the scheme for 2011 and is carried forward. This LTI will only be released in March 2013 if Mr Blanchard remains in the employment of Teachers Assurance.

LTI payments are included in the tables below, within the bonus amount, according to when they were earned.

Directors' Emoluments

The information on the aggregate amount of directors' emoluments set out in the sections below is subject to audit.

	2011	2010
	£	£
Executive Directors		
Remuneration	409,250	400,250
Pension contributions	71,266	70,044
Other emoluments (including benefits in kind)	165,810	147,584
Non-Executive Directors		
Remuneration	207,917	184,010
	<u>854,243</u>	<u>801,888</u>

TEACHERS PROVIDENT SOCIETY LIMITED

DIRECTORS' REPORT

(Continued)

Directors' remuneration

	Fees/ Salary £	Bonus ⁽⁴⁾ £	Other ⁽¹⁾ £	Pension Contributions £	2011 Total £	2010 Total £
Chairman:						
John Wallbridge	-	-	-	-	-	45,840
John Sinclair ⁽²⁾	50,000	-	-	-	50,000	12,000
Executive Directors:						
David Furniss	250,750	109,150	17,141	43,528	420,569	396,893
Ian Blanchard	158,500	28,530	10,989	27,738	225,757	220,985
Non-Executive Directors:						
Jane Clarkson ⁽⁵⁾	30,000	-	-	-	30,000	21,500
Angela Burns	12,500	-	-	-	12,500	12,542
Neil Foden	25,000	-	-	-	25,000	21,500
Jerry Glazier ⁽⁵⁾	30,000	-	-	-	30,000	21,500
Judy Moorhouse	25,000	-	-	-	25,000	21,500
Pat O'Keeffe ⁽⁵⁾	31,250	-	-	-	31,250	27,628
Gavin Hill ⁽³⁾	4,167	-	-	-	4,167	-
	617,167	137,680	28,130	71,266	854,243	801,888

⁽¹⁾ Includes car allowance, fuel and other benefits or their equivalent monetary value.

⁽²⁾ Remuneration disclosed for 2010 is from 7 October 2010 when John Sinclair was appointed as a Non-Executive Director.

⁽³⁾ Remuneration disclosed for 2011 is from 1 November 2011 when Gavin Hill was appointed as a Non-Executive Director.

⁽⁴⁾ For David Furniss and Ian Blanchard, only the Performance Related Pay element of their bonus was paid for 2011; under the scheme rules, their LTI payments of £36,383 and £9,510 respectively are accrued for payment in 2013 subject to them still being in the employment of Teachers Assurance.

⁽⁵⁾ Additional payments were made in 2011 to the Chairs of Committees.

No current Directors are members of the Defined Benefit Pension Scheme, details of which are set out in Note 23. David Furniss and Ian Blanchard are members of the Group Personal Pension Scheme, to which Teachers Assurance contributes.

None of the NEDs has a service contract and none is entitled to compensation on leaving office. Expenses are reimbursed in accordance with an approved schedule.

The Chief Executive and Finance Director are entitled to receive 12 months' notice of termination of contract from the Society and are required to give 6 months' notice if they choose to leave.

The Remuneration Report is the subject of an advisory vote at the Annual General Meeting.

Executive Management Remuneration

In line with new rules introduced by the Financial Services Authority in 2011, firms are required to publish information about the remuneration of all senior staff who are in a position to have a material impact on the firm's risk profile.

The details for the Operations Director (Janet Shenton), Interim Commercial Director (Gavin Aubrey) and Interim Business Development Director (Wendie Michie), who are senior managers but not members of the Board, are provided below.

It is the Group's policy to recruit and retain high quality directors. An annual review of remuneration is undertaken to ensure reward levels are appropriate to the duties and responsibilities of the roles but also taking into account the economic climate and the performance of the Group. The salary increase for the Operations Director in 2011 was in line with the general increase for staff.

TEACHERS PROVIDENT SOCIETY LIMITED

DIRECTORS' REPORT

(Continued)

Teachers Assurance operated an annual Performance Related Pay (PRP) scheme for the benefit of the Interim Commercial Director. The 2011 PRP measured performance against benchmarks related to new business acquisition, compliance quality measures and the cost of acquiring new business. The maximum payable under the PRP scheme is 1% of new business allowance.

The Operations Director has an annual PRP scheme based on a number of specific projects derived from the agreed business plan. The maximum payable under this scheme is 8% of basic salary for achievement of deliverables in the Operating Plan. In addition, the Operations Director is entitled to participate in the staff discretionary PRP scheme, which uses a measure related to the operating efficiency of Teachers Assurance.

The Interim Business Development Director did not participate in a PRP scheme during 2011.

None of these directors benefit from any Long Term Incentive Schemes.

The firm considers that the size and structure of the remuneration schemes do not encourage material risk taking and indeed contribute to mitigating risk.

	Fees/ Salary £	Bonus £	Other ⁽¹⁾ £	Pension Contributions £	2011 Total £	2010 Total £
Executive Directors:						
Wendie Michie	109,153	-	-	-	109,153	190,744
Gavin Aubrey ⁽²⁾	129,784	49,960	-	-	179,744	-
Janet Shenton	89,520	9,886	11,475	15,397	126,278	122,586

⁽¹⁾ Includes car allowance, fuel and other benefits or their equivalent monetary value.

⁽²⁾ Remuneration disclosed for 2011 is from 7 February 2011 when Gavin Aubrey was appointed as Interim Commercial Director.

GENERAL

With-Profits Governance

The way that the Society operates its with profit funds is set out in its Principles and Practices of Financial Management (PPFM). In addition, shorter 'customer friendly' versions of this document are produced which are provided to new with profit policyholders, with any changes notified to existing policyholders. The Board takes advice from the With Profits Actuary on financial matters that affect with profits policyholders and has appointed an Independent Reviewing Director with responsibility for reporting to the Board on its compliance with the PPFM. Pat O'Keeffe fulfilled this role throughout 2011.

With effect from 1 April 2012, the Board has agreed to establish a new With Profits Committee (WPC) comprising: Pat O'Keeffe (Chair), Gavin Hill, plus an independent member who will have no other connection with Teachers Assurance.

Risk Management and Internal Control

Our key risk management objective is to operate effective processes and procedures to enable us to identify and mitigate those risks that threaten our ability to achieve our strategic objectives.

A Risk Management Framework has been defined to integrate into the day-to-day business at Teachers Assurance to instigate a robust risk culture in the organisation.

The Framework covers:

- Risk appetite
- Risk policies
- Risk identification
- Risk quantification
- Risk management
- Risk monitoring, reviewing and reporting

TEACHERS PROVIDENT SOCIETY LIMITED

DIRECTORS' REPORT

(Continued)

Due to limitations that are inherent in any system of internal control, it is designed to manage rather than eliminate risk and can provide only reasonable, and not absolute, assurance against material misstatement or loss. In assessing the business risks, the directors take into account any benefits that may accrue from risk acceptance before making a commercial decision to ensure that residual risks are commensurate with anticipated returns.

Teachers Assurance has internal audit and compliance and risk functions. These carry out planned audit programmes and periodic reviews that are reported formally to executive management and the Risk, Audit and Compliance Committee.

The Society produces an Individual Capital Assessment (ICA) annually that includes an assessment of the potential risks and capital obligations facing the Society and updated it periodically. This includes risks and obligations arising from its subsidiary companies. The basic requirement is:

“the level of risk associated with that equivalent to maintaining a credit rating of BBB (Standard & Poors) over a one year period, which equates to a probability of insolvency of 1 in 200 in a year (0.5%).”

The ICA review in 2011 concluded that the Society had sufficient free assets to meet these capital requirements.

Teachers Assurance also undertakes business planning stress testing and reverse stress testing, which involves the identification and assessment of the scenarios most likely to render our business model unviable. A set of indicators are used to monitor if a change in strategy may be necessary, if certain trigger levels are breached contingency plans with agreed actions to be taken will be invoked.

The risks that the Society faces can be divided into a small number of general categories.

Market Risk

Market risk represents the loss from a change in the value of, or income from, any asset that is not matched by an equal change in the value of the liability.

This is the largest risk for Teachers Assurance and is managed by ensuring that we maintain a diversified portfolio of assets and by setting strict benchmark ranges for each asset type for investment managers to operate within. A senior management group reviews adherence to these benchmark ranges on a monthly basis. The Executive Committee is responsible for monitoring the capital position of the companies within the group and providing advice to the Risk Committee and Board about appropriate actions as a result of this monitoring.

Operational Risk

Operational risk represents the loss from a failure of process or system and includes losses caused by external events such as legal or regulatory changes.

Teachers Assurance has in place a risk register that details all identified risks facing the organisation. This is regularly updated and reviewed by senior management to confirm that necessary mitigating actions are either in place or identified where it is felt that further protection is needed.

Insurance Risk

Insurance risk represents the loss that can occur from the inherent uncertainty in insurance policies underwritten by Teachers Assurance.

Teachers Assurance has in place reinsurance for home insurance, mortality risks on assurance policies and longevity risk on annuity policies. Annual reviews of mortality and longevity experience are conducted to provide comfort that current assumptions are still valid.

TEACHERS PROVIDENT SOCIETY LIMITED

DIRECTORS' REPORT

(Continued)

Credit Risk

Credit risk is incurred whenever a firm is exposed to loss if another party fails to perform its financial obligations to the firm, including failing to perform them in a timely manner. For Teachers Assurance this risk is manifested by:

- Investment – The risk of a fall in the value of an asset due to the issuer defaulting, or a downgrading of their credit rating.
- Reinsurance – This is the risk that the reinsurer fails to meet its obligations in respect of a legitimate claim.
- Third Party Providers – This is limited to the risk of not receiving commission cash flows.

In all three cases risk is mitigated by performing a level of due diligence before entering into arrangements with third parties. The level of due diligence will vary dependent on the financial significance of the proposed relationship.

Liquidity Risk

Liquidity risk is the risk that a firm although solvent either, does not have available sufficient financial resources to enable it to meet its financial obligations as they fall due, or can secure them only at excessive cost.

This risk is minimal for Teachers Assurance as we maintain a cash holding as part of our normal with profit asset allocation strategy that is sufficient to deal with unexpected fluctuations in cashflow.

Group Risk

Group Risk represents the potential loss arising from the activities of subsidiary companies within the Teachers Assurance Group. These risks will, in general, comprise the same source categories as described above.

Statement of Going Concern

After making enquiries the Directors have formed the view, at the time of approving the financial statements, that the Company and Group have adequate resources to continue in operational existence for the foreseeable future. For that reason the Directors continue to adopt the going concern basis in preparing the financial statements.

Group Structure

Teachers Provident Society (TPS) is a registered Friendly Society and the parent company within the Group. TPS writes life assurance and pension business for the Group. In order to be able to provide a wide range of services covering the majority of members' financial needs, TPS operates a number of subsidiary companies. The Teachers Assurance Group covers the activities of TPS and its subsidiaries. The main subsidiary companies are listed below with a summary of their business activities.

Teachers Assurance Company (TAC)

TAC sells home buildings and contents insurance designed to meet the specific needs of the education community.

Sovereign Unit Trust Managers (SUTM)

SUTM manufactures a range of unit trusts suitable for the private investor. Investment management is provided by Legal & General Investment Management Limited.

Teachers Financial Services (TFS)

TFS acts as an insurance intermediary, enabling Teachers Assurance financial consultants to advise on a range of selected competitive protection and pension products from companies outside the Teachers Assurance Group.

TEACHERS PROVIDENT SOCIETY LIMITED

DIRECTORS' REPORT

(Continued)

Teachers Management Services (TMS)

TMS provides administration services to the Teachers Assurance Group and also advises and arranges mortgages for customers.

Financial Results

The results for the Group are set out on pages 25 to 54. No dividends are paid by the Society. The transfer from the fund for future appropriations in respect of long-term business amounted to £10,841,000 (2010: transfer to the FFA £14,831,000) and in respect of other activities there was a transfer from the fund for future appropriations of £142,000 (2010: transfer to the FFA £2,917,000) after adjusting for the movement in the FRS 17 pension liability.

Solvency

In December 2004, the Accounting Standards Board (ASB) issued Financial Reporting Standard (FRS) 27 on Life Assurance. FRS 27, which applied from 2005, requires large with profit life assurance companies to account for liabilities on a "realistic" basis in their balance sheets. At 31 December 2011, the Society had an excess of realistic assets over realistic liabilities amounting to £76 million (2010: £90 million).

Complaints Policy

If members have cause to complain they should either write to the Complaints Manager or telephone 0800 7311093. The complaint will be investigated thoroughly and promptly in line with the Society's complaint handling procedures, which are available on request.

Lucy Lund Holiday Grants

Three former and one current member of the Board are pleased to act as Trustees to administer this Fund.

The Fund is a registered charity and was established in 1927 from a bequest of Lucy Lund of Ilkley. It exists for the benefit of any teacher who needs a holiday or period of convalescence and who is in need of some extra financial assistance. Further details can be obtained from the Honorary Secretary, c/o Teachers Provident Society, Deansleigh Road, Bournemouth BH7 7DT.

Relations with Members

In accordance with its Member Relations Strategy, the Society aims to encourage and help members to take an active interest in the governance of Teachers Provident Society (trading as Teachers Assurance) as their Society. The Society regards the AGM as an important opportunity to communicate directly with, and understand the views of, members.

For a copy of our Member Relations Strategy, please see our website www.teachersassurance.co.uk.

We welcome your views on the way your Society is governed, either by e-mail or in writing.

We have also established a Customer Panel to test and critique our online services as they are developed and to provide insight into the types of financial product our customers really want. For more details and an application form, please email: bgoldsmith@teachersassurance.co.uk.

Statement of Disclosure of Information to Auditors

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

TEACHERS PROVIDENT SOCIETY LIMITED

DIRECTORS' REPORT

(Continued)

Auditors

Mazars LLP have expressed their willingness to continue in office and a resolution proposing their reappointment will be submitted at the Annual General Meeting.

Teachers Assurance has in place a policy limiting the amount of fees that the auditors can earn from non-audit work in order to ensure that their continuing objectivity and independence is safeguarded.

By order of the Committee of Management (Board of Directors)

Tom Smith

Secretary

20 March 2012

**STATEMENT OF RESPONSIBILITIES
OF THE COMMITTEE OF MANAGEMENT**

Under the Friendly Societies Act 1992, the Committee of Management is required to prepare financial statements and an annual report for each financial period which give a true and fair view of the state of affairs of the Society and Group and of the income and expenditure of the Society and Group for that period.

In preparing those financial statements, the Committee of Management is required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures being disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Society will continue in business.

The Committee of Management confirms that the financial statements comply with the above requirements.

The Committee of Management is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Society and enable it to ensure that the financial statements comply with the Friendly Societies Act 1992. It is also responsible for safeguarding the assets of the Society and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

TEACHERS PROVIDENT SOCIETY LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF TEACHERS PROVIDENT SOCIETY LIMITED

We have audited the financial statements of Teachers Provident Society Limited for the year ended 31 December 2011 which comprise the Consolidated and Society Income and Expenditure Accounts, the Consolidated and Society Balance Sheets, the Statement of Total Recognised Gains and Losses and the related notes.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), having regard to the statutory requirement to maintain equalisation provisions. The nature of equalisation provisions, the amounts set aside at 31 December 2011, and the effect of the movement in those provisions during the year on the fund for future appropriations, the balance on the general business technical account and on excess of income over expenditure before tax are disclosed in note 20.

Respective responsibilities of the Committee Management and Auditor

As explained more fully in the Statement of Responsibilities of the Committee of Management set out on page 23, the Committee of Management is responsible for preparing financial statements which give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors. This report is made solely to the Society's members, as a body, in accordance with Section 73 of the Friendly Societies Act 1992. 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 Society's members as a body, for our audit work, for this report, or for the opinions we have formed.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's web-site at www.frc.org.uk/apb/scope/private.cfm.

Opinion on the financial statements

In our opinion the financial statements:

- give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the Society's and the Group's affairs as at 31 December 2011 and of the income and expenditure of the Society and the Group for the year then ended; and
- have been properly prepared in accordance with the Friendly Societies Act 1992.

Opinion on other matters prescribed by the Friendly Societies Act 1992

In our opinion the Directors' Report of has been prepared in accordance with the Friendly Societies Act 1992 and the regulations made under it, and the information given therein is consistent with the financial statements for the financial year.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Friendly Societies Act 1992 requires us to report to you if, in our opinion:

- proper accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations and access to documents that we require for our audit.

In accordance with our instructions from the Society we review whether the Corporate Governance Statement reflects the Society's compliance with the 8 provisions of the Annotated Combined Code specified by the Association of Financial Mutuals.

Andrew Goldsworthy (Senior Statutory Auditor)
for and on behalf of Mazars LLP,
Chartered Accountants and Statutory Auditor
Tower Bridge House,
St Katharine's Way,
London E1W 1DD
Date: 29 March 2012

TEACHERS PROVIDENT SOCIETY LIMITED

**CONSOLIDATED & SOCIETY'S INCOME AND EXPENDITURE ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2011**

TECHNICAL ACCOUNT - LONG TERM BUSINESS

	Notes	GROUP		SOCIETY	
		2011 £000	2010 £000	2011 £000	2010 £000
Earned premiums					
Gross premiums written					
- regular	1	25,093	26,533	25,093	26,533
- single	1	18,489	19,262	18,489	19,262
		<u>43,582</u>	<u>45,795</u>	<u>43,582</u>	<u>45,795</u>
Outward reinsurance premiums		(7,331)	(6,768)	(7,331)	(6,768)
Earned premiums, net of reinsurance		<u>36,251</u>	<u>39,027</u>	<u>36,251</u>	<u>39,027</u>
Investment income	2	32,090	27,297	32,090	27,297
Unrealised (losses)/gains on investments		(9,608)	48,084	(9,750)	51,001
Total Technical Income		<u>58,733</u>	<u>114,408</u>	<u>58,591</u>	<u>117,325</u>
Claims incurred					
Claims paid					
- gross amount		(70,382)	(72,906)	(70,382)	(72,906)
- reinsurers' share		6,893	6,279	6,893	6,279
- net of reinsurance		<u>(63,489)</u>	<u>(66,627)</u>	<u>(63,489)</u>	<u>(66,627)</u>
Change in the provision for claims					
- gross amount		797	566	797	566
- reinsurers' share		-	-	-	-
- net of reinsurance	18	<u>797</u>	<u>566</u>	<u>797</u>	<u>566</u>
Claims incurred, net of reinsurance		<u>(62,692)</u>	<u>(66,061)</u>	<u>(62,692)</u>	<u>(66,061)</u>
Change in other technical provisions					
Long term business provision					
-gross amount		(29,930)	(16,884)	(29,930)	(16,884)
-reinsurers' share		5,168	4,574	5,168	4,574
-net of reinsurance	17	<u>(24,762)</u>	<u>(12,310)</u>	<u>(24,762)</u>	<u>(12,310)</u>
Technical provision for linked business, net of reinsurance	19	<u>25,037</u>	<u>(11,688)</u>	<u>25,037</u>	<u>(11,688)</u>
Other charges					
Net operating expenses	3	(6,387)	(5,469)	(6,387)	(5,469)
Investment expenses and charges	6	(517)	(485)	(517)	(485)
Tax attributable to the long term business	8	(253)	(3,564)	(253)	(3,564)
		<u>(7,157)</u>	<u>(9,518)</u>	<u>(7,157)</u>	<u>(9,518)</u>
Transfer from/(to) the fund for future appropriations	15	<u>10,841</u>	<u>(14,831)</u>	<u>10,983</u>	<u>(17,748)</u>
Total Technical Charges		<u>(58,733)</u>	<u>(114,408)</u>	<u>(58,591)</u>	<u>(117,325)</u>
Balance on the Technical Account - Long Term Business		<u><u>-</u></u>	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>-</u></u>

The above activities are all continuing activities.

TEACHERS PROVIDENT SOCIETY LIMITED

**CONSOLIDATED INCOME AND EXPENDITURE ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2011**

TECHNICAL ACCOUNT - GENERAL BUSINESS

	Notes	2011 £000	2010 £000
Earned premiums			
Gross premiums written	1	4,246	3,947
Outward reinsurance premiums		<u>(393)</u>	<u>(381)</u>
Net premiums written		<u>3,853</u>	<u>3,566</u>
Change in the gross provision for unearned premiums		(127)	(38)
Change in the provision for unearned premiums, reinsurers' share		<u>3</u>	<u>(18)</u>
	16	<u>(124)</u>	<u>(56)</u>
Total Technical Income		<u>3,729</u>	<u>3,510</u>
 Claims incurred			
Claims paid			
- gross amount		(2,771)	(2,115)
- reinsurers' share		<u>33</u>	<u>95</u>
- net of reinsurance		<u>(2,738)</u>	<u>(2,020)</u>
Change in the provision for claims			
- gross amount		118	(269)
- reinsurers' share		<u>3</u>	<u>(82)</u>
- net of reinsurance		<u>121</u>	<u>(351)</u>
Claims incurred, net of reinsurance		<u>(2,617)</u>	<u>(2,371)</u>
 Other charges			
Net operating expenses	3	(1,075)	(1,040)
Change in the equalisation provision	20	<u>(19)</u>	<u>(3)</u>
		<u>(1,094)</u>	<u>(1,043)</u>
Total Technical Charges		<u>(3,711)</u>	<u>(3,414)</u>
 Balance on the Technical Account - General Business		<u>18</u>	<u>96</u>

The above activities are all continuing activities.

TEACHERS PROVIDENT SOCIETY LIMITED

**CONSOLIDATED INCOME AND EXPENDITURE ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2011**

NON-TECHNICAL ACCOUNT

	Notes	2011 £000	2010 £000
Balance on the General Business Technical Account		18	96
Balance on the Long Term Business Technical Account		<u>-</u>	<u>-</u>
		18	96
Investment income	2	894	755
Investment expenses and charges	6	(14)	-
Unrealised (loss)/gain on investments		<u>(23)</u>	<u>632</u>
		857	1,387
Other income – continuing operations	7	4,655	4,018
Other charges – continuing operations	7	<u>(4,046)</u>	<u>(3,551)</u>
		609	467
Other income – discontinued operations	7	-	-
Other charges – discontinued operations	7	<u>-</u>	<u>-</u>
		-	-
Goodwill amortisation	9	<u>-</u>	<u>-</u>
Profit on ordinary activities before taxation		1,484	1,950
Tax on profit on ordinary activities	8	<u>(240)</u>	<u>(462)</u>
Profit on ordinary activities after taxation		1,244	1,488

Other income and other charges include discontinued operations relating to the closure of a subsidiary company explained further in note 7. All other income and expenditure relates to continuing operations.

**STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
FOR THE YEAR ENDED 31 DECEMBER 2011**

	Notes	2011 £000	2010 £000
Profit for the financial year		1,244	1,488
Actuarial (loss)/gain on pension scheme		(1,500)	1,600
Movement in deferred tax relating to pension scheme liability		114	(171)
Total recognised (losses) and gains in the year	15	<u>(142)</u>	<u>2,917</u>

TEACHERS PROVIDENT SOCIETY LIMITED

**GROUP CONSOLIDATED BALANCE SHEET
AT 31 DECEMBER 2011**

	Notes	2011 £000	2010 £000
ASSETS			
Intangible assets	9	-	-
Investments			
Land and buildings	11	7,890	8,180
Other financial investments	11	434,242	423,206
		<u>442,132</u>	<u>431,386</u>
Assets held to cover linked liabilities	12	264,269	289,306
Reinsurers' share of technical provisions			
Provision for unearned premiums	16	197	194
Long term business provision	17	9,864	4,696
Claims outstanding	18	11	8
		<u>10,072</u>	<u>4,898</u>
Debtors			
Debtors arising out of direct insurance operations			
- policyholders		1,418	1,219
Deferred tax	21	1,072	23
Other debtors	13	2,445	3,212
		<u>4,935</u>	<u>4,454</u>
Other assets			
Tangible assets	14	300	290
Cash at bank and in hand		36,394	34,388
		<u>36,694</u>	<u>34,678</u>
Prepayments and accrued income			
Accrued interest and rent		833	985
Deferred acquisition costs		384	371
Other prepayments and accrued income		1,580	1,039
		<u>2,797</u>	<u>2,395</u>
Total Assets		<u>760,899</u>	<u>767,117</u>

Of the total assets, £755,772,000 (2010: £763,295,000) is attributable to long term business.

TEACHERS PROVIDENT SOCIETY LIMITED

**GROUP CONSOLIDATED BALANCE SHEET
AT 31 DECEMBER 2011**

	Notes	2011 £000	2010 £000
LIABILITIES			
Fund for future appropriations	15	<u>108,020</u>	<u>119,003</u>
Technical provisions			
Provision for unearned premiums	16	2,129	2,002
Long term business provision	17	380,542	350,612
Claims outstanding	18	3,107	4,022
Equalisation provision	20	713	694
		<u>386,491</u>	<u>357,330</u>
Technical provisions for linked liabilities	19	<u>264,269</u>	<u>289,306</u>
Provisions for other risks and charges	21	<u>-</u>	<u>-</u>
Creditors			
Other creditors including taxation and social security	22	<u>1,358</u>	<u>1,833</u>
Accruals and deferred income		<u>1,485</u>	<u>1,455</u>
Total liabilities excluding pension liability		761,623	768,927
Pension Fund liability		<u>(724)</u>	<u>(1,810)</u>
Total Liabilities		<u>760,899</u>	<u>767,117</u>

TEACHERS PROVIDENT SOCIETY LIMITED

**SOCIETY'S BALANCE SHEET
AT 31 DECEMBER 2011**

ASSETS	Notes	2011 £000	2010 £000
Investments			
Land and buildings	11	4,310	4,610
Other financial investments	11	428,285	414,526
Investments in group undertakings	10	21,695	21,837
		<u>454,290</u>	<u>440,973</u>
Assets held to cover linked liabilities	12	<u>264,269</u>	<u>289,306</u>
Reinsurers' share of technical provisions			
Long term business provision	17	<u>9,864</u>	<u>4,696</u>
Debtors			
Debtors arising out of direct insurance operations			
- policyholders		16	3
Deferred tax	21	1,162	89
Other debtors	13	4,348	5,461
		<u>5,526</u>	<u>5,553</u>
Other assets			
Cash at bank and in hand		<u>19,763</u>	<u>21,076</u>
Prepayments and accrued income			
Accrued interest and rent		833	985
Deferred acquisition costs		-	-
Other prepayments		1,227	706
		<u>2,060</u>	<u>1,691</u>
Total Assets		<u><u>755,772</u></u>	<u><u>763,295</u></u>

All of the Society's assets are attributable to long term business.

TEACHERS PROVIDENT SOCIETY LIMITED

SOCIETY'S BALANCE SHEET
AT 31 DECEMBER 2011

LIABILITIES	Notes	2011 £000	2010 £000
Fund for future appropriations	15	<u>108,019</u>	<u>119,002</u>
Technical provisions			
Long term business provision	17	380,542	350,612
Claims outstanding	18	<u>1,891</u>	<u>2,688</u>
		<u>382,433</u>	<u>353,300</u>
Technical provisions for linked liabilities	19	<u>264,269</u>	<u>289,306</u>
Provisions for other risks and charges	21	<u>-</u>	<u>-</u>
Creditors			
Other creditors including taxation and social security	22	<u>807</u>	<u>1,420</u>
Accruals and deferred income		<u>244</u>	<u>267</u>
Total Liabilities		<u><u>755,772</u></u>	<u><u>763,295</u></u>

D Furniss – Chief Executive

T Smith - Secretary

20 March 2012

ACCOUNTING POLICIES

Basis of preparation

The financial statements have been prepared in accordance with the provisions of The Friendly Societies Act 1992 and The Friendly Societies (Accounts and Related Provisions) Regulations 1994.

The financial statements have also been prepared in accordance with applicable accounting standards and under the historical cost accounting rules, modified to include the revaluation of investments, and comply with the Statement of Recommended Practice issued by the Association of British Insurers (ABI SORP) in December 2005 and amended in December 2006. The Society has adopted the realistic value of liabilities basis for accounting for with-profits business, and the modified statutory solvency basis of accounting for determining its non-profits business.

Basis of consolidation

The financial statements of the Group consolidate the audited financial statements of the Society and all subsidiary companies for the year to 31 December. The results of subsidiaries acquired or disposed of are included in the financial statements from the date of acquisition or up to the date of disposal. On acquisition of a subsidiary undertaking, its assets and liabilities are recorded at their fair values. The ongoing results of non insurance subsidiary undertakings are included within other income and other charges on the Non-technical Account. The insurance subsidiary is included in the General Business Technical Account.

Subsidiary undertakings and goodwill

In the Society's balance sheet, subsidiary undertakings are stated at net asset value. Goodwill and other intangible assets arising on the acquisition of subsidiary companies are capitalised at cost on the balance sheet and amortised through the income and expenditure account on a straight line basis over their useful economic life which has been estimated at between 4 and 7 years. The value of goodwill and other intangible assets is reviewed regularly for impairment.

Premiums

Long term business premiums are accounted for when due for payment or, in the case of unit-linked business, when the liability is recognised. Reinsurance premiums are accounted for when they become payable. General business premiums comprise the total premiums due on contracts entered into during the year excluding insurance premium tax. Unearned premiums are calculated on a time apportionment basis.

Claims

For long term business, death claims and surrenders are accounted for when notified to the Society up to the balance sheet date. Maturities and annuities are recognised as they fall due for payment. General business claims represent the expected ultimate costs of settling all claims arising from events that have occurred up to the balance sheet date, including a provision for claims incurred but not yet reported. Claims include claims handling expenses.

Investment return

Investment income includes dividends, interest, rents and gains (net of losses) on the realisation of investments. Dividends are included on the date that shares become quoted ex-dividend and are shown net of tax credits, other than for tax exempt business where the tax credits are reclaimed (before 6 April 2004) and included in investment income. Interest, rents and expenses are included on an accruals basis.

Investment expenses and charges include expenses of managing investments and losses (net of gains) on the realisation of investments.

Unrealised gains and losses are shown separately on the technical account for long term business and in the non-technical account for other business. Realised gains or losses represent the difference between net sale proceeds and purchase price. No allocation of investment return is made between the technical and non-technical accounts.

Investments

All investments are included in the balance sheet at their current valuation. Listed investments and units in unit trusts are included at published bid prices, deposits are included at cost and mortgages and loans are stated at cost less provisions. Land and buildings are stated at open market value as assessed by independent valuations. Properties owned and occupied by the Group for the purposes of its business are classified as investments and are shown at valuation and are depreciated over 50 years.

TEACHERS PROVIDENT SOCIETY LIMITED

ACCOUNTING POLICIES

(Continued)

Foreign currencies

Assets in currencies other than sterling have been included in the financial statements at the rates of exchange prevailing at the balance sheet date. Purchases and sales of investments denominated in foreign currencies are translated at the rates prevailing at the dates of the respective transactions. Exchange gains and losses are dealt with within the Technical Account for long term business or the Non-technical account for other business.

Long term business provision

The calculation of the long term business provision, which falls within the scope of the FSA realistic capital regime, is based on a combination of liabilities on the realistic basis and the regulatory basis. Liabilities to policyholders arising from with-profits life assurance business is calculated at the amount of the realistic value of liabilities. The realistic basis uses a market consistent, stochastic gross premium valuation method for with-profits policies. For non-participating and unit-linked policies, the liabilities are determined by the method used for the regulatory basis. The regulatory basis uses a deterministic gross premium valuation method for all policyholders. The technical provisions for linked liabilities are based on the market value of the related assets.

Fund for future appropriations

The fund for future appropriations represents the part of the fund where the allocation to policyholders has not been determined by the end of the financial year. When the allocation of funds is determined, appropriate transfers are made out of this fund.

Deferred acquisition costs

Long term business calculates realistic liabilities on a gross premium basis which results in no deferred acquisition costs. General business deferred acquisition costs are amortised over the period in which the related premiums are earned.

Equalisation provision

An equalisation provision is established in accordance with the requirements of insurance legislation and included in the technical provisions in the balance sheet. The purpose of the provision is to mitigate the volatility of claims for general business.

Fixed assets

Fixed assets are depreciated on a straight line basis over their estimated useful lives as follows:

Fixtures, fittings and motor vehicles	- 4 years
Computer equipment and software	- 3 - 4 years
Freehold of property (owner occupied)	- 50 years

With the exception of the owner occupied property, all other land and buildings accounted for as investment properties are not depreciated as they are valued annually. This treatment accords with the Statement of Standard Accounting Practice (SSAP) 19 and is necessary for the accounts to show a true and fair view.

Taxation

Current tax: The charge for taxation for long term business is based on the result of the application of the rules for the taxation of friendly societies. The charge for taxation on other businesses is based on the taxable profits for the year at the current rate.

Deferred tax: In accordance with FRS 19, deferred tax liabilities are recognised in respect of all timing differences that have originated but not reversed by the balance sheet date, except where the timing difference is permanent. Deferred tax assets are recognised to the extent that they are regarded as recoverable in the foreseeable future. Where appropriate, a discounted tax rate has been used to take account of the time value of the amount of tax deferred until future periods.

Pensions

The Group operates both a defined benefit scheme and a defined contribution scheme. The costs of the defined contribution scheme are charged to the Income and Expenditure Account in the period in which they are payable.

ACCOUNTING POLICIES

(Continued)

Pensions (Continued)

The pension charges for the defined benefit scheme are analysed into the following categories:

- a) *Current Service Cost*: This represents the actuarially calculated present value of the benefits earned by the active employees in each period. This cost is charged to the Income and Expenditure Account.
- b) *Past Service Cost*: This relates to employee service in prior periods arising in the current period as a result of a change to the retirement benefits. This cost is charged to the Income and Expenditure Account on a straight-line basis over the period in which the increases in benefit vest.
- c) *Settlements or Curtailments*: The actuarial assumptions do not allow for all gains or losses arising on a settlement or curtailment. Losses are measured at the date on which the employee becomes demonstrably committed to the transaction. Gains are measured at the date on which all parties, whose consent is required, are irrevocably committed. Gains or losses are charged to the Income and Expenditure Account.
- d) *Net expected return on the pension asset*: This comprises the expected return on the pension scheme assets less interest on scheme liabilities and is included as investment income or investment charges in the Non-technical Account.
- e) *Actuarial gains or losses*: Which arise from any new valuation and from updating the latest actuarial valuation to reflect conditions at the balance sheet date, are taken to the statement of total recognised gains and losses for the period. The attributable deferred taxation is shown separately in the statement of total recognised gains and losses.

Assets of the defined benefit scheme are measured using closing market values at the balance sheet date. The scheme liabilities are measured using the projected unit method and are discounted using a rate of return on a high quality corporate bond of equivalent currency and term to the scheme liabilities.

Details of the pension charges are shown in note 23.

TEACHERS PROVIDENT SOCIETY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1 ANALYSIS OF PREMIUMS

All business is written in the United Kingdom and is direct individual business.

All general insurance premiums recognised in the general business technical account are in respect of fire and other damage to property.

The analysis of long term gross premiums recognised in the long term business technical account is as follows:

	2011		2010	
	Regular £000	Single £000	Regular £000	Single £000
Life tax-exempt	11,254	2,353	10,611	417
Life taxable	9,947	4,900	10,780	7,522
Annuity	-	11,025	-	11,206
Pensions	3,892	211	5,142	117
	<u>25,093</u>	<u>18,489</u>	<u>26,533</u>	<u>19,262</u>
Participating	20,736	3,868	21,530	1,739
Non-participating	427	11,025	493	11,206
Linked	3,930	3,596	4,510	6,317
	<u>25,093</u>	<u>18,489</u>	<u>26,533</u>	<u>19,262</u>

The total annualised gross new business written is as follows:

	2011		2010	
	Regular £000	Single £000	Regular £000	Single £000
Life tax-exempt	343	2,353	343	417
Life taxable	1,448	4,900	1,407	7,522
Annuity	-	11,025	-	11,206
Pensions	67	211	70	117
	<u>1,858</u>	<u>18,489</u>	<u>1,820</u>	<u>19,262</u>
Unit Trust - external	-	43,150	-	33,470
General business	-	4,246	-	3,947
	<u>1,858</u>	<u>65,885</u>	<u>1,820</u>	<u>56,679</u>

Unit trust sales exclude Group sales.

The analysis of annualised long term gross new business is as follows:

	2011		2010	
	Regular £000	Single £000	Regular £000	Single £000
Participating	1,791	3,868	1,750	1,739
Non-participating	-	11,025	-	11,206
Linked	67	3,596	70	6,317
	<u>1,858</u>	<u>18,489</u>	<u>1,820</u>	<u>19,262</u>

TEACHERS PROVIDENT SOCIETY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

2 INVESTMENT INCOME	Group		Society	
	2011	2010	2011	2010
	£000	£000	£000	£000
Long term business technical account				
Income from land and buildings	267	267	267	267
Income from other investments - listed	22,349	21,866	22,349	21,866
- other	1,710	1,780	1,710	1,780
Gains on the realisation of investments	7,764	3,384	7,764	3,384
	32,090	27,297	32,090	27,297
Non-technical account				
Income from other investments - listed	299	288		
- other	595	466		
Gains on the realisation of investments	-	2		
	894	755		
3 NET OPERATING EXPENSES				
	2011	2010		
	£000	£000		
Long term business technical account				
Acquisition costs	2,822	2,935		
Change in deferred acquisition costs	-	-		
Administrative expenses	3,565	2,534		
	6,387	5,469		
General business technical account				
Acquisition costs	765	731		
Change in deferred acquisition costs	(13)	(19)		
Administrative expenses	323	328		
	1,075	1,040		

4 STAFF COSTS

The average number of employees (including directors) is as follows:

	Number of staff	
	2011	2010
Management	11	11
Sales force	54	53
Administration	90	93
	155	157

The cost in respect of these employees is as follows:

	2011	2010
	£000	£000
Wages and salaries	5,548	5,617
Social security costs	596	601
Other pension costs	470	447
	6,614	6,665

Staff are employed by Teachers Management Services Limited, a subsidiary company.

TEACHERS PROVIDENT SOCIETY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Directors' Remuneration

Full details of Directors' remuneration is included in the Directors' Report on pages 15 to 17.

5 AUDITORS' REMUNERATION

The remuneration and expenses of the auditors for the audit of the accounts and FSA returns amounted to £138,420 (2010: £133,169). Their remuneration in respect of other work amounted to £86,978 (2010: £25,949).

6 INVESTMENT EXPENSES AND CHARGES

	2011 £000	2010 £000
Long term business technical account		
Investment expenses and charges	517	485
Losses on the realisation of investments	-	-
	517	485
	517	485
Non-technical account		
Investment expenses and charges	-	-
Losses on the realisation of investments	14	-
	14	-
	14	-

7 OTHER INCOME AND CHARGES

	-----2011-----			
	Investment management (continuing) £000	Investment management (discontinued) £000	Other £000	Total £000
Charges, commission and fees	4,172	-	483	4,655
Administrative expenses	(3,601)	-	(445)	(4,046)
Operating profit/(loss)	571	-	38	609
	-----2010-----			
	Investment management (continuing) £000	Investment management (discontinued) £000	Other £000	Total £000
Charges, commission and fees	3,510	-	508	4,018
Administrative expenses	(3,053)	-	(498)	(3,551)
Operating profit/(loss)	457	-	10	467

The above represents the trading results of the non-insurance subsidiary companies. Investment income is excluded from the above figures. Investment management consists of continuing operations in Sovereign Unit Trust Managers Limited. Other consists of continuing operations in Moneo Limited, Teachers Financial Services Limited, Teachers Management Services Limited, Teachers Property Limited and Exii Software Limited.

TEACHERS PROVIDENT SOCIETY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

8 TAXATION	Long term business technical account		Non-technical account	
	2011	2010	2011	2010
	£000	£000	£000	£000
Current tax:				
UK corporation tax on profits of the period	3,521	1,098	243	429
Adjustments in respect of previous periods	<u>256</u>	<u>-</u>	<u>(28)</u>	<u>-</u>
	3,777	1,098	215	429
Deferred tax:				
Origination and reversal of timing differences	<u>(3,524)</u>	<u>2,466</u>	<u>25</u>	<u>33</u>
Tax on profit on ordinary activities	<u>253</u>	<u>3,564</u>	<u>240</u>	<u>462</u>

Factors affecting the tax charge for the period

The tax assessed for the period is different from the rate of corporation tax in the UK (life assurance 20%; other profits 26.5%). The differences are explained below.

Profits/(losses) on ordinary activities before tax	<u>(10,223)</u>	<u>45,310</u>	<u>1,484</u>	<u>1,950</u>
Profits/(losses) on ordinary activities multiplied by:				
Average life assurance rate of corporation tax in the UK of 20% (2010: 20%)	(2,045)	9,062		
Standard rate of corporation tax in the UK of 26.5% (2010: 28%)			393	546
Effects of:				
Expenses not deductible for tax purposes	-	-	14	15
Capital allowances for period in excess of depreciation	-	(4)	(19)	(16)
Other timing differences	-	-	(80)	(56)
Adjustments to tax charge in respect of previous periods	-	-	(28)	(2)
Lower rate of tax for small companies	-	-	-	(1)
Tax not charged on UK dividends/other	(1,547)	(1,422)	(47)	(35)
Group relief in excess of tax rate	-	-	-	-
Unrealised deficit on revaluation of property	-	-	(18)	(22)
Unrealised investment losses	3,083	-	-	-
Non-taxable business	<u>4,030</u>	<u>(6,538)</u>	<u>-</u>	<u>-</u>
Current tax charge for the period	<u>3,521</u>	<u>1,098</u>	<u>215</u>	<u>429</u>

The profit/(losses) on ordinary activities before tax, in respect of the long term business technical account, represents the Society's total technical income less the total of claims incurred (net of reinsurance), net operating expenses and investment expenses and charges.

TEACHERS PROVIDENT SOCIETY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

9 INTANGIBLE ASSETS

	Goodwill	Other Intangibles	Total
	£000	£000	£000
Cost			
At 1 January 2011 and at 31 December 2011	4,790	973	5,763
Amortisation			
At 1 January 2011	4,790	973	5,763
Charge for the year	-	-	-
At 31 December 2011	4,790	973	4,790
Net book value			
At 31 December 2011	-	-	-
At 31 December 2010	-	-	-

The charge for amortisation in 2010 was £nil

10 INVESTMENTS IN GROUP UNDERTAKINGS

	Shares in subsidiary undertakings (unlisted)
	£000
At 1 January 2011	21,837
Revaluation adjustment	(142)
At 31 December 2011	21,695

There were no additions or repayments of share capital in 2011.

In 2011 a revaluation adjustment arose of £142,000 when the valuation of the subsidiaries was equated to the net asset value of the subsidiaries.

All subsidiary companies are incorporated in Great Britain, registered in England and Wales and 100% of the ordinary share capital is held in all cases. The principal country of operation of each company is Great Britain.

Teachers Assurance Company Limited - a general insurance company
 Sovereign Unit Trust Managers Limited - a unit trust management company
 Teachers Financial Services Limited - a provider of third party financial services products
 Teachers Investment Management Limited – dissolved 16 February 2011
 Teachers Management Services Limited - a provider of management services
 Teachers Property Limited – a provider of property and administration services
 Moneo Limited – a provider of business solutions
 Exii Software Limited – a software licensing company

TEACHERS PROVIDENT SOCIETY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

11 INVESTMENTS

Land and buildings

	Group		Society	
	Valuation £000	Cost £000	Valuation £000	Cost £000
At 1 January 2011	8,180	8,914	4,610	4,396
Additions	-	-	-	-
Disposals	-	-	-	-
Revaluation adjustment	(290)	-	(300)	-
At 31 December 2011	<u>7,890</u>	<u>8,914</u>	<u>4,310</u>	<u>4,396</u>
Freehold occupied for own use	3,580	4,518	-	-
Freehold occupied by third parties	4,310	4,396	4,310	4,396
	<u>7,890</u>	<u>8,914</u>	<u>4,310</u>	<u>4,396</u>

Investment properties were valued as at 31 December 2011 for £7,890,000 (2010: £8,180,000) by Nettleship Sawyer, Chartered Surveyors, External Valuers, on the basis of open market value in accordance with the Practice Statements in the Royal Institution of Chartered Surveyors Appraisal and Valuation Manual.

Other financial investments at market value

	2011 Group £000	2011 Society £000	2010 Group £000	2010 Society £000
	Shares and other variable yield securities and units in unit trusts	324,783	318,826	325,949
Debt securities & other fixed income securities	109,415	109,415	97,211	97,211
	<u>434,198</u>	<u>428,241</u>	<u>423,160</u>	<u>414,480</u>
Other loans	44	44	46	46
	<u>434,242</u>	<u>428,285</u>	<u>423,206</u>	<u>414,526</u>
Included in the above were investments:				
Listed on UK recognised investment exchange	434,198	428,241	423,160	414,480
Listed on other investment exchanges	-	-	-	-
	<u>434,198</u>	<u>428,241</u>	<u>423,160</u>	<u>414,480</u>

TEACHERS PROVIDENT SOCIETY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

11 INVESTMENTS (continued)

Other financial investments at cost

	2011 Group £000	2011 Society £000	2010 Group £000	2010 Society £000
Shares and other variable yield securities and units in unit trusts	285,595	279,913	279,873	271,561
Debt securities & other fixed income securities	89,496	89,496	92,033	92,033
	<u>375,091</u>	<u>369,409</u>	<u>371,906</u>	<u>363,594</u>
Other loans	44	44	46	46
	<u>375,135</u>	<u>369,453</u>	<u>371,952</u>	<u>363,640</u>
Included in the above were investments:				
Listed on UK recognised investment exchange	375,091	369,409	371,906	363,594
Listed on other investment exchanges	-	-	-	-
	<u>375,091</u>	<u>369,409</u>	<u>371,906</u>	<u>363,594</u>

Listed investments include authorised unit trusts.

12 ASSETS HELD TO COVER LINKED LIABILITIES

The analysis of assets held to cover linked liabilities is as follows:

	2011 £000	2010 £000
Market value		
Investments	253,700	274,043
Cash at bank	13,651	16,861
Debtors	595	2,769
Creditors	(3,677)	(4,367)
	<u>264,269</u>	<u>289,306</u>
Cost	<u>237,525</u>	<u>241,242</u>

TEACHERS PROVIDENT SOCIETY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

13 OTHER DEBTORS

	2011 Group £000	2011 Society £000	2010 Group £000	2010 Society £000
Trade debtors	536	-	566	-
Stock of unit trust units	87	-	115	-
Amount due from Group undertakings	-	2,552	-	2,988
Other debtors including taxation recoverable	<u>1,822</u>	<u>1,796</u>	<u>2,531</u>	<u>2,473</u>
	<u><u>2,445</u></u>	<u><u>4,348</u></u>	<u><u>3,212</u></u>	<u><u>5,461</u></u>

Included in amount due from Group undertakings is a loan of £2,717,000 (2010: £3,074,000) made to Teachers Property Limited to acquire Tringham House (the administrative offices of the Society). This loan has no set repayment date. All other debtors are due within one year.

14 TANGIBLE ASSETS

	Computer equipment & software £000	Fixtures, fittings & motor vehicles £000	Total £000
Cost			
At 1 January 2011	2,531	3,635	6,166
Additions	128	-	128
Disposals	-	-	-
At 31 December 2011	<u>2,659</u>	<u>3,635</u>	<u>6,294</u>
Depreciation			
At 1 January 2011	2,330	3,546	5,876
Charge for the year	99	19	118
Disposals	-	-	-
At 31 December 2011	<u>2,429</u>	<u>3,565</u>	<u>5,994</u>
Net book value			
At 31 December 2011	<u>230</u>	<u>70</u>	<u>300</u>
At 31 December 2010	<u>201</u>	<u>89</u>	<u>290</u>

The charge for depreciation in 2010 was £137,000.

TEACHERS PROVIDENT SOCIETY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

15 FUND FOR FUTURE APPROPRIATIONS

	2011 Group £000	2011 Society £000	2010 Group £000	2010 Society £000
At 1 January	119,003	119,002	101,255	101,254
Transfer from/(to) technical account - long term business	(10,841)	(10,983)	14,831	17,748
Total recognised (losses)/gains to non-technical account	(142)	-	2,917	-
	<u>108,020</u>	<u>108,019</u>	<u>119,003</u>	<u>119,002</u>

The FFA for the Group totals £107,296,000 (2010: £117,193,000) before taking account of the pension asset.

16 PROVISION FOR UNEARNED PREMIUMS (GROUP)

	Gross £000	Reinsurance £000	Net £000
At 1 January 2011	2,002	194	1,808
Movement in provision for year	127	3	124
	<u>2,129</u>	<u>197</u>	<u>1,932</u>

The provision for unearned premiums is in respect of general business.

17 LONG TERM BUSINESS PROVISION (GROUP AND SOCIETY)

Gross	Reinsurance £000	Net £000	£000
At 1 January 2011	350,612	4,696	345,916
Movement in provision for year	29,930	5,168	24,762
Bonus declarations	-	-	-
	<u>380,542</u>	<u>9,864</u>	<u>370,678</u>
Analysed as:			
Realistic liabilities	360,241	9,864	350,377
Present value of in-force business	20,301	-	20,301
	<u>380,542</u>	<u>9,864</u>	<u>370,678</u>

TEACHERS PROVIDENT SOCIETY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

17 LONG TERM BUSINESS PROVISION (continued)

Introduction

Teachers Provident Society (TPS) carries out realistic balance sheet reporting of its liabilities and capital under the FSA realistic capital regime and therefore has to comply with FRS27 in producing its 2011 Annual Report and Accounts.

TPS operates one With-Profits Fund, which includes all with-profits, non-profit and unit-linked business.

Capital statement

The following capital statement illustrates the financial strength of TPS and provides an analysis of the capital resources available to meet risk and regulatory requirements. It also shows a reconciliation of the Fund for Future Appropriation (FFA) to regulatory capital.

	UK With-Profits TPS £000	Other Activities £000	Consolidated Total £000
Available capital resources			
Fund for Future Appropriations (FFA)	108,019	1	108,020
Adjustments onto Regulatory Basis:			
FFA	13,514	-	13,514
Assets	(4,805)	(1)	(4,806)
Liabilities	-	-	-
Total available capital resources	<u>116,728</u>	<u>-</u>	<u>116,728</u>
Capital requirement	40,526	-	40,526
Excess capital over regulatory requirement	<u>76,202</u>	<u>-</u>	<u>76,202</u>
 Analysis of policyholder liabilities			
With profits liabilities on realistic basis:			
Options and guarantees	21,930		
Other policyholder obligations	186,605		
Total with-profits liabilities	<u>208,535</u>		
Unit-linked per accounts	264,269		
Non-participating	162,143		
Claims outstanding	1,891		
Total policyholder liabilities	<u>636,838</u>		
Reinsurers' share of technical provisions	9,864		
Technical provisions in balance sheet	<u>646,702</u>		

Liabilities have been determined on a realistic basis in accordance with the applicable FSA regulations, unless the capital requirement to be disclosed is higher on the regulatory basis.

Adjustments have been made to assets and liabilities, where necessary, to show the capital amount for regulatory purposes.

Analysis of movement in capital

	£000
Available capital resources at 1 January	137,458
Effect of new business	(3,323)
Expected change in capital resources	(3,361)
Effect of operating assumption changes	(1,548)
Effect of economic assumption changes	-
Effect of changes in management policy	(2,837)
Other movements	<u>(9,661)</u>
Available capital resources at 31 December	116,728

TEACHERS PROVIDENT SOCIETY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

17 LONG TERM BUSINESS PROVISION (continued)

Arrangements to provide capital to subsidiary companies

TPS owns a number of subsidiary companies that are regulated by the FSA, which in their own right have to hold sufficient capital to meet regulatory capital requirements. The normal practice is that TPS provides share capital to subsidiary companies to provide capital resources. For one non-regulated subsidiary there is an inter-company loan with TPS on commercial terms for ongoing financing purposes.

Capital resources and capital requirements

The realistic capital regime prescribed in the FSA regulations entails calculating liabilities and capital on two approaches: the realistic basis and the regulatory basis, and choosing whichever basis gives the higher capital requirement for solvency purposes.

For regulated subsidiary companies the relevant capital requirement is the minimum solvency requirement determined in accordance with FSA regulations.

As TPS is a mutual friendly society, without any shareholders, the available capital resources represents the FFA. The FFA is the surplus accumulated that has not been allocated by means of bonus to with-profits policies. It forms the working capital of the Society and is available to meet risk and capital requirements, and any uncertain additional liabilities that may arise in the future.

The Society's capital aim is to hold an amount within the FFA that is sufficient to:

- Maintain solvency and cover the minimum regulatory capital requirements under FSA regulations (including both the realistic capital regime and that under Individual Capital Adequacy Standards), and
- Provide working capital for the provision of wider benefits to the members and customers of the Society, in line with the Society's Principles and Practices of Financial Management for running its With-Profits Fund.

In respect of subsidiary companies owned by TPS, any excess capital within each subsidiary, over and above its own regulatory capital requirements, is valued as an asset, for regulatory purposes, within TPS and is assumed to be available to meet part of TPS's capital requirements. In practice, the management of each subsidiary will mean that higher levels of capital will be held within each company than is needed for regulatory purposes in order to provide adequate cover for risk.

At the 31 December 2011 the available capital resources of TPS amounted to £117m. This is significantly in excess of the regulatory capital requirements of £41m.

The capital requirement under the realistic basis gives a higher capital requirement than under the regulatory basis. This has resulted in additional capital being held against with-profits business and is known as the With-Profits Insurance Capital Component.

	Regulatory Assets	Regulatory Liabilities	Minimum Capital Requirement	With-Profits Capital Component	2011 Excess Capital Resources	2010 Excess Capital Resources
	£000	£000	£000	£000	£000	£000
TPS	741,103	624,375	15,093	25,433	76,202	89,636
TAC	12,101	4,249	2,008		5,844	5,624
Other	6,276	640	951		4,685	4,624
Subsidiaries						

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

17 LONG TERM BUSINESS PROVISION (continued)

Financial guarantees and options

The following material guarantees have been given by TPS to policyholders:

- Maturity values – on conventional and unitised with-profits policies a guarantee that on the maturity date there will be a minimum payout of the sum assured plus any declared annual bonuses
- No market value reduction – on certain unitised with-profits policies a guarantee that no market value reduction will be made to the policy value on the 10th policy anniversary date

TPS has not given any financial options to policyholders.

In addition, whilst not a guarantee or an option, payouts on conventional and unitised with-profits policies are smoothed over time to reduce the effect of short term fluctuations in investment returns. This primarily applies to payouts on the maturity of a policy, though it can also apply to a lesser extent on the earlier surrender of certain types of policy.

In compliance with FSA regulations, provisions for guarantees and smoothing of policy benefits within the realistic policy liabilities are measured at fair and market consistent values using stochastic models. The approach used recognises the intrinsic and time value of the guarantees and smoothing in order to reflect the inherent uncertainty of, and sensitivity to, future economic conditions and investment returns.

Technical provisions

Long term liabilities to policyholders are considered in two parts:

- Liabilities to with-profits and non-linked policyholders which are not directly dependent on the movement in the value of underlying assets – the Long Term Business Provision
- Liabilities to unit-linked policyholders which are directly dependent on the movement in the value of the underlying linked assets – the Technical Provision for Linked Liabilities

The realistic capital regime prescribed in the FSA regulations entails calculating long term policyholder liabilities on two approaches: the realistic basis and the regulatory basis.

The regulatory basis uses a deterministic gross premium valuation methodology for all policyholders. For unit-linked policies this includes the Technical Provision for Linked Liabilities, which equates to the value of the underlying assets to which the policies are linked.

The realistic basis uses a market consistent, stochastic gross premium valuation method for with-profits policies. For non-linked and unit-linked policies the liabilities are determined by the method used for the regulatory basis.

The liabilities to with-profits policyholders under the regulatory basis only make allowance for declared bonuses to date. Provision for future bonuses yet to be declared is only included under the realistic basis.

TEACHERS PROVIDENT SOCIETY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

17 LONG TERM BUSINESS PROVISION (continued)

The principal assumptions used for the regulatory basis were:

Class of Business		Mortality tables used		Valuation Interest Rate pa	
		2011	2010	2011	2010
Life Conventional With-Profits					
Tax Exempt	Males	70% AM80	70% AM80	1.65%	2.90%
	Females	80% AF80	80% AF80		
Taxable	Males	70% AM80	70% AM80	1.30%	2.20%
	Females	80% AF80	80% AF80		
Life Unitised With-Profits					
Tax Exempt	Males	AM92	AM92	1.65%	2.90%
	Females	AF92	AF92		
Taxable	Males	AM92	AM92	1.30%	2.20%
	Females	AF92	AF92		
Life Non-Profits					
Tax Exempt	Males	70% AM80	70% AM80	2.00%	3.00%
	Females	80% AF80	80% AF80		
Taxable	Males	70% AM80	70% AM80	1.50%	2.40%
	Females	80% AF80	80% AF80		
Pension Annuities in payment	Males	95% PMA92	95% PMA92	2.25%	3.45%
	Females	85% PFA92 with Long Cohort for future improvement in mortality (min 1.5% pa males, min 1% pa females, both with tapering down from age 90)	85% PFA92 with Long Cohort for future improvement in mortality (min 1.5% pa males, min 1% pa females, both with tapering down from age 90)		

The main changes in assumptions were to reflect changes in market yields and volatility on the underlying assets. These had the combined effect of increasing the long term business provision.

The long term business provision takes into account an estimate of the outstanding liability arising from mis-selling of pensions and mortgage endowments. The methods and assumptions used were updated to reflect experience resulting in a decrease of £2.0m to the long term business provision.

Future anticipated tax cashflows are included in the calculation of liabilities and are discounted at the valuation rate of interest applicable to the appropriate class of business.

The amount charged for reversionary bonuses in the long term business technical account is £2,602,000 (2010: £2,766,000). This includes a one-off special mutuality bonus relating to a distribution of excess assets for 2011.

TEACHERS PROVIDENT SOCIETY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

17 LONG TERM BUSINESS PROVISION (continued)

The principal assumptions used for the realistic basis in calculating with-profit liabilities were:

	2011	2010
Current With-Profits Benefits	Retrospective method aggregating individual policy asset shares	Retrospective method aggregating individual policy asset shares
Future With-Profits Benefits		
- Investment returns	From market consistent asset model (Barrie & Hibbert) calibrated to 31 December 2011 capital market	From market consistent asset model (Barrie & Hibbert) calibrated to 31 December 2010 capital market
- Number of simulations	1,000	1,000
- Equity volatility	27.2%	26.1%
- Investment mix	61% equities/39% bonds	62% equities/38% bonds
- Management actions	A dynamic equity-backing ratio that reflects the ability to withstand a shock in equity values. Reversionary bonus rates vary in each future year with an allowance for terminal bonus. Payouts on maturity will follow a smoothing rule that limits increases and reductions to 10% year-on-year.	A dynamic equity-backing ratio that reflects the ability to withstand a shock in equity values. Reversionary bonus rates vary in each future year with an allowance for terminal bonus. Payouts on maturity will follow a smoothing rule that limits increases and reductions to 10% year-on-year.
- Lapse rates	1.0% - 4.5%pa	1.0% - 4.0%pa
Value of in-force non-profits business – discount rate	2.5%	4.0%

The management actions assumed in the realistic basis are in line with the Society's Principles and Practices of Financial Management.

The main change to assumptions for with-profits liabilities has been an increase in the assumed expenses to service the with-profit policies to reflect higher inflation over 2011.

The value of in-force non-profits business comprises the discounted value of future profits expected to arise in future years on unit-linked and pension annuity policies. The discount rate is determined relative to risk-free rates. The reduction in the discount rate in 2011 reflects a fall in market interest rates under the risk-neutral valuation approach used.

The value of in-force non-profits business is allowed for in the realistic basis by deducting the value from the amount of with-profits liabilities.

TEACHERS PROVIDENT SOCIETY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

17 LONG TERM BUSINESS PROVISION (continued)

Sensitivity of liabilities and capital management

The key sensitivities and approaches to the management of liabilities and capital are:

	Key Sensitivities	Impact	Capital and Risk Management
With-Profits business	Future investment returns and interest rates	Low levels of investment returns and interest rates, as well as high volatility of returns, increase provisions required to cover the cost of providing guaranteed and smoothed benefits	The investment mix of the assets matching with-profits liabilities is kept under review relative to the amount of capital required and the aim of maximising returns to policyholders
Non-linked business	Increasing longevity of annuitants	The effect of establishing longevity reinsurance in 2010 means that provisions will remain largely unchanged from annuitants living longer or shorter lives than previously expected	The mortality experience is regularly monitored and stress tested to assess the level of capital required. Mortality risk is largely mitigated by holding longevity reinsurance
Unit-linked business	Returns on the underlying assets do not match to the returns credited to the unit-linked policies	Changes in investment market conditions will result in the change to provisions being different to the change in the matching assets	The policy is to maintain close matching of assets to unit-linked liabilities at all times to minimise capital requirements

In addition to the above, the Society operates a risk management and business planning framework in accordance with its corporate risk appetite. There are regular reviews, including quantification of sensitivities to economic and operating experience scenarios.

18 CLAIMS OUTSTANDING (GROUP)

	Gross £000	Reinsurance £000	Net £000
At 1 January 2011	4,022	8	4,014
Movement in provision for year	(915)	(3)	(918)
At 31 December 2011	<u>3,107</u>	<u>11</u>	<u>3,096</u>
Claims outstanding (Society)			
At 1 January 2011	2,688	-	2,688
Movement in provision for year	(797)	-	(797)
At 31 December 2011	<u>1,891</u>	<u>-</u>	<u>1,891</u>

19 LINKED LIABILITIES (GROUP AND SOCIETY)

	Gross £000	Reinsurance £000	Net £000
At 1 January 2011	289,306	-	289,306
Movement in provision for year	(25,037)	-	(25,037)
At 31 December 2011	<u>264,269</u>	<u>-</u>	<u>264,269</u>

TEACHERS PROVIDENT SOCIETY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

20 EQUALISATION PROVISION

An equalisation provision has been established as explained in the accounting policies. The provision is not a liability as it is in excess of the provisions established to meet the anticipated costs of outstanding claims but it is required by insurance legislation. The change in equalisation provision during the period resulted in a reduction in the profit on ordinary activities before taxation of £ 19,000 (2010: £3,000) and the total provision amounts to £713,000 at 31 December 2011 (2010: £694,000).

21 PROVISIONS FOR OTHER RISKS AND CHARGES

Deferred taxation

	2011 Group £000	2011 Society £000	2010 Group £000	2010 Society £000
At 1 January	(23)	(89)	(1,759)	(1,792)
Income and expenditure account:				
Long term business	(1,073)	(1,073)	1,703	1,703
Other business	24	-	33	-
	<u>(1,049)</u>	<u>(1,073)</u>	<u>1,736</u>	<u>1,703</u>
At 31 December	<u>(1,072)</u>	<u>(1,162)</u>	<u>(23)</u>	<u>(89)</u>
The analysis of deferred taxation is as follows:				
Unrealised gains/(losses) on investments	405	405	1,441	1,441
Accelerated depreciation	(37)	-	-	(15)
Surplus arising on pension scheme	130	-	54	-
Deferred acquisition costs	(1,567)	(1,567)	(1,515)	(1,515)
Expenses available for future relief	-	-	-	-
Undiscounted deferred tax liability/(asset)	<u>(1,069)</u>	<u>(1,162)</u>	<u>(20)</u>	<u>(89)</u>
Discount	(3)	-	(3)	-
Discounted deferred tax liability/(asset)	<u>(1,072)</u>	<u>(1,162)</u>	<u>(23)</u>	<u>(89)</u>

The provision for the deferred tax liability on linked assets is included within creditors in note 12.

22 OTHER CREDITORS INCLUDING TAXATION AND SOCIAL SECURITY

	2011 Group £000	2011 Society £000	2010 Group £000	2010 Society £000
Trade creditors	262	-	310	-
Other taxes and social security costs	330	-	629	-
Amounts due to group undertakings	-	525	-	1,032
Other creditors	766	282	894	388
	<u>1,358</u>	<u>807</u>	<u>1,833</u>	<u>1,420</u>

TEACHERS PROVIDENT SOCIETY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

23 PENSION SCHEME

Introduction

The Company is a participating employer of the Teachers Assurance Group Pension Scheme, which is a defined benefit scheme, and the Group Personal Pension Scheme, which is a defined contribution scheme.

Defined Contribution Scheme

The defined contribution scheme was set up on 1 April 2003 for new members and holds its assets separately from the assets of the Group. The assets are managed by Standard Life. The employer paid premiums of £0.2m (2010: £0.2m) into the scheme in the year and there were no outstanding or prepaid contributions at the year end.

Defined Benefit Scheme

The defined benefit scheme is closed to new members. The assets are held separately from the assets of the Group and are administered by Trustees. The investments are managed by Legal & General (Pensions Management) Limited in an insurance policy.

The last full actuarial assessment of the defined benefit scheme was performed as at 30 September 2008 by Hughes, Price, Walker plc, an independent firm of actuaries. The assessment, on a discontinuance basis, showed an estimated funding ratio of 66% (previously 79%) if all benefits were to be bought out. The market value of the assets represented 89% (previously 89%) of the members' accrued benefits allowing for expected future increases in earnings. Following the valuation, the funding requirements were reduced to 17.2% of pensionable salaries for the employer (previously 18.3%) and remained at 5% for employees for the foreseeable future. The latest triennial valuation as at 30 September is currently underway. The FRS17 figures shown in the following paragraphs to this note have been projected from that date with changed assumptions to reflect the requirements of the FRS.

The employer paid contributions of £0.2m (2010: £0.2m) to the scheme for the year. There were no outstanding or prepaid contributions at the balance sheet date. Because the scheme is closed, the current service cost will increase as the members of the scheme approach retirement. The estimate of the likely employer contributions during 2012 is £0.2m, being 17.2% of an assumed salary roll of £1.3m.

Main financial assumptions	2011	2010	2009	2008
	%pa	%pa	%pa	%pa
Inflation	3.1	3.4	3.7	2.7
Rate of general long-term increase in salaries	3.6	3.9	4.2	3.2
Rate of increase to pensions in payment				
- pre 6 April 1997	0.0	0.0	0.0	1.35
- 6 April 1997 to 31 December 2010	3.0	3.25	3.5	2.7
- post 31 December 2010	2.1	2.4	n/a	
Rate of increase for pensions in deferment				
- for service to 31 December 2009	3.1	3.4	3.7	2.7
- post 31 December 2009	2.5	2.5		
Discount rate for scheme liabilities	4.8	5.4	5.7	5.3
Expected rate of return on scheme assets	5.8	6.0	6.5	6.5

The mortality assumptions at before and after retirement were:
at 31 December 2010 – PCM/FA00 mortality tables with improvements in line with Year of Birth Long Cohort projections with a minimum annual improvement of 1%; and
at 31 December 2011 – S1PA mortality tables with future improvements in line with the CMI-2011 Core projection model and a long term rate of improvement of 1.5% pa.

Rates of increase reflect the sponsoring employers current decision to continue using RPI rather than change to CPI.

TEACHERS PROVIDENT SOCIETY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

23 PENSION SCHEME (continued)

The value of the scheme assets and liabilities recognised on balance sheet were:

	2011	2010
	£000	£000
Fair value of scheme assets	22,800	22,500
Present value of liabilities	22,000	20,500
	<u>800</u>	<u>2,000</u>
Surplus/(deficit) in scheme	800	2,000
Related deferred tax (liability)/asset	(76)	(190)
	<u>724</u>	<u>1,810</u>
Net pension asset/(liability)	724	1,810

Changes in the fair value of the scheme assets are as follows:

Fair value of scheme assets at start of period	22,500	20,400
Expected return on scheme assets	1,400	1,300
Contributions by the employer	200	200
Contributions by employees	100	100
Benefits paid	(800)	(800)
Actuarial (loss)/gain on scheme assets	(600)	1,300
	<u>22,800</u>	<u>22,500</u>
Fair value of scheme assets at end of period	22,800	22,500

Changes in the present value of the scheme liabilities are as follows:

Scheme liabilities at start of period	20,500	20,200
Current service cost	200	200
Interest on pension scheme liabilities	1,100	1,100
Benefits paid	(800)	(800)
Contributions by employees	100	100
Actuarial (gain)/loss on liabilities	900	(300)
	<u>22,000</u>	<u>20,500</u>
Scheme liabilities at end of period	22,000	20,500

Expected rates of return and assets of the scheme were:

	Expected rate of return at 31 December			Value at 31 December		
	2011 %pa	2010 %pa	2009 %pa	2011 £000	2010 £000	2009 £000
Equities (including managed funds)	7.4	7.1	7.7	14,500	14,800	13,500
Fixed interest Gilts	2.5	3.9	4.1	2,100	2,000	1,900
Index-linked bonds	2.5	3.9	4.1	4,200	3,900	3,300
Corporate Bonds	4.5	4.4	4.6	2,000	1,800	1,700
Cash	2.5	3.9	4.1	-	-	-
				<u>22,800</u>	<u>22,500</u>	<u>20,400</u>
Total market value				22,800	22,500	20,400

The expected returns on scheme assets are estimates of market expectations at the beginning of the period for returns over the entire life of the benefit obligation.

TEACHERS PROVIDENT SOCIETY LIMITED

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

23 PENSION SCHEME (continued)

Actual return on scheme assets:

	2011	2010
	£000	£000
Expected return on scheme assets	1,400	1,300
Actuarial gain/(loss) on scheme assets	(600)	1,300
Actual return on scheme assets	800	2,600

The amounts recognised in profit and loss are as follows:

Current service cost	200	200
Contribution by employer	(200)	(200)
Net (income)/cost recognised in administrative expenses	-	-
Expected return on pension scheme assets	(1,400)	(1,300)
Interest on pension scheme liabilities	1,100	1,100
Net finance (income)/cost (see note 2)	(300)	(200)
Total recognised (income)/cost in profit and loss account	(300)	(200)

Amount recognised in the statement of total recognised gains and losses (STRGL)

Total actuarial gain/(loss)	1,500	1,600
Cumulative amount of gains/(losses)	(2,700)	(1,200)

History of surplus/(deficit) and experience gains/(losses):

	2011	2010	2009	2008	2007	2006
	£000	£000	£000	£000	£000	£000
Fair value of scheme assets	22,800	22,500	20,400	17,800	21,600	20,700
Scheme liabilities	22,000	20,500	20,200	19,500	22,000	23,100
Surplus/(deficit) in scheme	800	2,000	200	(1,700)	(400)	(2,400)
Experience gain/(loss) on scheme liabilities	(100)	600	(100)	300	-	3,800
Experience gain/(loss) on scheme assets	(600)	1,300	2,000	(4,600)	-	100

TEACHERS PROVIDENT SOCIETY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

24 LEASE COMMITMENTS

The Group had the following operating lease annual commitments.

	Land and buildings		Other	
	2011 £000	2010 £000	2011 £000	2010 £000
Expiring within 1 year	-	-	-	1
Expiring 2 - 5 years	-	-	2	2
Expiring after 5 years	-	-	-	-
	<u>-</u>	<u>-</u>	<u>2</u>	<u>-</u>
	<u>-</u>	<u>-</u>	<u>2</u>	<u>3</u>

The charge for operating leases during 2011 was £3,000 (2010: £7,000).

The Society had no lease commitments for 2011 or 2010.

25 RELATED PARTY TRANSACTIONS

The Society operates a funded defined benefit pension scheme. Employer contributions for the year ended 31 December 2011 were £224,000 (2010: £237,000). Other financial arrangements in respect of the pension scheme are set out in note 23.

26 CAPITAL COMMITMENTS

The Society had no significant capital commitments at 31 December 2011 (2010: £nil)

27 WITH PROFITS ACTUARY AND ACTUARIAL FUNCTION HOLDER

The Actuarial Function Holder of the Society was Mr Ian Blanchard. The Society has requested him to furnish it with the particulars required under Section 77 of the Friendly Societies Act 1992. Mr Blanchard is a member of the Society and has confirmed that none of his family were members of the Society, nor have they any financial or pecuniary interest in the Society. Details of Mr Blanchard's remuneration is included in the Directors' Report on page 18.

The With Profits Actuary of the Society during 2011 was Mr D Murray, an employee of Deloitte LLP ("Deloitte"). The Society requested Mr Murray to furnish it with the particulars required under Section 77 of the Friendly Societies Act 1992. Mr Murray has confirmed that neither he nor his family were members of the Society, nor had they any financial or pecuniary interest in the Society. Fees paid to Deloitte for professional services in 2011 amounted to £45,495. Some partners of Deloitte may have individual interests in TPS policies.

28 CASH FLOW STATEMENT

The Society, being a mutual life assurance company, is exempt from the requirement under Financial Reporting Standard 1 to produce a cash flow statement.

29 CREDITOR PAYMENT POLICY

The Group's policy is to settle creditors within the credit terms specified unless items are subject to dispute. The average number of days taken for trade purchases was 20 days (2010: 22 days).

30 CONTINGENT LIABILITIES

The Society has agreed to guarantee the liabilities of its Financial Services Authority (FSA) regulated subsidiaries to exempt each of these subsidiaries from having to hold Professional Indemnity Insurance under the terms of the FSA mandate.

31 APPROVAL OF FINANCIAL STATEMENTS

These financial statements were approved by the Committee of Management on 20 March 2012.