



Protected
Asset TEP
Fund plc



Protected
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Fund plc

The Protected Asset TEP Fund plc

Financial statements for the year ended 31 December 2010

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THE PROTECTED ASSET TEP FUND PLC

Report and financial statements for the year ended 31 December 2010

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THE PROTECTED ASSET TEP FUND PLC

Officers and professional advisers

Directors	The Earl Cowley Alex Foley Andrew Ashworth Arnie Iversen Chris Radford (alternate to Arnie Iversen) (resigned 10 November 2010)
Secretary	Anthony Seeldrayers
Registered Office	Sixty Circular Road Douglas, Isle of Man IM1 1SA
Manager	Abacus Financial Services Limited Sixty Circular Road Douglas, Isle of Man IM1 1SA Telephone: 44 (0) 1624 689750
Custodian	BNP Paribas Trust Company (Guernsey) Limited PO Box 412, BNP Paribas House St Julian's Avenue, St Peter Port Guernsey, Channel Islands GY1 3WE
Bankers	The Royal Bank of Scotland International Limited PO Box 62, Royal Bank Place 1 Glatigny Esplanade, St Peter Port Guernsey, Channel Islands GY1 4BQ
Legal Advisers	Cains Advocates Limited 15-19 Athol Street, Douglas, Isle of Man IM1 1LB British Isles
Policy Provider	TIS Group Limited via Absolute Assigned Policies Limited ("AAP") TIS House, Spring Villa Park, Edgware, Middlesex HA8 7EG United Kingdom
Policy Administrator	TEP Management Services Limited TIS House, Spring Villa Park, Edgware, Middlesex HA8 7EG United Kingdom
Auditors	KPMG Audit LLC Heritage Court, 41 Athol Street Douglas, Isle of Man IM99 1HN
Promoter	Protected Distribution Limited (to 30 November 2010) Nemours Chambers, Road Town, Tortola British Virgin Islands Absolute Assigned Policies Limited t/a PDL International (from 30 November 2010) TIS House, Spring Villa Park, Edgware, Middlesex HA8 7EG United Kingdom

THE PROTECTED ASSET TEP FUND PLC

Chairman's statement

Dear Shareholder

I hope this finds you well. The last twelve months of financial market activity continues to surprise me and my fellow directors. If one were to look at the near 10% rise in the FTSE 100 index of leading shares between January and December one could be forgiven for assuming volatility and uncertainty was receding. However, to the contrary, 2010 saw some extreme and uncertain events which took the FTSE 100 to a low of 4,805 in July before it staged a 23% rise to end the year just shy of the psychologically important 6,000 level.

In comparison, The Protected Asset TEP Fund plc ("PATF") over the last twelve months sheltered investors from the volatility of the capital markets registering another twelve straight monthly increases in share price. The investment policy of the Fund is to achieve above average capital growth by creating and actively managing a carefully structured portfolio of with profit endowment policies. With interest rates in the UK and around the world continuing to sit at historic lows the PATF Funds' provide an attractive and good performing home for your cash compared to other similar lower risk investments.

Whilst the performance over 2010 does not match 2009, it is still impressive given the uncertainty and increasing challenges in the marketplace. The PATF Original Funds' registered a twelve month gain of 7.4% for the Sterling class, 8.5% for the Dollar class and 9.5% for the Euro class respectively. The No.2 Funds' registered gains of 7.4% for the Sterling class, 6.5% for the Dollar class and 7.2% for the Euro class respectively.

Many of the themes that engulfed financial markets in 2010 continue to be relevant as we enter 2011. Sovereign debt concerns are still very real and remain a threat to the stability of the eurozone and wider financial markets as banks and governments around the world still hold the debt of heavily indebted countries; the US engaged in another round of asset purchases dubbed "QE2" which has re-ignited fears of a global currency war; a continuing number of assets are approaching bubble territory; and as the BP oil crisis illustrated no asset is ever truly "safe".

In this environment of uncertainty I firmly believe PATF merits a position in your portfolio. Each individual policy carries a guarantee by the life office and each with profit fund is invested in a range of assets reducing the correlation to any one specific asset class for investors. The coming years see the Funds' maturity profile spike which should bring good returns to investors into the Fund. The positive inflow of cash will provide the Fund with more flexibility to manage its cash position, purchase policies and distribute monies to investors. I ask for your continued support as the Fund aims to reward while also shelter investors from the volatility in the markets.

Highlights for 2010

1. Total policy guarantees currently stand at £451.6m
2. 2010 returns ranged from 6.5% to 9.5%
3. The Fund is fully valued on a net asset value basis

Performance Review

The table below shows the past performance of the PATF sub-funds over the last five years:

	2006	2007	2008	2009	2010
PATF Original GBP	8.56%	8.09%	-35.80%	12.82%	7.37%
PATF Original EUR	8.14%	7.71%	-43.73%	16.99%	9.45%
PATF Original USD	8.04%	7.78%	-27.24%	11.48%	8.50%
PATF No.2 GBP	8.44%	7.75%	-48.74%	16.10%	7.38%
PATF No.2 EUR	7.36%	6.51%	-42.43%	14.41%	7.24%
PATF No.2 USD	7.27%	6.33%	-39.26%	16.49%	6.52%

Reasonable and stable returns were realised last year compared with the substantial volatility experienced by many other investment products.

I hope the last year demonstrates our commitment to you, the shareholders, and the continued strong stewardship of the Fund through these difficult and uncertain times.

Market Review

Life Offices

The beginning of the year was mixed for the with profit sector with the smaller life offices in general reporting increases in bonus rates and the larger offices declaring significant decreases. For example Britannia Life, Century Life, Royal Life and Scottish Mutual all reported significant hikes in final payouts whereas Scottish Widows, the Aviva Group, Standard Life and Clerical Medical all reported significant decreases. The PATF Fund is mainly composed of the larger offices and thus the beginning of the 2010 bonus season was negative for the Fund.

The mid year bonus round was more positive for the Fund as Standard Life increased its terminal bonus rate from 5.20% to 7.0% at the end of July. The Aviva Group continued to disappoint with Norwich Union policies maintaining rates constant however General Accident policies did see a modest increase. The year ended with Clerical Medical declaring an increase in rates to 17% for final payout.

Given the rise in almost all assets in 2010 the outlook for future bonus rate increases is positive. Many offices increased their holdings of collective investments to protect gains in other more common assets such as equities.

This is good for the PATF Fund as the bulk of the policies mature in the next few years which should benefit from any increases.

Market Review (continued)

TEP Market

The TEP market continues to provide a challenging environment for market participants. Traditional market makers in policies find margins ever more squeezed as surrender values of policies increase without a similar adjustment upwards in bonus rates.

However, the PATF Fund has over the years developed excellent relationships with experts in the TEP market and as such is able to source and acquire the policies that offer attractive returns for investors.

We continue to be mindful of the liquidity demands from our investors in the Fund and will work to position the Fund accordingly to meet the needs and requirements from investors.

Investment Outlook

The next few years are arguably the most important in the Funds' history as the bulk of policies purchased in the last few years begin to mature. This is highlighted by the current maturity profile, which suggests expected maturity proceeds received throughout 2011 of £80.6m will significantly cover existing premium commitments of £9.1m for the policies held by the Fund. In addition the Directors are confident that a combination of increasing policy maturities and surrenders will be sufficient to meet the Funds cash flow requirements during the coming year and beyond. As capital markets continue their bull run this should translate into higher payouts to the Fund and in turn to investors.

Both I and my fellow Directors firmly believe the asset class merits a position in your portfolio. I thank and look forward to your continued support.



The Earl Cowley
Chairman
2011

THE PROTECTED ASSET TEP FUND PLC

Directors' report for the year ended 31 December 2010

The Directors present herewith their report and audited financial statements for the year ended 31 December 2010.

Principal activities

The principal activity of The Protected Asset TEP Fund plc (the "Fund") is that of an open ended investment company designed for experienced investors. The Fund is designed to provide investors with capital growth and relatively low risk through investment in a diversified portfolio of traded endowment policies ("TEPs").

Results for the year

The results for the year and their appropriation are set out in the statement of comprehensive income on page 10. The financial position of the Fund, its cash flows, liquidity position and borrowing facilities are described on pages 12 to 50. In addition, note 13 to the financial statements includes the details of its financial instruments and hedging activities and its exposure to foreign exchange risk, interest rate risk, market risk, credit risk and liquidity risk.

The Directors are satisfied that the current Net Asset Valuation ("NAV") methodology continues to fairly reflect the fair value of the Fund's assets in the current market environment.

Based on conservatively projected levels of subscriptions and redemptions, the availability of loan facilities and the impact of hedging and fees, combined with the Fund's contractual right to surrender policies to the issuing life offices if required to meet redemptions or operating expenses, the Directors have a reasonable expectation that the Fund has adequate resources to continue in operational existence for the foreseeable future despite the current uncertain economic outlook and that the adoption of a going concern basis for preparing the annual report and financial statements is warranted (note 2).

Dividend

The Directors do not recommend the payment of a dividend for the year (2009: £nil).

Directors and Secretaries

The Directors that are currently holding office and the Secretary currently serving are shown on page 1.

On 10 November 2010, Chris Radford resigned as alternate director to Arnie Iversen.

THE PROTECTED ASSET TEP FUND PLC

Directors' report for the year ended 31 December 2010 (continued)

Auditors

The Auditors, KPMG Audit LLC, being eligible, have expressed their willingness to continue as Auditors and will continue in office in accordance with section 12(2) of the Isle of Man Companies Act 1982.

For and on behalf of the Board



A J Ashworth
Director

15 April 2011

Statement of Directors' responsibilities for the year ended 31 December 2010

The Directors are responsible for preparing the Directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year, which meet the requirements of Isle of Man company law. In addition, the Directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards.

The financial statements are required by law to give a true and fair view of the state of affairs of the Company and of the profit of the Company for that period.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with International Financial Reporting Standards; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping proper accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Acts 1931 to 2004. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

**Independent Auditors report to the Shareholders of
The Protected Asset TEP Fund plc**

We have audited the financial statements of The Protected Asset TEP Fund plc for the year ended 31 December 2010 which comprise Statement of Comprehensive Income, Statement of changes in net assets attributable to holders of participating redeemable shares, Statement of Financial Position and the Statement of Cash Flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs).

This report is made solely to the Company's members, as a body, in accordance with Section 15 of the Companies Act 1982. Our audit work has been undertaken so that we might state to the Company'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 Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and Auditors

As explained more fully in the Directors' responsibilities statement set out on page 7, the Directors are responsible for the preparation of financial statements that 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.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements.

Opinion on the financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2010 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs; and
- have been properly prepared in accordance with the provisions of Companies Acts 1931 to 2004.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Acts 1931 to 2004 require us to report to you if, in our opinion:

- proper books of account have not been kept and proper returns adequate for our audit have not been received from branches not visited by us; or

THE PROTECTED ASSET TEP FUND PLC

Independent Auditors report to the Shareholders of
The Protected Asset TEP Fund plc (continued)

- the Company's statement of financial position and statement of comprehensive income are not in agreement with the books of account and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Emphasis of Matter – Valuation of investments in Traded Endowment Policies

In forming our opinion on the financial statements, which is not qualified, we have considered the disclosure within Note 2 to the financial statements, which detail the investments held by the Company in traded endowment policies ("TEPs"), which are recorded at their estimated fair value. At 31 December 2010 these investments were valued on an actuarial method adopted by the Directors on the basis that the investments are intended to be held for the long term. This valuation method required the directors to make estimates, for example, of future bonuses from life companies. The Directors also apply a discretionary reserve factor to the aggregate value of TEPs held in each sub fund to determine the final valuation. We would also draw your attention to note 13 (d) which classifies the investments held by the Company as 'level 3' in accordance with IFRS 7 – Fair Value Hierarchy. Attention is also drawn to the disclosures contained in Note 2 basis of preparation regarding the liquidity profile.

The financial statements for the year ended 31 December 2009 included an emphasis of matter paragraph which drew attention to the following matters relating to the valuation of TEPs as at 31 December 2009:

"In forming our opinion on the financial statements, which is not qualified, we have considered the disclosure within Notes 1 and 2 to the financial statements, which detail the investments held by the Company in traded endowment policies ("TEPs"), which are recorded at their estimated fair value. The basis of estimation of fair value was revised during the year. The revised basis applied at 31 December 2009 values these investments on an actuarial method adopted by the Directors on the basis that these investments are intended to be held for the long term. This valuation method requires the directors to make estimates, for example, of future bonuses from life companies. The Directors also apply a discretionary reserve factor to the aggregate value of TEPs held in each sub fund to determine the final valuation. We would also draw your attention to note 13 (d) which classifies the investments held by the Company as 'level 3' in accordance with IFRS 7 – Fair Value Hierarchy."



KPMG Audit LLC
Chartered Accountants
Heritage Court, 41 Athol Street
Douglas, Isle of Man
IM99 1HN

18 April 2011

THE PROTECTED ASSET TEP FUND PLC

Statement of comprehensive income for the year ended 31 December 2010

All amounts stated in Sterling

	Note	Original PATF 2010	PATF No.2 2010	Total 2010
Income				
Increase in fair value of financial assets	4	18,174,747	23,509,730	41,684,477
Bank interest		4,850	11,259	16,109
Unrealised gain on forward contracts	13b)	291,733	70,949	362,682
Unrealised gain on foreign exchange		316,886	336,555	653,441
Redemption penalties	9	-	1,019,399	1,019,399
Total income		18,788,216	24,947,892	43,736,108
Expenses				
Manager fees	8	454,044	484,260	938,304
Policy administration fees	7	1,308,100	1,479,414	2,787,514
Promoter fees	9	-	1,937,040	1,937,040
Directors' fees		27,899	28,448	56,347
Bank charges		389,355	680,873	1,070,228
Bank interest		653,767	764,695	1,418,462
Audit fees		24,000	24,000	48,000
General expenses		72,915	71,380	144,295
Custodian fees	7	121,041	129,057	250,098
Sales and marketing expenses	9	-	762,554	762,554
Hedging service costs		28,794	28,988	57,782
Unrealised loss on forward contracts	13b)	159,820	593,156	752,976
Realised loss on forward contracts		1,908,795	2,457,414	4,366,209
Loss on disposals and maturities of financial assets	6	227,569	381,438	609,007
Total operating expenses		5,376,099	9,822,717	15,198,816
Profit before and after taxation	3	13,412,117	15,125,175	28,537,292
Other comprehensive income		-	-	-
Net increase in net assets attributable to holders of participating redeemable preference shares from operations	12(ii)	13,412,117	15,125,175	28,537,292

The notes on pages 18 to 50 form part of these financial statements.

THE PROTECTED ASSET TEP FUND PLC

Statement of comprehensive income for the year ended 31 December 2009

All amounts stated in Sterling

	Note	Original PATF 2009	PATF No.2 2009	Total 2009
Income				
Increase in fair value of financial assets	4	35,272,299	51,248,184	86,520,483
Bank interest		135,341	213,843	349,184
Unrealised gain on forward contracts		-	382,727	382,727
Unrealised gain on foreign exchange		2,952,961	6,359,823	9,312,784
Redemption penalties	9	-	1,696,270	1,696,270
Total income		38,360,601	59,900,847	98,261,448
Expenses				
Manager fees	8	417,364	439,347	856,711
Policy administration fees	7	1,247,992	1,420,561	2,668,553
Promoter fees	9	-	1,898,166	1,898,166
Directors' fees		29,054	36,792	65,846
Surrender fees	6	1,124,353	1,938,099	3,062,452
Bank charges		181,214	449,546	630,760
Bank interest		491,371	1,131,392	1,622,763
Audit fees		22,500	22,500	45,000
General expenses		101,979	60,750	162,729
Custodian fees	7	107,610	126,032	233,642
Sales and marketing expenses	9	-	974,053	974,053
Hedging service costs		13,454	13,557	27,011
Enhancements		680	8,505	9,185
Unrealised loss on forward contracts		1,728,002	-	1,728,002
Realised loss on forward contracts		13,019,221	8,857,447	21,876,668
Loss on sale of financial assets	6	6,493,141	12,192,278	18,685,419
Total operating expenses		24,977,935	29,569,025	54,546,960
Profit before and after taxation	3	13,382,666	30,331,822	43,714,488
Other comprehensive income		-	-	-
Net increase in net assets attributable to holders of participating redeemable preference shares from operations	12(ii)	13,382,666	30,331,822	43,714,488

The notes on pages 18 to 50 form part of these financial statements.

THE PROTECTED ASSET TEP FUND PLC

Statement of changes in net assets attributable to holders of participating redeemable preference shares for the year ended 31 December 2010

All amounts stated in Sterling

	Note	Original PATF 2010	PATF No.2 2010	Total 2010
Net assets attributable to holders of participating redeemable preference shares at 1 January		184,356,350	185,818,135	370,174,485
Proceeds from participating redeemable preference shares issued		15,530,464	9,461,334	24,991,798
Redemption of participating redeemable preference shares		(46,817,524)	(33,140,782)	(79,958,306)
Net decrease from share transactions		(31,287,060)	(23,679,448)	(54,966,508)
Increase in net assets attributable to holders of participating redeemable preference shares from operations		13,412,117	15,125,175	28,537,292
Net assets attributable to holders of participating redeemable preference shares at 31 December	12	166,481,407	177,263,862	343,745,269

The notes on pages 18 to 50 form part of the financial statements.

THE PROTECTED ASSET TEP FUND PLC

Statement of changes in net assets attributable to holders of participating redeemable preference shares for the year ended 31 December 2009

All amounts stated in Sterling

	Note	Original PATF 2009	PATF No.2 2009	Total 2009
Net assets attributable to holders of participating redeemable preference shares at 1 January		203,522,996	173,572,609	377,095,605
Proceeds from participating redeemable preference shares issued		10,698,506	11,799,614	22,498,120
Redemption of participating redeemable preference shares		(43,247,818)	(29,885,910)	(73,133,728)
Net decrease from share transactions		(32,549,312)	(18,086,296)	(50,635,608)
Increase in net assets attributable to holders of participating redeemable preference shares from operations		13,382,666	30,331,822	43,714,488
Net assets attributable to holders of participating redeemable preference shares at 31 December	12	<u>184,356,350</u>	<u>185,818,135</u>	<u>370,174,485</u>

The notes on pages 18 to 50 form part of the financial statements.

THE PROTECTED ASSET TEP FUND PLC

Statement of financial position as at 31 December 2010

All amounts stated in Sterling

	Note	Original PATF 2010	PATF No.2 2010	Total 2010
Assets				
Non-current assets				
Financial assets at fair value through profit or loss	4	213,802,167	232,056,868	445,859,035
Current assets				
Cash and cash equivalents		2,052	8,898	10,950
Trade and other receivables		205,085	77,674	282,759
Unpaid management shares issued		100	-	100
		<u>207,237</u>	<u>86,572</u>	<u>293,809</u>
Total assets		<u>214,009,404</u>	<u>232,143,440</u>	<u>446,152,844</u>
Liabilities				
Current liabilities				
Trade and other payables		522,776	1,012,447	1,535,223
Bank loan – due within one year	11	14,000,000	40,000,000	54,000,000
Bank overdrafts – due within one year	11	32,874,085	13,796,344	46,670,429
Nominal shares	10	131,036	70,787	201,823
Non-current liabilities attributable to holders of management shares	10	100	-	100
Liabilities (excluding net assets attributable to holders of participating redeemable preference shares)		47,527,997	54,879,578	102,407,575
Net assets attributable to holders of participating redeemable preference shares	12	166,481,407	177,263,862	343,745,269
Total liabilities		<u>214,009,404</u>	<u>232,143,440</u>	<u>446,152,844</u>

The notes on pages 18 to 50 form part of these financial statements.

The financial statements on pages 10 to 50 were approved by the Board of Directors and authorised for issue on 15 April 2011 and signed on its behalf by:


The Earl Cowley
Director


A J Ashworth
Director

THE PROTECTED ASSET TEP FUND PLC

Statement of financial position as at 31 December 2009

All amounts stated in Sterling

	Note	Original PATF 2009	PATF No.2 2009	Total 2009
Assets				
Non-current assets				
Financial assets at fair value through profit or loss	4	195,777,148	217,444,084	413,221,232
Current assets				
Cash and cash equivalents		3,141,084	8,862,612	12,003,696
Trade and other receivables		104,981	272,801	377,782
Unpaid management shares issued		100	-	100
		<u>3,246,165</u>	<u>9,135,413</u>	<u>12,381,578</u>
Total assets		<u>199,023,313</u>	<u>226,579,497</u>	<u>425,602,810</u>
Liabilities				
Current liabilities				
Trade and other payables		568,403	721,213	1,289,616
Non-current liabilities				
Bank loan – due after one year	11	14,000,000	40,000,000	54,000,000
Nominal shares				
	10	98,460	40,149	138,609
Non-current liabilities attributable to holders of management shares				
	10	<u>100</u>	<u>-</u>	<u>100</u>
Liabilities (excluding net assets attributable to holders of participating redeemable preference shares)				
		14,666,963	40,761,362	55,428,325
Net assets attributable to holders of participating redeemable preference shares				
	12	<u>184,356,350</u>	<u>185,818,135</u>	<u>370,174,485</u>
Total liabilities		<u>199,023,313</u>	<u>226,579,497</u>	<u>425,602,810</u>

The notes on pages 18 to 50 form part of these financial statements.

THE PROTECTED ASSET TEP FUND PLC

Statement of cash flows for the year ended 31 December 2010

All amounts stated in Sterling

	Original PATF 2010	PATF No.2 2010	Total 2010
Net cash used in operating activities	(4,875,785)	(7,867,556)	(12,743,341)
Investing activities			
Purchase of investments	(21,860,966)	(12,030,200)	(33,891,166)
Sale of investments	<u>22,010,694</u>	<u>20,927,146</u>	<u>42,937,840</u>
Net proceeds from investing activities	149,728	8,896,946	9,046,674
Financing activities			
Proceeds from issue of participating redeemable preference shares	15,530,464	9,461,334	24,991,798
Payment on redemptions of participating redeemable preference shares	<u>(46,817,524)</u>	<u>(33,140,782)</u>	<u>(79,958,306)</u>
	<u>(31,287,060)</u>	<u>(23,679,448)</u>	<u>(54,966,508)</u>
Net decrease in cash and cash equivalents	(36,013,117)	(22,650,058)	(58,663,175)
Cash and cash equivalents at beginning of year	<u>3,141,084</u>	<u>8,862,612</u>	<u>12,003,696</u>
Cash and cash equivalents at end of year	<u>(32,872,033)</u>	<u>(13,787,446)</u>	<u>(46,659,479)</u>
Cash	2,052	8,898	10,950
Bank overdrafts	<u>(32,874,085)</u>	<u>(13,796,344)</u>	<u>(46,670,429)</u>
Cash and cash equivalents at end of year	<u>(32,872,033)</u>	<u>(13,787,446)</u>	<u>(46,659,479)</u>
Reconciliation of profit before taxation to net cash used in operating activities			
Profit before taxation	13,412,117	15,125,175	28,537,292
Unrealised gain on investments	(18,174,747)	(23,509,730)	(41,684,477)
(Increase)/decrease in receivables	(67,528)	225,765	158,237
(Decrease)/increase in payables	<u>(45,627)</u>	<u>291,234</u>	<u>245,607</u>
Net cash used in operations	<u>(4,875,785)</u>	<u>(7,867,556)</u>	<u>(12,743,341)</u>

The notes on pages 18 to 50 form part of these financial statements.

THE PROTECTED ASSET TEP FUND PLC

Statement of cash flows for the year ended 31 December 2009

All amounts stated in Sterling

	Original PATF 2009	PATF No.2 2009	Total 2009
Net cash used in operating activities	(20,205,377)	(22,256,833)	(42,462,210)
Investing activities			
Purchase of investments	(5,584,247)	(13,112,222)	(18,696,469)
Sale of investments	60,387,713	97,181,464	157,569,177
Net proceeds from investing activities	54,803,466	84,069,242	138,872,708
Financing activities			
Proceeds from issue of participating redeemable preference shares	10,698,506	11,799,614	22,498,120
Payment on redemptions of participating redeemable preference shares	(43,247,818)	(29,885,910)	(73,133,728)
Repayment of bank loans	(35,000,000)	(61,500,000)	(96,500,000)
	(67,549,312)	(79,586,296)	(147,135,608)
Net decrease in cash and cash equivalents	(32,951,223)	(17,773,887)	(50,725,110)
Cash and cash equivalents at beginning of year	36,092,307	26,636,499	62,728,806
Cash and cash equivalents at end of year	3,141,084	8,862,612	12,003,696
Reconciliation of profit before taxation to net cash used in operating activities			
Profit before taxation	13,382,666	30,331,822	43,714,488
Unrealised gain on investments	(35,272,299)	(51,248,184)	(86,520,483)
Decrease/(increase) in receivables	1,426,382	(225,928)	1,200,454
Increase/(decrease) in payables	257,874	(1,114,543)	(856,669)
Net cash used in operations	(20,205,377)	(22,256,833)	(42,462,210)

The notes on pages 18 to 50 form part of these financial statements.

THE PROTECTED ASSET TEP FUND PLC

Notes to the financial statements for the year ended 31 December 2010

1. General information

The Protected Asset TEP Fund plc (the "Fund") is an open-ended investment company and was incorporated in the Isle of Man on 12 December 2000, with unlimited duration under the Companies Acts 1931 to 2004 of the Isle of Man. The address of its registered office is Sixty Circular Road, Douglas, Isle of Man, IM1 1SA.

The Fund is designed to provide investors with capital growth and relatively low risk through investment in a diversified portfolio of traded endowment policies ("TEPs").

Abacus Financial Services Limited ("AFSL") manages the Fund, with the custodian services being provided by BNP Paribas Trust Company (Guernsey) Limited. The Fund purchases TEPs through TIS Group Limited ("TIS") and its agent Absolute Assigned Policies Limited ("AAP"), who are among the oldest and largest market makers in TEPs.

These financial statements were authorised for issue by the Board of Directors on 15 April 2011.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied.

Statement of compliance

The financial statements of The Protected Asset TEP Fund plc (the "Fund") have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

Basis of preparation

The financial statements have been prepared under the historical cost convention modified by the revaluation of financial assets and financial liabilities at fair value through profit or loss. The financial statements are expressed in Sterling. The financial statements have been prepared on a going concern basis (as discussed in the Director's report on page 5) assuming the continuing provision of bank loan and overdraft facilities at current levels post the renewal date of 30 September 2011 (note 11) and that should it be necessary that redemption requests will be restricted (note 15) to ensure that premium commitments (note 5) and operating expenses can be met from policy maturity cash receipts (note 4).

Notes to the financial statements for the year ended
31 December 2010 (continued)

2. Summary of significant accounting policies (continued)

New Standards and Interpretations not yet adopted

This Standard is effective for financial reporting periods commencing on or after 1 January 2011.

IFRS 9 Financial Instruments

Standard issued November 2009 (IFRS 9 (2009))

IFRS 9 (2009) is the Standard issued as part of a wider project to replace IAS 39.

IFRS 9 (2009) retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortised cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The guidance in IAS 39 on impairment of financial assets and hedge accounting continues to apply.

Prior periods need not be restated if an entity adopts the Standard for financial reporting periods commencing before 1 January 2012.

This Standard is effective for financial reporting periods commencing on or after 1 January 2013.

Standard issued October 2010 (IFRS 9 (2010))

IFRS 9 (2010) adds the requirements related to the classification and measurement of financial liabilities and derecognition of financial assets and liabilities to the version issued in November 2009.

It also includes those paragraphs of IAS 39 dealing with how to measure fair value and accounting for derivatives embedded in a contract that contains a host that is not a financial asset, as well as the requirements of IFRIC 9 Reassessment of Embedded Derivatives.

Notes to the financial statements for the year ended
31 December 2010 (continued)

2. Summary of significant accounting policies (continued)

Below is a summary of amendments/improvements to Standards and Interpretations that are not yet effective:

Amendments/improvements		Effective date
IAS 32	IAS 32 Financial Instruments: Presentation: Classification of Rights Issues	1 February 2010
IFRS 1	IFRS 1 First-time Adoption of International Financial Reporting Standards – Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters	1 July 2010
IFRS 3	IFRS 3 Business Combinations	1 July 2010
IAS 27	IAS 27 Consolidated and Separate Financial Statements	1 July 2010
IFRIC 14	IAS 19 – The Limit on a Defined Benefit Assets, Minimum Funding Requirements and their Interaction	1 January 2011
IFRS 1	IFRS 1 First-time Adoption of IFRSs	1 January 2011
IFRS 7	IFRS 7 Financial Instruments: Disclosures	1 January 2011
IAS 1	IAS 1 Presentation of Financial Statements	1 January 2011
IAS 34	IAS 34 Interim Financial Reporting	1 January 2011
IFRIC 13	IFRIC 13 Customer Loyalty Programmes	1 January 2011
IFRS 7	IFRS 7 Disclosures – Transfers of Financial Assets	1 July 2011
IFRS 1	IFRS 1 Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters	1 July 2011
IAS 12	IAS 12 Deferred Tax: Recovery of Underlying Assets	1 January 2012

The Directors anticipate that the adoption of these Standards and Interpretations in future years will not have a significant impact on the financial statements.

Accounting periods of sub-funds

The Protected Asset TEP Fund Plc (the "Fund") was originally created with one sub-fund ("Original PATF"). A second sub-fund (the "SG Life TEP Fund") was subsequently created in November 2001. A third sub-fund, The Protected Asset TEP Fund No.2 ("PATF No.2") was created in September 2003. Subsequently, in November 2003, two further new sub-funds The Protected Asset TEP Fund Euro ("Original PATF Euro") and The Protected Asset TEP Fund US Dollar ("Original PATF US Dollar") were created. In January 2004, a further two new sub-funds, The Protected Assets TEP Fund No.2 Euro ("PATF No.2 Euro") and The Protected Asset TEP Fund No.2 US Dollar ("PATF No.2 US Dollar") were created.

2. Summary of significant accounting policies (continued)

Accounting periods of sub-funds (continued)

On 18 October 2004, all investors in the SG Life TEP Fund redeemed their holdings and no further subscriptions have been accepted for this sub-fund.

The results and position of PATF No.2 disclosed in the financial statements are those for the year ended 15 December 2010 (the sub-fund's valuation date), subject to adjustments for subscriptions and redemptions of shares in the period from 16 December 2010 to 31 December 2010. The Directors are of the opinion that the result and financial position for the year ended and as at 31 December 2010 is not materially different to those as at 15 December 2010.

The financial statements combine the results and financial position of Original PATF and PATF No.2, and disclose the combined financial information as "Total".

Critical accounting judgements

The Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

Where such judgements are made, they are indicated within the accounting policies below:

Valuation of financial assets

Investments in funds

Investments in other funds are classified as financial assets at fair value through profit or loss. These are recognised on a trade-date basis, are initially measured at fair value and are measured at subsequent reporting dates at their fair value. Unrealised gains and losses are recognised in the profit and loss.

The investment in a fund is valued by the fund administrator. The value of each share in the investment is determined by dividing the number of shares in issue by the net assets attributable to holders of participating redeemable preference shares in the fund at the valuation point.

Enhancements to invest in the Fund are not recognised in full in the year in which they arise. Instead the enhancement is recognised as an unrealised gain through the profit and loss over a period of 5 years (see note 4).

2. Summary of significant accounting policies (continued)

Valuation of financial assets (continued)

Traded Endowment Policies ("TEPs")

TEPs are recognised on a trade-date basis, are initially measured at fair value and are measured at subsequent reporting dates at their fair value. Gains and losses are recognised in the profit and loss.

The Directors approved a change in the basis of estimation of the fair value of the TEPs to a surrender value basis in November 2008, reflective of its forced seller status. In August 2009, the Fund began a managed transition back to 'Net Asset Value' (NAV), in line with the long term strategy of holding policies to maturity. The Directors believe that the 'Net Asset Value' (NAV) continues to reflect the best estimation of the fair value.

The fair value of TEPs is estimated by the Policy Administrator, from August 2009, using an industry standard methodology (the actuarial basis) which was appropriate when a liquid secondary market existed. The value determined by the methodology approximates the value which might be achieved for the relevant policy in a liquid secondary market. The methodology requires the computation of the estimated maturity values by reference to appropriate bonus rates for each life assurance company or where applicable maturity values provided by the life assurance companies. Such estimated values are then discounted back to the valuation date, together with the costs of future premiums, using appropriate discount rates. These discount rates were modelled so as to replicate the observed market prices of policies of similar duration and issuing life office. Once the present value has been calculated, at the Directors' discretion, a further discount was applied to provide a smoothing of the gross asset value to reflect expected short term movements in interest and bonus rates. The Directors' applied a discretionary discount factor to the NAV for the year ended 31 December 2010. The discount factor is discretionary and subject to change.

Under the revised basis of estimation of fair value (the surrender value basis), the value was initially computed on the prior basis. A discount factor, estimated by the Fund's actuarial consultant using a sampling technique in October 2008, and subsequently adjusted to reflect estimated movements in the markets between October 2008 and August 2009, was applied to give the estimated surrender value of the portfolio. A further adjustment was applied to take into account the costs of surrendering policies. It was not possible to quantify any uncertainty that may arise from this estimation technique.

The Directors of the Fund review the basis of estimation of fair value to be applied at future valuations in light of conditions in the secondary market.

Fund set-up expenses

Expenses incurred in the preparation and publication of the original and subsequent offering memorandums and all legal and printing costs have been paid by TIS Group Limited. The Fund has reimbursed TIS Group Limited for these fees.

For the purposes of preparing these financial statements set-up costs are expensed when incurred.

THE PROTECTED ASSET TEP FUND PLC

Notes to the financial statements for the year ended 31 December 2010 (continued)

2. Summary of significant accounting policies (continued)

Foreign currency translation

Functional and presentation currency

The Fund's investors can subscribe and redeem shares from sub-funds with currencies denominated in either, Sterling, Euro or US Dollar. The primary activity of the individual sub-funds is to invest in with profits endowment policies and other similar assets which are denominated in Sterling. In addition all expenses are settled in Sterling. The Board of Directors considers that each sub-fund has a functional currency of Sterling as this most faithfully represents the economic effects of the underlying transactions, events and conditions of the individual sub-funds, even though the investors redeem to the Fund in the currency of the sub-fund and with performance of the individual sub-fund reported in the sub-fund currency.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. For the individual sub-funds foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss. Translation differences on non-monetary financial assets and liabilities are recognised in the profit and loss within the fair value net gain or loss.

Derivative financial instruments

The Fund uses derivative financial instruments (foreign currency forward contracts) to hedge its risks associated with foreign currency fluctuations relating to certain firm commitments and forecast transactions. Such derivatives are initially recorded at fair value, and are re-measured to fair value at subsequent reporting dates. Changes in fair value of derivative financial instruments are recognised through the profit and loss.

Bank borrowing

Interest bearing overdrafts and loans are initially recorded at cost, being the proceeds received and subsequently at amortised cost. Finance charges are accounted for on an effective interest rate basis.

Trade receivables

Trade receivables do not carry any interest and are stated at their nominal value as reduced by their appropriate allowances for estimated irrecoverable amounts. The carrying value of trade receivables in the statement of financial position equates to their amortised cost.

Trade payables

Trade payables are not interest bearing and are stated at their nominal value. The carrying value of trade payables in the statement of financial position equates to their amortised cost.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, less bank overdrafts. The carrying value of cash and cash equivalents in the statement of financial position equates to their amortised cost.

THE PROTECTED ASSET TEP FUND PLC

Notes to the financial statements for the year ended 31 December 2010 (continued)

3. Taxation

The Fund is subject to tax in the Isle of Man at the standard rate of tax of 0% (2009: 0%).

4. Financial assets at fair value through profit or loss

	Original PATF 2010 £	PATF No.2 2010 £	Total 2010 £	Total 2009 £
Fair value at 1 January	195,777,148	217,444,084	413,221,232	465,573,457
Purchase of investments	21,860,966	12,030,200	33,891,166	18,696,469
Sale of investments	(22,010,694)	(20,927,146)	(42,937,840)	(157,569,177)
Increase in fair value	18,174,747	23,509,730	41,684,477	86,520,483
Fair value at 31 December	<u>213,802,167</u>	<u>232,056,868</u>	<u>445,859,035</u>	<u>413,221,232</u>

The financial assets at fair value through profit or loss comprise an investment in a related fund, the Protected Capital Growth Fund plc ("PCGF") and investments in traded endowment policies ("TEPs") as follows:

	Original PATF 2010 £	PATF No.2 2010 £	Total 2010 £	Total 2009 £
Fair value of TEPs	203,378,137	232,056,868	435,435,005	403,042,671
Fair value of PCGF	10,424,030	-	10,424,030	10,178,561
Fair value at 31 December	<u>213,802,167</u>	<u>232,056,868</u>	<u>445,859,035</u>	<u>413,221,232</u>

As more fully discussed in note 14, PCGF is a related party company.

The book cost of the investment in PCGF is as follows:

	Original PATF 2010 £	Original PATF 2009 £
Book cost	9,630,000	9,630,000
Enhancement (see below)	674,100	674,100
Collapse of sub-funds (see below) (note 6)	55,735	-
	<u>10,359,835</u>	<u>10,304,100</u>

THE PROTECTED ASSET TEP FUND PLC

**Notes to the financial statements for the year ended
31 December 2010 (continued)**

4. Financial assets at fair value through profit or loss (continued)

The market value of the investment in PCGF is as follows:

	Original PATF 2010 £	Original PATF 2009 £
Market value (pre-enhancement adjustment)	10,424,736	10,276,981
Adjustment for unamortised enhancement	(706)	(98,420)
Carrying value	<u>10,424,030</u>	<u>10,178,561</u>

The total investment cost at the year end was £9,630,000 (2009: £9,630,000). As an incentive to invest into PCGF, the Fund received a 7% enhancement fee in the form of extra units in PCGF. The total value of the enhancement at the year end was £674,100 (2009: £674,100). This enhancement has not been recognised in full in the current year, as the Fund would incur redemption penalties of a similar level if it was to withdraw from the investment. Instead the enhancement is being recognised through the profit and loss over a period of 5 years, which is the period over which redemption penalties would be payable. £97,714 (2009: £137,258) was recognised in the profit and loss.

The PCGF Sterling 2016, 2017, 2018, 2019 and 2020 Standard sub-funds had the same sole shareholder, the Fund, and in February 2010, the Sterling 2016, 2017, 2018 and 2019 Standard sub-funds were collapsed and the Fund's holdings and the sub-fund assets were transferred into the Sterling 2020 Standard sub-fund by way of an in-specie redemption and subscription of assets. The collapse and transfer were carried out to reduce the overall ongoing administration of PCGF and had no adverse impact on the Fund or the other PCGF sub-funds.

The total book cost of the TEPs is shown below:

	Original PATF 2010 £	PATF No.2 2010 £	Total 2010 £	Total 2009 £
Book cost on acquisition	172,612,630	218,627,742	391,240,372	408,467,540
Servicing costs since acquisition	<u>29,450,020</u>	<u>25,628,082</u>	<u>55,078,102</u>	<u>46,953,347</u>
Total book cost at 31 December	<u>202,062,650</u>	<u>244,255,824</u>	<u>446,318,474</u>	<u>455,420,887</u>

The total book cost includes purchase cost and servicing costs since acquisition. Servicing costs since acquisition comprise TEP premiums paid since acquisition and incidental costs relating to policy custody transaction charges to BNP Custody Bank Limited of £25 per transaction.

THE PROTECTED ASSET TEP FUND PLC

**Notes to the financial statements for the year ended
31 December 2010 (continued)**

4. Financial assets at fair value through profit or loss (continued)

The Original PATF sub-fund:

	2010 Number of policies held	2010 Book cost on acquisition £	2010 Fair market value £	2010 Fair market price %
Life office				
Standard Life	3,083	47,218,544	55,796,132	27.43
Norwich Union	1,935	31,837,295	36,961,740	18.17
Prudential	1,332	22,114,777	26,310,960	12.94
General Accident	1,177	15,103,900	19,890,109	9.78
Clerical Medical	982	13,109,771	17,441,066	8.58
Co-operative	775	8,263,829	10,433,323	5.13
Scottish Amicable	342	7,344,202	7,232,264	3.56
Other	1,604	27,620,312	29,312,543	14.41
	<u>11,230</u>	<u>172,612,630</u>	<u>203,378,137</u>	<u>100.00</u>

The investments have fixed maturities as shown below.

Maturity Profile

	2010 Number of policies held	2010 Fair value £
Less than one year	1,950	37,726,489
Greater than one year but less than five years	6,751	125,876,544
Greater than five years	2,529	39,775,104
	<u>11,230</u>	<u>203,378,137</u>

THE PROTECTED ASSET TEP FUND PLC

Notes to the financial statements for the year ended
31 December 2010 (continued)

4. Financial assets at fair value through profit or loss (continued)

The Original PATF sub-fund:

	2009 Number of policies held	2009 Book cost on acquisition £	2009 Fair market value £	2009 Fair market price %
Life office				
Standard Life	3,240	48,421,581	49,646,499	26.75
Norwich Union	2,093	34,092,753	35,584,031	19.17
Prudential	1,511	24,785,129	26,099,478	14.06
General Accident	1,142	14,458,191	17,727,779	9.55
Clerical Medical	990	13,246,883	15,843,383	8.54
Co-operative	886	9,438,653	10,078,190	5.43
Scottish Amicable	374	8,095,150	7,221,525	3.89
Royal London	431	6,302,951	6,893,621	3.71
Other	1,033	16,422,867	16,504,081	8.90
	<u>11,700</u>	<u>175,264,158</u>	<u>185,598,587</u>	<u>100.00</u>

The investments have fixed maturities as shown below.

Maturity Profile

	2009 Number of policies held	2009 Fair value £
Less than one year	740	12,573,415
Greater than one year but less than five years	6,942	116,783,780
Greater than five years	4,018	56,241,392
	<u>11,700</u>	<u>185,598,587</u>

THE PROTECTED ASSET TEP FUND PLC

Notes to the financial statements for the year
ended 31 December 2010 (continued)

4. Financial assets at fair value through profit or loss (continued)

The PATF No.2 sub-fund:

	2010 Number of policies held	2010 Book cost on acquisition £	2010 Fair market value £	2010 Fair market price %
Life office				
Standard Life	2,903	47,008,587	51,496,628	22.19
Prudential	1,952	34,617,631	37,208,955	16.03
Norwich Union	1,848	34,311,009	34,054,473	14.68
Clerical Medical	1,137	17,430,685	20,465,843	8.82
General Accident	1,129	16,411,255	18,909,823	8.15
Scottish Amicable	821	18,034,796	17,395,126	7.50
Scottish Widows	619	12,094,685	11,075,076	4.77
Co-operative	722	8,368,975	9,361,358	4.03
Sun Life of Canada	521	8,116,514	8,814,332	3.80
Friends Provident	475	7,881,058	8,352,073	3.60
Other	872	14,352,547	14,923,181	6.43
	<u>12,999</u>	<u>218,627,742</u>	<u>232,056,868</u>	<u>100.00</u>

The investments have fixed maturities as shown below.

Maturity Profile

	2010 Number of policies held	2010 Fair value £
Less than one year	1,900	36,232,697
Greater than one year but less than five years	7,325	135,065,803
Greater than five years	3,774	60,758,368
	<u>12,999</u>	<u>232,056,868</u>

THE PROTECTED ASSET TEP FUND PLC

Notes to the financial statements for the year ended
31 December 2010 (continued)

4. Financial assets at fair value through profit or loss (continued)

The PATF No.2 sub-fund:

	2009 Number of policies held	2009 Book cost on acquisition £	2009 Fair market value £	2009 Fair market price %
Life office				
Standard Life	2,942	47,655,542	44,319,109	20.38
Norwich Union	2,089	38,778,109	33,641,270	15.47
Prudential	2,038	36,437,688	34,640,059	15.93
Clerical Medical	1,176	17,979,416	18,860,504	8.67
General Accident	1,113	16,232,178	17,046,139	7.84
Scottish Amicable	927	20,345,591	17,531,419	8.06
Co-operative	770	9,038,386	8,482,156	3.90
Scottish Widows	624	12,449,908	9,938,009	4.57
Sun Life of Canada	584	9,265,445	8,861,474	4.08
Friends Provident	510	8,619,937	7,978,957	3.67
Other	969	16,401,182	16,144,988	7.43
	<u>13,742</u>	<u>233,203,382</u>	<u>217,444,084</u>	<u>100.00</u>

The investments have fixed maturities as shown below.

Maturity Profile

	2009 Number of policies held	2009 Fair value £
Less than one year	1,085	18,574,907
Greater than one year but less than five years	8,005	132,092,961
Greater than five years	4,652	66,776,216
	<u>13,742</u>	<u>217,444,084</u>

5. Premium commitments

Total premiums due on policies held by the Fund at 31 December 2010, falling due within 12 months were £13,205,694 (2009: £13,711,697). Should it be necessary redemption requests will be restricted (note 15) to ensure that the premium commitments can be met from policy maturity cash receipts (note 4).

THE PROTECTED ASSET TEP FUND PLC

Notes to the financial statements for the year ended
31 December 2010 (continued)

6. Profit/(loss) on sale of financial assets

	Original PATF 2010 £	PATF No.2 2010 £	Total 2010 £	Total 2009 £
On sale of and matured policies	(315,017)	(381,438)	(696,455)	(18,685,419)
On surrender of policies	31,713	-	31,713	-
On collapse of PCGF shares (note 4)	55,735	-	55,735	-
	<u>(227,569)</u>	<u>(381,438)</u>	<u>(609,007)</u>	<u>(18,685,419)</u>

In respect of each surrender of a TEP, the Fund agreed to pay to TIS Group Limited ("TIS") (note 14) a fee equal to 3% of the surrender value payable by the relevant issuing life company in respect of such TEPs.

On 18 September 2009 the Policy Provider confirmed that they would waive their policy surrender fee of 3%, or policy sale fee of 5%, if at any point the Fund had to surrender or dispose of policies to meet future redemptions up to the value of the then proposed policy purchase of £5.3m.

On 5 May 2010 the Policy Provider confirmed that, in relation to a further purchase by the Fund of £9.4m of policies, they would continue the past agreement to waive their policy surrender fee of 3% should the Fund subsequently decide to surrender these particular policies again within six months of purchase.

In November 2010 the Directors approved the surrender of 111 Standard Life policies held in the Original PATF US Dollar sub-fund. The surrender fee paid during the year was £nil (2009: £3,062,452).

7. Policy administration and custodian fees

	2010 £	2009 £
Policy administration fees	2,787,514	2,668,553
Custodian fees	250,098	233,642

The Fund's Policy Administrator is TEP Management Services Limited ("TMS") (note 14). The Policy Administrator is paid a periodic fee equal to 0.65% per annum of the net asset value of the Fund in respect of Original PATF and PATF No.2.

The Fund's Custodian is BNP Paribas Trust Company (Guernsey) Limited. The Custodian's remuneration is 0.125% per annum of the aggregate value of the property of the sub-funds up to £25 million and 0.0625% per annum in respect of such amounts which exceed £25 million.

THE PROTECTED ASSET TEP FUND PLC

Notes to the financial statements for the year ended 31 December 2010 (continued)

8. Manager fees

	2010 £	2009 £
Manager fees	<u>938,304</u>	<u>856,711</u>

The Fund's Manager, Abacus Financial Services Limited ("AFSL") (note 14) is paid a periodic fee equal to 0.20% per annum of the aggregate net asset value of the sub-funds, subject to a minimum fee of £25,000 per quarter.

In addition, for as long as the Fund does not have a Regulated Promoter, the Manager will also receive an additional fee equal to 0.05% per annum of the aggregate net asset value of the sub-funds, subject to minimum fee of £80,000 per annum.

9. Promoter fees, sales and marketing expenses

	2010 £	2009 £
Promoter fees	1,937,040	1,898,166
Sales and marketing expenses	<u>762,554</u>	<u>974,053</u>

The Fund pays to the Promoter (note 14) a periodic fee equal to 1% per annum of the net asset value of PATF No.2 (and not Original PATF).

Sales and marketing expenses are paid on PATF No.2 and have been paid to introducers via the Promoter. Redemption penalties payable by the investors will be paid to PATF No.2 and the total receivable for the year are £1,019,399 (2009: £1,696,270).

10. Share capital

The authorised share capital of the Fund comprises 1,000,000,000 (2009: 1,000,000,000) unclassified shares at a par value of £0.001 per share and 100 (2009: 100) management shares of £1.00 each, giving a total of £1,000,100 (2009: £1,000,100).

Transactions in the share capital of the Fund in the year were as follows:

	2010 Number	2010 £	2009 Number	2009 £
Management shares of £1.00 each in issue	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>

THE PROTECTED ASSET TEP FUND PLC

Notes to the financial statements for the year ended 31 December 2010 (continued)

10. Share capital (continued)

Participating redeemable preference shares of £0.001 in the Original PATF sub-fund:

	2010 Number	2010 £	2009 Number	2009 £
In issue at beginning of year	193,435,674	193,436	238,693,443	238,693
Issued during the year	15,371,640	15,371	10,292,620	10,293
Redeemed during the year	(47,948,107)	(47,948)	(55,550,389)	(55,550)
In issue at end of year	<u>160,859,207</u>	<u>160,859</u>	<u>193,435,674</u>	<u>193,436</u>

Participating redeemable preference shares of £0.001 in the PATF No.2 sub-fund:

	2010 Number	2010 £	2009 Number	2009 £
In issue at beginning of year	255,719,851	255,719	283,262,292	283,262
Issued during the year	11,719,202	11,719	15,816,754	15,816
Redeemed during the year	(42,357,180)	(42,357)	(43,359,195)	(43,359)
In issue at end of year	<u>225,081,873</u>	<u>225,081</u>	<u>255,719,851</u>	<u>255,719</u>

Nominal shares in the Original PATF sub-fund:

	2010 Number	2010 £	2009 Number	2009 £
In issue at beginning of year	98,459,460	98,460	53,201,691	53,202
Issued during the year	32,576,467	32,576	45,257,769	45,258
In issue at end of year	<u>131,035,927</u>	<u>131,036</u>	<u>98,459,460</u>	<u>98,460</u>

THE PROTECTED ASSET TEP FUND PLC

Notes to the financial statements for the year ended 31 December 2010 (continued)

10. Share capital (continued)

Nominal shares in the PATF No.2 sub-fund:

	2010 Number	2010 £	2009 Number	2009 £
In issue at beginning of year	40,149,781	40,149	12,607,340	12,607
Issued during the year	30,637,978	30,638	27,542,441	27,542
In issue at end of year	70,787,759	70,787	40,149,781	40,149

Management shares

The management shares hold all voting rights and are not entitled to participate in the assets of the Fund.

Unclassified shares

Unclassified shares may be issued either as nominal shares or participating redeemable preference shares.

Participating redeemable preference shares

Participating redeemable preference shares are issued and redeemed at the dealing price which is calculated in accordance with the articles of association and based on the value of the underlying net assets of the Fund at the time of issue or redemption. Upon the issue of participating redeemable preference shares the difference between the dealing price and the nominal value is credited to the share premium account. Upon the redemption of participating redeemable preference shares, the Manager is obliged to subscribe for nominal shares for cash at par. The premium payment is debited to the share premium account or, where this is exhausted, to realised capital reserves.

The participating redeemable preference shares confer the right to a proportionate share in the property of the Fund and to its dividend income, if any.

THE PROTECTED ASSET TEP FUND PLC

Notes to the financial statements for the year ended 31 December 2010 (continued)

10. Share capital (continued)

Nominal shares

Nominal shares may only be issued at par and only for the purpose of providing funds for the redemption of participating redeemable preference shares. They may only be issued to the Manager. The nominal shares may subsequently be converted and re-issued as participating redeemable preference shares upon payment of the appropriate subscription proceeds of the relevant sub-fund.

Winding up

The Protected Asset TEP Fund plc may be wound up if a special resolution of the Shareholders so determines.

On a winding up, the assets available for distribution amongst the Shareholders shall be applied by the liquidator in the following priority:

- firstly, in the repayment pari passu to the holders of participating redeemable preference shares of sums up to the nominal amount paid up thereon;
- secondly, in the repayment pari passu to the holders of the nominal shares of sums up to the nominal amount paid thereon;
- thirdly, in the repayment pari passu to the holders of the management shares of sums up to the nominal amount paid up thereon;
- fourthly, in the payment of holders of participating redeemable preference shares of any surplus of assets then remaining attributable to the participating redeemable preference shares, such payment being made in proportion to the nominal amounts paid up on such participating redeemable preference shares;
- fifthly, in the payment to the holders of the nominal shares of any balance then remaining and not attributable to the participating redeemable preference shares, in proportion to the nominal amounts paid up on such nominal shares.

THE PROTECTED ASSET TEP FUND PLC

Notes to the financial statements for the year ended 31 December 2010 (continued)

11. Bank overdraft and loan

The bank overdraft of Original PATF is drawn down from two facilities of £1,000,000 and £32,000,000 (2009: £1,000,000 and £29,000,000) which are renewable on 30 September 2011.

PATF No.2 has two overdraft facilities of £1,000,000 and £16,000,000 (2009: £1,000,000 and £44,000,000) which are renewable on 30 September 2011.

The financial statements have been prepared on the going concern basis on the assumption that the loan and overdraft facilities will continue to be available to the Fund for a period extending to at least 12 months from the date of approval of these financial statements, enabling future premium commitments and redemptions from the Fund in excess of maturities of TEPs to be met as they fall due. These facilities are due for renewal on 30 September 2011 and there is no guarantee that the facilities will be renewed on that date.

The advances carry a variable rate of interest of 3.25% (2009: 3.25%) above the Royal Bank of Scotland International Limited base rate for both the £1,000,000 facilities (2009: for both the £1,000,000 facilities) and 2.75% (2009: 2.75%) above LIBOR for the £32,000,000 and £16,000,000 (2009: £29,000,000 and £44,000,000) facilities.

Original PATF has drawn down from a £14,000,000 loan from the Royal Bank of Scotland International Limited which carries a variable rate of interest of 1% above LIBOR and is repayable on 30 September 2011.

PATF No.2 has a £40,000,000 loan from the Royal Bank of Scotland International Limited which carries a variable rate of interest at 1% above LIBOR and is repayable on 30 September 2011.

The loans and overdrafts are secured by assignments over the policies purchased by the respective sub-funds together with all money that may become payable under the policies and all premiums.

THE PROTECTED ASSET TEP FUND PLC

Notes to the financial statements for the year ended 31 December 2010 (continued)

12. Net assets attributable to holders of participating redeemable preference shares

	Original PATF 2010 £	PATF No.2 2010 £	Total 2010 £	Total 2009 £
Share capital (note 10)	160,859	225,081	385,940	449,155
Share premium account (note 12(i))	154,205,134	223,516,621	377,721,755	432,625,048
Accumulated gains/losses (note 12(ii))	(1,223,792)	(25,904,896)	(27,128,688)	(14,590,510)
Capital reserve (note 12(iii))	<u>13,339,206</u>	<u>(20,572,944)</u>	<u>(7,233,738)</u>	<u>(48,309,208)</u>
Net assets attributable to holders of participating redeemable preference shares	<u>166,481,407</u>	<u>177,263,862</u>	<u>343,745,269</u>	<u>370,174,485</u>

(i) Share premium account

	Original PATF 2010 £	PATF No.2 2010 £	Total 2010 £	Total 2009 £
Balance at 1 January	185,459,617	247,165,431	432,625,048	483,187,857
Arising on issue of participating redeemable preference shares	15,515,093	9,449,615	24,964,708	22,472,010
Used in redemption of participating redeemable preference shares	<u>(46,769,576)</u>	<u>(33,098,425)</u>	<u>(79,868,001)</u>	<u>(73,034,819)</u>
Balance at 31 December	<u>154,205,134</u>	<u>223,516,621</u>	<u>377,721,755</u>	<u>432,625,048</u>

THE PROTECTED ASSET TEP FUND PLC

Notes to the financial statements for the year ended
31 December 2010 (continued)

12. Net assets attributable to holders of participating redeemable preference shares (continued)

(ii) Accumulated gains/(losses)

	Original PATF 2010 £	PATF No.2 2010 £	Total 2010 £	Total 2009 £
Balance at 1 January	3,311,269	(17,901,779)	(14,590,510)	9,530,066
Net increase/(decrease) in net assets attributable to holders of participating redeemable preference shares	13,412,117	15,125,175	28,537,292	43,714,488
Realised and unrealised (gain)/loss on investments transferred to capital reserve	(17,947,178)	(23,128,292)	(41,075,470)	(67,835,064)
Balance at 31 December	(1,223,792)	(25,904,896)	(27,128,688)	(14,590,510)

(iii) Capital reserve

	Original PATF 2010 £	PATF No.2 2010 £	Total 2010 £	Total 2009 £
Balance at 1 January	(4,607,972)	(43,701,236)	(48,309,208)	(116,144,272)
Realised and unrealised gain on investments transferred from accumulated gains/losses	17,947,178	23,128,292	41,075,470	67,835,064
Balance at 31 December	13,339,206	(20,572,944)	(7,233,738)	(48,309,208)

THE PROTECTED ASSET TEP FUND PLC

Notes to the financial statements for the year ended
31 December 2010 (continued)

13. Financial risks

a) Foreign currency risk

The Fund is exposed to foreign currency risk which arises from the Fund holding assets denominated in currencies other than Sterling, the functional currency. Foreign currency risk arises as the value of future transactions, recognised monetary assets and liabilities in other currencies fluctuate due to changes in exchange rates.

The Fund issues currency participating redeemable preference shares for the Euro and US Dollar sub-funds each of which hold Sterling assets and liabilities, hence exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters utilising forward foreign exchange contracts.

The carrying amount of the Fund's foreign currency denominated net monetary assets at 31 December 2010 and 31 December 2009 is as follows:

	2010 £	% of net assets	2009 £	% of net assets
Euro	123,909,393	36.05	132,948,950	35.92
US Dollar	43,573,269	12.68	50,598,470	13.67

At the balance sheet date, the Euro exchange rate was 1.1685 (2009: 1.1269) and the US Dollar exchange rate was 1.5591 (2009: 1.6148). If the exchange rates had been 10% lower or 10% higher, there would have been an increase of £13,767,710 (2009: £14,772,106) or a decrease of £11,264,490 (2009: £12,086,268) in the Sterling value of the Euro net assets and an increase of £4,841,474 (2009: £5,622,052) or a decrease of £3,961,206 (2009: £4,599,861) in the Sterling value of the US Dollar net assets.

At 31 December 2010 and 31 December 2009, forward currency contracts were in place for each non-Sterling sub-fund of Fund.

THE PROTECTED ASSET TEP FUND PLC

Notes to the financial statements for the year ended
31 December 2010 (continued)

13. Financial risks (continued)

b) Forward contracts

The Fund enters into forward Euro and US Dollar currency contracts to protect the Euro and Dollar interests in the Fund.

At 31 December 2010 (15 December 2010 for PATF No.2), the Fund held outstanding forward contracts with Allied Irish Bank's plc ("AIB") as set out below.

Purchase currency	Contractual amount	Sale currency	Contractual amount	Maturity date	Unrealised gain/(loss)
EUR	9,287,128	£	8,075,693	31/01/2011	(114,160)
EUR	12,312,755	£	10,335,996	28/02/2011	219,302
EUR	9,403,501	£	8,106,816	31/03/2011	(45,520)
EUR	14,694,417	£	12,914,763	15/01/2011	(383,280)
EUR	12,798,333	£	10,857,086	15/02/2011	57,406
EUR	14,464,849	£	12,269,265	15/03/2011	66,442
US\$	4,424,803	£	2,785,961	31/01/2011	52,088
US\$	6,854,208	£	4,417,652	28/02/2011	(21,393)
US\$	6,323,815	£	4,078,960	31/03/2011	(22,892)
US\$	5,352,298	£	3,338,926	15/01/2011	99,749
US\$	5,502,252	£	3,426,508	15/02/2011	108,508
US\$	5,707,357	£	3,638,736	15/03/2011	28,053
					44,303

At 31 December 2009 (15 December 2009 for PATF No.2), the Fund held outstanding forward contracts with Allied Irish Bank's plc ("AIB") as set out below.

Purchase currency	Contractual amount	Sale currency	Contractual amount	Maturity date	Unrealised gain/(loss)
EUR	34,774,540	£	31,062,563	05/01/2010	(203,978)
EUR	39,926,992	£	35,776,875	17/12/2009	(83,157)
US\$	20,356,765	£	12,626,699	05/01/2010	(20,330)
US\$	19,173,279	£	11,817,121	17/12/2009	(10,914)
					(318,379)

THE PROTECTED ASSET TEP FUND PLC

Notes to the financial statements for the year ended
31 December 2010 (continued)

13. Financial risks (continued)

b) Forward contracts (continued)

At 31 December 2010 (15 Dec 2010 for PATF No.2) the Fund held outstanding forward contracts with the Royal Bank of Scotland International ("RBSI") as set out below.

Purchase currency	Contractual amount	Sale currency	Contractual amount	Maturity date	Unrealised gain/(loss)
EUR	2,680,485	£	2,310,962	31/01/2011	(13,075)
EUR	2,678,979	£	2,399,229	28/02/2011	(102,633)
EUR	2,677,538	£	2,399,658	31/03/2011	(104,297)
EUR	2,675,658	£	2,329,697	29/04/2011	(35,949)
EUR	4,913,437	£	4,197,008	31/05/2011	15,111
EUR	2,675,855	£	2,195,303	30/06/2011	98,615
EUR	3,226,948	£	2,696,539	29/07/2011	69,812
EUR	771,045	£	638,177	31/08/2011	22,814
EUR	3,254,902	£	2,796,067	30/09/2011	(5,748)
EUR	2,686,331	£	2,333,505	31/10/2011	(30,607)
EUR	1,443,271	£	1,211,306	30/11/2011	25,960
EUR	2,670,828	£	2,310,005	31/12/2011	(20,397)
EUR	3,194,628	£	2,848,785	31/01/2011	(124,388)
EUR	3,192,096	£	2,775,012	28/02/2011	(52,774)
EUR	3,191,904	£	2,919,513	31/03/2011	(197,439)
EUR	3,190,448	£	2,809,977	29/04/2011	(89,145)
EUR	3,182,138	£	2,736,264	31/05/2011	(22,518)
EUR	3,664,750	£	3,055,486	30/06/2011	69,834
EUR	3,191,128	£	2,668,168	29/07/2011	53,245
EUR	3,355,806	£	2,763,345	31/08/2011	98,506
EUR	3,210,357	£	2,688,741	30/09/2011	49,070
EUR	3,543,902	£	3,112,782	31/10/2011	(90,522)
EUR	3,192,961	£	2,710,493	30/11/2011	12,482
EUR	3,185,859	£	2,705,843	31/12/2011	11,076
US\$	1,765,369	£	1,090,272	31/01/2011	42,028
US\$	1,766,175	£	1,165,792	28/02/2011	(32,975)
US\$	1,766,720	£	1,170,711	31/03/2011	(37,544)
US\$	1,766,191	£	1,155,128	29/04/2011	(22,301)
US\$	2,180,645	£	1,494,309	31/05/2011	(95,653)
US\$	837,617	£	558,300	30/06/2011	(21,056)
US\$	1,763,705	£	1,132,831	29/07/2011	(1,598)
US\$	896,795	£	585,490	31/08/2011	(10,290)
US\$	1,012,748	£	640,210	30/09/2011	9,362
US\$	2,180,404	£	1,378,955	31/10/2011	19,546

Continued overleaf

THE PROTECTED ASSET TEP FUND PLC

Notes to the financial statements for the year ended
31 December 2010 (continued)

Purchase currency	Contractual amount	Sale currency	Contractual amount	Maturity date	Unrealised gain/(loss)
US\$	930,226	£	601,076	30/11/2011	(4,434)
US\$	280,470	£	181,946	31/12/2011	(2,054)
US\$	1,535,987	£	946,796	31/01/2011	40,025
US\$	1,535,951	£	980,906	28/02/2011	5,892
US\$	1,536,428	£	1,023,876	31/03/2011	(36,771)
US\$	1,536,480	£	999,597	29/04/2011	(12,459)
US\$	1,538,327	£	1,069,323	31/05/2011	(80,998)
US\$	1,537,844	£	1,042,960	30/06/2011	(54,946)
US\$	1,534,644	£	1,002,511	29/07/2011	(16,553)
US\$	841,615	£	540,120	31/08/2011	590
US\$	1,318,996	£	852,423	30/09/2011	(5,011)
US\$	1,235,422	£	772,525	31/10/2011	21,193
US\$	1,120,706	£	700,879	30/11/2011	19,137
US\$	1,528,686	£	979,299	31/12/2011	2,831
					<u>(637,006)</u>

At 31 December 2009 (15 Dec 2009 for PATF No.2) the Fund held outstanding forward contracts with the Royal Bank of Scotland International ("RBSI") as set out below.

Purchase currency	Contractual amount	Sale currency	Contractual amount	Maturity date	Unrealised gain/(loss)
EUR	29,531,587	£	26,545,155	02/12/2010	(339,114)
EUR	35,165,695	£	31,507,785	02/12/2010	(70,026)
US\$	19,473,300	£	11,797,695	02/12/2010	261,569
US\$	16,932,664	£	10,164,468	02/12/2010	263,541
					<u>115,970</u>

c) Interest rate risk

Interest rate risk arises from the effects of fluctuations in the prevailing levels of market interest rates on the fair value of financial assets and liabilities and future cash flow.

The majority of the Fund's financial assets are non-interest bearing. As a result, the Fund is not subject to significant amount of risk due to fluctuations in the prevailing levels of market interest rates. Any excess cash is invested at short-term market interest rates.

THE PROTECTED ASSET TEP FUND PLC

Notes to the financial statements for the year ended
31 December 2010 (continued)

13. Financial risks (continued)

c) Interest rate risk (continued)

The table below summarises the Fund's exposure to interest rate risk on a bid market price basis:

	Less than one month £	Less than one year £	After one year £	Non-interest bearing £	Total £
At 31 December 2010					
Assets					
Financial assets at fair value through profit or loss	–	–	–	445,859,035	445,859,035
Cash and cash equivalents	10,950	–	–	–	10,950
Trade and other receivables	–	–	–	282,759	282,759
Unpaid management shares issued	–	–	–	100	100
Total assets	<u>10,950</u>	<u>–</u>	<u>–</u>	<u>446,141,894</u>	<u>446,152,844</u>
Liabilities					
Trade and other payables	–	–	–	1,535,223	1,535,223
Bank loans	–	54,000,000	–	–	54,000,000
Bank overdrafts	–	46,670,429	–	–	46,670,429
Management shares	–	–	–	100	100
Nominal shares	–	–	–	201,823	201,823
Participating redeemable preference shares	–	–	–	343,745,269	343,745,269
Total liabilities	<u>–</u>	<u>100,670,429</u>	<u>–</u>	<u>345,482,415</u>	<u>446,152,844</u>
Total interest sensitivity gap	<u>10,950</u>	<u>(100,670,429)</u>	<u>–</u>	<u>100,659,479</u>	<u>–</u>

THE PROTECTED ASSET TEP FUND PLC

Notes to the financial statements for the year ended
31 December 2010 (continued)

13. Financial risks (continued)

c) Interest rate risk (continued)

The table below summarises the Fund's exposure to interest rate risk on a bid market price basis:

	Less than one month £	Less than one year £	After one year £	Non- interest bearing £	Total £
At 31 December 2009					
Assets					
Financial assets at fair value through profit or loss	–	–	–	413,221,232	413,221,232
Cash and cash equivalents	12,003,696	–	–	–	12,003,696
Trade and other receivables	–	–	–	377,782	377,782
Unpaid management shares issued	–	–	–	100	100
Total assets	12,003,696	–	–	413,599,114	425,602,810
Liabilities					
Trade and other payables	–	–	–	1,289,616	1,289,616
Bank loans	–	–	54,000,000	–	54,000,000
Management shares	–	–	–	100	100
Nominal shares	–	–	–	138,609	138,609
Participating redeemable preference shares	–	–	–	370,174,485	370,174,485
Total liabilities	–	–	54,000,000	371,602,810	425,602,810
Total interest sensitivity gap	12,003,696	–	(54,000,000)	41,996,304	–

Interest is payable for the current and previous years on the bank loans at 3.25% (2009: 3.25%) per annum above the Bank's Base Rate, which was set at 0.5% as at 31 December 2010 (0.5% as at 31 December 2009). However, if the base rate had risen by 1%, the Fund would have paid additional annual finance costs of £1,006,704 (2009: £552,896). A base rate reduction of 1% would have reduced finance costs by the same amounts.

THE PROTECTED ASSET TEP FUND PLC

Notes to the financial statements for the year ended
31 December 2010 (continued)

13. Financial risks (continued)

d) Price risk

The Fund is exposed to price risk. This arises from investments held by the Fund for which prices in the future are uncertain.

The Fund will invest in policies whose in-built guarantees, consisting of the sum assured and attaching bonuses, will typically be greater than the prices paid. The Fund will also aim to invest in policies maturing at the longer end of the market, which can represent better investment value.

Prices for TEPs are calculated on the market pricing discount rates ("PDRs"). The Fund is exposed to the prices of the assets falling. The below stress test looks at +/- 15% movements to the TEPs and the corresponding effect on the share prices of the respective sub-funds:

The Protected Asset TEP Fund plc at 31 December 2010:

Movement in Share Price

Sub-fund	TEP values raised by 15%	TEP values lowered by 15%
Original PATF Sterling	17.00%	-17.00%
Original PATF Euro	20.69%	-20.69%
Original PATF US Dollar	17.73%	-17.72%
PATF No.2 Sterling	18.61%	-18.61%
PATF No.2 Euro	18.78%	-18.78%
PATF No.2 US Dollar	19.48%	-19.47%

The Protected Asset TEP Fund plc 31 December 2009:

Movement in Share Price

Sub-fund	Policy surrender values raised by 15%	Policy surrender values lowered by 15%
Original PATF Sterling	14.20%	-14.22%
Original PATF Euro	16.18%	-16.18%
Original PATF US Dollar	15.84%	-15.65%
PATF No.2 Sterling	16.79%	-16.79%
PATF No.2 Euro	16.54%	-16.54%
PATF No.2 US Dollar	16.76%	-16.79%

Notes to the financial statements for the year ended
31 December 2010 (continued)

13. Financial risks (continued)

d) Price risk (continued)

The valuation basis for the Fund was amended in November 2008 to a Net Realisable Value ("NRV") basis, an approach which is underpinned by surrender values rather than market driven pricing rates. In August 2009, the Fund began a managed transition back to 'Net Asset Value' (NAV) and the Directors continued to consider this to be a fair basis of valuation. A discount is applied to the NAV at the Directors discretion (see note 2 TEPs).

Life Office concentration risk

The Fund is exposed from counter party risk with respect to life offices failing to meet their obligation on the policies it holds. The tables below list the top five holdings for the PATF funds:

At 31 December 2010:

Original PATF	Weighting	PATF No.2	Weighting
Original Standard Life	27.4%	Standard Life	22.2%
Norwich Union	18.2%	Prudential	16.0%
Prudential	12.9%	Norwich Union	14.7%
General Accident	9.8%	Clerical Medical	8.8%
Clerical Medical	8.6%	General Accident	8.1%

At 31 December 2009:

Original PATF	Weighting	PATF No.2	Weighting
Standard Life	26.8%	Standard Life	20.4%
Norwich Union	19.2%	Prudential	15.9%
Prudential	14.1%	Norwich Union	15.5%
General Accident	9.4%	Clerical Medical	8.7%
Clerical Medical	8.5%	Scottish Amicable	8.0%

Notes to the financial statements for the year ended
31 December 2010 (continued)

13. Financial risks (continued)

d) Price risk (continued)

Fair value hierarchy

The Fund has adopted the amendment to IFRS 7. This requires the Fund to classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the following levels:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1)
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either currency (that is, as prices) or indirectly (that is, derived prices) (level 2)
- Inputs for the asset or liability that are not based on observable market assets (that is, unobservable inputs) (level 3)

The following tables analyse within the fair value hierarchy the Funds financial assets measured at fair value:

At 31 December 2010:

	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss	£	£	£	£
- PCGF	-	-	10,424,030	10,424,030
Original PATF:				
- TEPs	-	-	203,378,137	203,378,137
PATF No.2:				
- TEPs	-	-	232,056,868	232,056,868
	-	-	445,859,035	445,859,035

At 31 December 2009:

	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss	£	£	£	£
- PCGF	-	-	10,178,561	10,178,561
Original PATF:				
- TEPs	-	-	185,598,587	185,598,587
PATF No.2:				
- TEPs	-	-	217,444,084	217,444,084
	-	-	413,221,232	413,221,232

13. Financial risks (continued)

e) Credit risk

The Fund is exposed to credit risk, which is the risk that one party will cause a financial loss for the other party by failing to discharge an obligation.

The Fund takes on exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due (see note 4).

It is the Fund's policy to enter into financial investments which are operated in territories with a regulatory environment which is considered by the Directors to be a sufficient standard to provide reasonable investor protection. Therefore, the Fund does not expect to incur material credit losses on its financial investments.

The Fund will only invest in policies issued by well established companies. The bank deposits and bank loans are all held with The Royal Bank of Scotland International Limited, which carries a credit rating of A+/Stable/A-1.

f) Liquidity risk

Liquidity risk is the risk that the Fund may not be able to generate sufficient cash resources to settle its obligations in full as they fall due.

In December 2008 the Fund surrendered TEPs back to the life offices, prior to the maturity date, to finance redemptions requests and the Fund continued to surrender TEPs to August 2009, when the Fund began a transition back to 'Net Asset Value' (NAV).

The Fund will use competitively priced bank finance to increase the portfolio's size, to fund policy premiums and to provide a liquidity reserve. This approach will avoid the need to hold a proportion of subscriptions on deposit at rates which are below the returns achievable on funds invested in policies.

The Fund historically used gearing to increase returns. Any borrowing attributable to the Fund will be limited to an amount equal to 50% of the value of the policies acquired by the relevant sub-fund at the time of borrowing.

g) Capital risk management

The capital of the Fund is represented by the net assets attributable to holders of participating redeemable preference shares. The amount of the net assets attributable to holders of participating redeemable preference shares can significantly change on a daily basis as the Fund is subject to daily subscriptions and redemptions at the discretion of the shareholders. The Funds objective when managing capital is to safeguard the Fund's ability to continue as a going concern in order to provide returns for shareholders.

The Fund manages cash and cash equivalents, which comprise cash on hand and demand deposits, bank loans and bank overdraft facilities.

g) Capital risk management (continued)

The Royal Bank of Scotland International Limited holds a second charge over the policies held by the Fund as security in respect of interest rate hedging.

The overdraft facility can be used to increase by 25% the value of policies acquired, in addition to paying premiums which, on average, are estimated to be equal to 5% per annum of the cost of policies acquired. The Board of Directors ensure that at no time will the level of borrowings attributable to the Fund exceed 50% of the Fund's net asset value. The Board of Directors monitor this on a quarterly basis.

The Fund is exposed to foreign currency risk as not all of the assets of the Fund are held in Sterling. The Fund enters into forward Euro and US Dollar currency contracts to protect the Euro and US Dollar interests in the Fund (see note 13a).

14. Controlling party and related party transactions

The controlling shareholder is TIS Group Limited ("TIS"). TIS control all of the management shares which have no interest in the assets of the Fund. Only holders of management shares are entitled to vote at general meetings, save where a special resolution is passed to wind up the Fund or to alter the rights attaching to shares. At 31 December 2010, TIS owned 100,000 (2009: 100,000) of the participating redeemable preference shares. The participating redeemable preference shares were acquired during the initial offer period and were subscribed for at the offer price.

TIS have been appointed as the Policy Provider to the Fund under the terms of an agreement dated 14 December 2000. During the year TIS supplied policies to the Fund to a value of £25,710,678 (2009: £15,781,096). TIS does not charge the Fund a fee for supplying TEPs. The agreement may be terminated by the Fund by giving 12 months notice or by TIS giving not less than 6 months notice.

During the year TIS received surrender fees amounting to 3% of the value of policies surrendered under an agreement which was formally signed on 11 March 2009, totalling £nil (2009: £3,062,452).

The Fund has also entered into a policy administration agreement with TEP Management Services Limited ("TMS") dated 3 November 2003. TMS is a wholly owned subsidiary of TIS. During the year TMS has received fees totalling £2,787,514 (2009: £2,668,553) in respect of administrative services. The agreement may be terminated by the Fund giving 12 months notice or by TMS giving not less than 6 months notice.

In addition to being a Director of the Fund, Arnie Iversen is also a Director of TIS Holdings Limited, TIS and TMS.

THE PROTECTED ASSET TEP FUND PLC

Notes to the financial statements for the year ended 31 December 2010 (continued)

14. Controlling party and related party transactions (continued)

The Fund entered into a promoter agreement with Protected Distribution Limited on 20 January 2004, the agreement ceased on 30 November 2010 and the Fund entered into a new promoter agreement with Absolute Assigned Policies Limited t/a PDL International ("PDL") on the same date. In addition to being a Director of the Fund Arnie Iversen is a shareholder of Protected Distribution Limited and a Director of PDL. The fees payable to the Promoter for the current and prior years are set out in note 9.

The Original PATF Sterling sub-fund invests in the Protected Capital Growth Fund plc ("PCGF"). The total investment cost at the year end was £9,630,000 (2009: £9,630,000). As an incentive to invest into PCGF the Fund received a 7% enhancement fee in the form of extra units in PCGF. The total value of the enhancement at the year end was £674,100 (2009: £674,100).

In addition to being Directors of the Fund during the year Earl Cowley, Alex Foley, Andrew Ashworth and Arnie Iversen are Directors of PCGF.

The Manager of the Fund, AFSL, also acts as Manager for PCGF. A fee is paid from PCGF and from Original PATF to meet the cost of management in each fund. TIS Group Limited, TEP Management Services Limited and Protected Distribution Limited act as Policy Provider, Policy Administrator and Promoter respectively for the Fund and for PCGF. Fees are not paid to the Policy Provider for the provision of policies. The fee to the Policy Administrator is adjusted so that fees are not paid twice with regard to the same investment. Fees are not paid to the Promoter for Original PATF.

15. Events after the reporting date

The latest available unaudited, net asset values per share of each sub-fund are:

Original PATF Sterling	28 February 2011	£1.3712
Original PATF Euro	28 February 2011	€0.9734
Original PATF US Dollar	28 February 2011	\$1.1732
PATF No.2 Sterling	15 February 2011	£0.9148
PATF No.2 Euro	15 February 2011	€0.9139
PATF No.2 US Dollar	15 February 2011	\$0.9721

Following the year ended 31 December 2010 there have been net redemptions of:

Original PATF Sterling	£8,651,307
Original PATF Euro	€7,375,146
Original PATF US Dollar	\$5,711,858
PATF No.2 Sterling	£3,757,759
PATF No.2 Euro	€2,610,446
PATF No.2 US Dollar	\$1,029,006

On 16 February 2011 the Directors resolved to impose a gate on redemptions on the Original PATF US Dollar sub-fund with effect from 1 April 2011 dealing for all instances of 5% of the shares in issue or above.

THE PROTECTED ASSET TEP FUND PLC

Notes to the financial statements for the year ended 31 December 2010 (continued)

15. Events after the reporting date (continued)

Following the year ended 31 December 2010 the following policies have been surrendered:

Original PATF Sterling	28/02/2011	155 policies	Estimated proceeds	£1,908,583
Original PATF Euro	31/01/2011	572 policies	Estimated proceeds	£9,479,570
Original PATF US Dollar	31/01/2011	452 policies	Estimated proceeds	£6,330,220
PATF No.2 Sterling	28/02/2011	401 policies	Estimated proceeds	£5,308,328
PATF No.2 Euro	28/02/2011	224 policies	Estimated proceeds	£3,113,587
PATF No.2 US Dollar	28/02/2011	99 policies	Estimated proceeds	£1,452,268

Further surrenders may be required during the year to meet liquidity requirements.

THE PROTECTED ASSET TEP FUND PLC

Independent Auditor's report on the Statement of Net Asset Value, calculated in accordance with the Scheme Particulars dated 21 May 2010, to the Directors of The Protected Asset TEP Fund plc (the "Statement of Net Asset Value")

We have examined the Statement of Net Asset Value set out on pages 52 to 54.

Respective responsibilities of Directors and Auditors

As described on page 7 the Directors are responsible for the preparation of the financial statements. The Directors are also responsible for the preparation of the Statement of Net Asset Value in accordance with the Scheme Particulars dated 21 May 2010. Our responsibility is to examine the Statement of Net Asset Value and to report our opinion in accordance with our letter of engagement dated 20 April 2010.

Basis of opinion

Our opinion is based solely on our examination of the Statement of Net Asset Value set out on pages 52 to 54 and of the adjustments required to calculate the respective net asset values of Original PATF and PATF No.2 as set out in the Scheme Particulars dated 21 May 2010.

Opinion

In our opinion the figures given in the Statement of Net Asset Value have been correctly extracted, where appropriate, from the Fund's accounting records or financial statements on which our opinion is included on page 8 and 9 of the financial statements. The adjustments have been made in accordance with the Scheme Particulars and the calculations shown on the Statement of Net Asset Value have been correctly performed.



KPMG Audit LLC
Chartered Accountants
Heritage Court
41 Athol Street
Douglas
Isle of Man
IM99 1HN

18 April 2011

THE PROTECTED ASSET TEP FUND PLC

Statement of Net Asset Value (NAV) as at 31 December 2010

	Original PATF 2010 £	PATF No.2 2010 £
Net assets attributable to holders of participating redeemable preference shares – Audited statement of financial position (page 14)	166,481,407	177,263,862
Management shares unpaid at the year end	100	-
Adjustments in accordance with the Scheme Particulars (see notes):		
Unamortised sales and marketing expenses	-	5,049,609
Share dealing 16 December 2010	-	2,722,357
Statement of financial position revaluation at year end	-	33,445
Unrecognised enhancement for PCGF investment	706	-
	<u>166,482,213</u>	<u>185,069,273</u>
Number of shares in issue at 15 December 2010	160,859,207	228,364,686
Number of shares redeemed on 16 December 2010	-	(3,282,813)
Number of shares in issue at 31 December 2010 (note 10)	<u>160,859,207</u>	<u>225,081,873</u>
Net asset value per share	1.0349	0.8222

For and on behalf of the Board



A J Ashworth
Director

15 April 2011

THE PROTECTED ASSET TEP FUND PLC

Statement of Net Asset Value (NAV)
as at 31 December 2010

Net asset value attributable to the Original PATF sub-fund:

Sub-fund	Total net asset value £	Total net assets in designated currency	Number of shares in issue	NAV per share
Original PATF Sterling	89,604,179	89,604,179	65,589,236	£1.3661
Original PATF Euro	54,518,756	63,596,129	65,709,399	€0.9678
Original PATF US Dollar	22,359,278	34,860,350	29,560,572	\$1.1792
	<u>166,482,213</u>		<u>160,859,207</u>	

Net asset value attributable to the Original PATF No.2 sub-fund:

Sub-fund	Total net asset value £	Total net assets in designated currency	Number of shares in issue	NAV per share
PATF No.2 Sterling	91,449,138	91,449,138	100,502,723	£0.9099
PATF No.2 Euro	71,626,731	83,989,504	92,456,415	€0.9084
PATF No.2 US Dollar	21,993,405	34,232,736	35,405,548	\$0.9668
	<u>185,069,274</u>		<u>228,364,686</u>	

The total net asset values, number of shares in issue and net asset value per share for PATF No.2 are those as at 15 December 2010, as disclosed in the relevant sub-fund's Statement of Net Asset Value. The financial statements were adjusted for share capital transactions (as disclosed in note 2).

THE PROTECTED ASSET TEP FUND PLC

Statement of Net Asset Value (NAV)
as at 31 December 2010

Notes

In accordance with the provisions of the Scheme Particulars:

Set-up expenses

Fund set-up expenses of the Fund on incorporation, which amounted to £59,822 for Original PATF and £19,000 for PATF No.2, were being amortised over the first five years on a straight line basis. The set-up expenses were fully amortised in the year ended 31 December 2008.

Sales and marketing expenses

Sales and marketing expenses paid are being amortised over five years on a straight line basis.

	PATF No.2 2010 £	PATF No.2 2009 £
Brought forward	8,968,503	14,515,212
Additions	(256,845)	(722,217)
Amortisation for the year	<u>(3,662,049)</u>	<u>(4,824,492)</u>
Unamortised net book value at 31 December	<u>5,049,609</u>	<u>8,968,503</u>

Additions during the year include sales and marketing costs less redemption penalties.