



Protected  
Asset TEP  
Fund plc

# The Protected Asset TEP Fund plc

Financial statements for the year ended 31 December 2016



# THE PROTECTED ASSET TEP FUND PLC

## Report and financial statements for the year ended 31 December 2016

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# THE PROTECTED ASSET TEP FUND PLC

## Officers and professional advisers

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|-----------------------------|--|
| <b>Directors</b>            | Rupert Cottrell<br>Neil Duggan<br>Katherine Spiteri  |
| <b>Secretary</b>            | Chris Tushingham   |
| <b>Registered Office</b>    | First Names House<br>Victoria Road<br>Douglas<br>Isle of Man IM2 4DF   |
| <b>Manager</b>              | Moore Fund Administration (IOM) Limited<br>First Names House<br>Victoria Road<br>Douglas<br>Isle of Man IM2 4DF  |
| <b>Custodian</b>            | BNP Paribas Securities Services SCA Guernsey Branch<br>PO Box 412, BNP Paribas House<br>St Julian's Avenue<br>St Peter Port, Guernsey<br>Channel Islands GY1 3WE           |
| <b>Bankers</b>              | The Royal Bank of Scotland International Limited<br>PO Box 62, Royal Bank Place<br>1 Glatigny Esplanade<br>St Peter Port, Guernsey<br>Channel Islands GY1 4BQ              |
| <b>Legal Advisers</b>       | Appleby<br>33-37 Athol Street<br>Douglas<br>Isle of Man IM1 1LB  |
| <b>Policy Provider</b>      | TIS Group Limited via Absolute Assigned Policies Limited ("AAP")<br>Stanmore Business and Innovation Centre<br>Stanmore Place, Honeypot Lane<br>Stanmore<br>London HA7 1BT |
| <b>Policy Administrator</b> | TEP Management Services Limited<br>Stanmore Business and Innovation Centre<br>Stanmore Place, Honeypot Lane<br>Stanmore<br>London HA7 1BT                                  |
| <b>Auditors</b>             | KPMG Audit LLC<br>Heritage Court<br>41 Athol Street<br>Douglas<br>Isle of Man IM99 1HN   |
| <b>Promoter</b>             | Absolute Assigned Policies Limited t/a PDL International<br>Stanmore Business and Innovation Centre<br>Stanmore Place, Honeypot Lane<br>Stanmore<br>London HA7 1BT         |

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# THE PROTECTED ASSET TEP FUND PLC

## Chairman's statement

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Dear Shareholder

After a topsy-turvy year, investors will be relieved. Healthy stock market returns obscured some of 2016's troubling moments, namely February's near-bear market, Brexit, and Trump's surprise election. At the outset of the year, people were fearful that China's economic growth would materially slow and more so when oil hit a low of \$26 a barrel in February. In December, the ECB surprised the markets by announcing an extension of bond purchases through to the end of 2017 although at a lower rate per month, effectively preparing investors for a gradual decrease in quantitative easing but over a much longer period of time. By the end of the year, the Federal Reserve increased interest rates for only the second time in a decade.

Despite the resilience and buoyancy shown by global markets, the wide distribution of potential policy outcomes poses uncertainty and may result in increased market volatility. Such an example is what the UK's future relationship with the EU will be.

Currency markets seem to have taken the lion's share of the press coverage this last year, with GBP experiencing shuddering movements, last seen during the 2008/09 financial crisis. Sterling currently sits at a 31-year low against the US dollar and its slump against the Euro has been nearly as steep, although not enough to drag it to the levels seen in 2008 when it almost reached parity. This however did not deter the Bank of England in cutting interest rates, following the Brexit outcome, to a new low of 0.25%.

### Market Review

#### Life Offices

Whilst 2016 provided some pockets of positivity, PATF on the whole was negatively affected by bonus declarations albeit not severely. Bonus rate reductions declared during the first half were generally more aggressive than those seen in the second half. Of particular note, was Aviva's decision to once again increase reversionary rates for General Accident by 50% and also Norwich Union by 100%, the effects of which however were dampened by their decision also to reduce terminal bonus rates. The same was true of Clerical Medical. Whilst the increase in reversionary rates exudes strength and confidence in the underlying with-profits funds through a longer term commitment, which can only be positive for the fund long term, the terminal bonus rate reductions had more influence given the shorter term profile of Aviva policies held within PATF. Commercial Union, also part of the Aviva group, Legal & General, Prudential and Royal Life all declared reductions to terminal bonus rates which compounded a generally disappointing set of bonus declarations during the first half of the year. It should be noted though; there were still glimmers of life offices performing more positively with Scottish Widows and Standard Life increasing terminal bonus rates, partially offsetting some of the losses experienced through the negative bonus declarations.

Those life offices who declared revised terminal bonus rates during the summer season exhibited a more positive landscape than those declarations received earlier in the year. Most of the life offices mentioned above, whose declarations had negatively impacted the fund, increased terminal bonus rates which in some cases reversed the effects earlier in the year.

This included Norwich Union, General Accident, Legal & General and Prudential. However, the Phoenix Life group of life offices spearheaded by Royal Life's successive cut to terminal bonus rates ensured that the summer bonus season ended largely neutral in its effect on the overall fund's holdings but wasn't sufficient to reverse the effects of the declarations seen earlier in the year.

# THE PROTECTED ASSET TEP FUND PLC

## Chairman's statement (continued)

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### Performance Review

2016 was a largely disappointing year for performance overall. With the exception of PATF Original Sterling, returns were unable to maintain or exceed previous years, in particular the No. 2 Dollar and Euro sub-funds. The overall negative impact of bonus declarations within the year also meant policy prices were similarly affected at times throughout the year. Whilst the overall effect on performance of these factors were not as severe as has been seen in previous years, the Fund's ability to smooth out some of this negative contribution earlier in 2016 for some sub-funds meant investors were sheltered from the whole impact of these factors. This inevitably contributed to underperformance during the course of the year and provided a set back accordingly.

The table below shows the past share price performance of the PATF sub-funds in each of the last five years:

|                   | 2012  | 2013   | 2014  | 2015  | 2016   |
|-------------------|-------|--------|-------|-------|--------|
| PATF Original GBP | 3.24% | 13.56% | 3.65% | 3.68% | 3.25%  |
| PATF Original EUR | 2.29% | 13.87% | 4.82% | 3.03% | 0.42%  |
| PATF Original USD | 1.95% | 9.50%  | 5.50% | 4.42% | 1.50%  |
| PATF No.2 GBP     | 1.31% | 6.36%  | 3.75% | 3.82% | 0.18%  |
| PATF No.2 EUR     | 0.89% | 6.81%  | 3.40% | 2.07% | -1.89% |
| PATF No.2 USD     | 2.50% | 9.99%  | 3.60% | 2.17% | -3.88% |

### TEP Market

The cycle of the UK TEP market is increasingly leading institutional investors to review their position and sustainability operating within it. As I have reported many times in previous years, this is driven by the maturing nature of the market vs the cost structures which, for some, will still involve bank lending facilities. Fortunately for PATF, the Board foresaw the challenges continued leveraging would have on the fund and on long term returns for investors which is why between 2011 and 2012 trading decisions were taken with a view to repay any debt at the earliest point, so as to mitigate any erosion of returns. As with anything where demand outweighs supply, the asset class is increasingly becoming a commodity. Demand for TEP's continues to increase across institutional and retail investors symbolising the strength of the asset class. The trend for consistent policy acquisition continues to be unpredictable and more reliant on bigger portfolio opportunities from the tertiary market at various points within the year, most notably the second half, emphasising more our view that this is being driven by others' cash flow restrictions.

### Outlook

Despite the disappointing bonus declarations from life offices in 2016, recent year's results suggest insurance companies should be well positioned to support returns for PATF shareholders on a volatility and risk profile basis.

As I have already alluded to, within the negative effects was clear evidence that life offices are resolute and well positioned to perform admirably in the future. This has been demonstrated by the several examples of companies in recent years who, whilst reducing terminal bonus rates, have chosen to increase their longer term liabilities by declaring improved reversionary rates. Furthermore, life offices have tended not to blink too much with regards to their asset allocation. On the assumption this remained the same throughout the turbulence of 2016, it is my opinion that with-profits funds

# THE PROTECTED ASSET TEP FUND PLC

## Chairman's statement (continued)

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were well positioned to participate in equity rallies of last year which should transfer itself to improved performance in 2017. Whilst on the flip side insurance companies are not entirely unaffected by wider markets, they remain in place to withstand volatility and shelter investors.

During the year, it was mutually agreed it would be in its best interest for the fund to appoint PricewaterhouseCoopers ("PwC") as actuary in place of Ian Jackson. Whilst I and my fellow directors wish to thank Ian for the work he carried out in his short tenure, we have no doubt that PwC will help to solidify the foundations of the fund, complimenting the global presence provided by Moore Fund Administration which will lend itself to the fund's exploration of other assets in addition to overseeing the fund in its current guise.

We continue to work hard behind the scenes with a view to incorporating assets which will compliment the legacy of the fund. Fortunately, this has and continues to take the form of exploring several opportunities simultaneously to mitigate any set backs along the way. During the year, we learned of the UK government's decision to shelve plans of a secondary annuities market but pleasingly we continue to make progress on determining the viability of TEP markets outside of the UK, which we have no doubt will be accretive to the future performance of the fund alongside UK TEPs. Our exploration work in this regard is not only limited to the asset class but also the most appropriate means of structuring its integration into the fund in a manner which will be non-obtrusive for those long standing investors who wish for the status-quo to remain, whilst making it easily accessible for those investors who may be interested. I genuinely hope and believe updates to shareholders in this regard will follow later in 2017.

One of the keys to long-term investing success is to create and maintain a well-diversified portfolio with an asset mix that reflects one's investment horizon, risk tolerance, and financial situation. Whilst I acknowledge, for some, returns in 2016 may be a little disappointing, PATF's history should suggest that against a backdrop of prolonged historic low interest rates in the UK and Europe, the fund continues to shelter its investors from the swathes of volatility recently witnessed across global markets. Globally, investors may celebrate 2016's robust gains. However last year's widespread surge in populism startled investors with 2017 potentially introducing new worries and with volatility possibly becoming the new norm.

2017 will be a pivotal year for PATF. Your board is committed to ensuring that we continue to make decisions in the best interests of shareholders as a whole. It remains our ambition to restore out-performance to investors, on a risk profile basis.

I thank you again and look forward to your continued support.



**Rupert Cottrell**  
Chairman

**27 April 2017**

# THE PROTECTED ASSET TEP FUND PLC

## Directors' Report for the year ended 31 December 2016

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The Directors present herewith their report and audited financial statements for the year ended 31 December 2016.

### Principal activity

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").

### Reporting currency

The Board of Directors have decided that the reporting currency of the financial statements is Sterling, which is the Company's functional currency as this most faithfully represents the economic effects of the underlying transactions, events and conditions of the individual sub-funds.

### 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 49. 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, price risk, credit risk and liquidity risk.

The Directors are satisfied that the current Net Asset Value ("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 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 (2015: £nil).

### Directors and Secretaries

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

Any appointments or resignations during the year are shown on page 1.

### Ultimate parent company

The Directors consider there to be no ultimate controlling party.



# THE PROTECTED ASSET TEP FUND PLC

## Directors' Report for the year ended 31 December 2016 (continued)

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### Auditors

Our 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



**Rupert Cottrell**  
Director

**27 April 2017**

## **THE PROTECTED ASSET TEP FUND PLC**

### **Statement of Directors' responsibilities in respect of the Directors' report and the financial statements for the year ended 31 December 2016**

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

The Company is domiciled in the Isle of Man.

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.

## **KPMG Audit LLC**

### **Report of the Independent Auditors, KPMG Audit LLC, to the members of The Protected Asset TEP Fund plc**

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We have audited the financial statements of The Protected Asset TEP Fund plc for the year ended 31 December 2016 which comprise the statements of comprehensive income, statements of changes in net assets attributable to holders of participating redeemable preference shares, statements of financial position and the statements 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 Auditor**

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. In addition, we read all the financial and non-financial information in the Chairman's statement and Directors' report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we became aware of any apparent material misstatement or inconsistencies we consider the implications for our report.

#### **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 2016 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.

## **KPMG Audit LLC**

### **Report of the Independent Auditors, KPMG Audit LLC, to the members of The Protected Asset TEP Fund plc (continued)**

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#### **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 Notes 2, 4 and 13(d) to the financial statements, which detail the valuation methodology and maturity profile of the traded endowment policies (“TEPs”) as at 31 December 2016.

#### **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 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.



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

**2 May 2017**

# THE PROTECTED ASSET TEP FUND PLC

## Statement of comprehensive income for the year ended 31 December 2016

### All amounts stated in Sterling

|   | Note   | Original<br>PATF<br>2016 | PATF No.2<br>2016 | Total<br>2016    |
|---|--------|--------------------------|-------------------|------------------|
| <b>Income</b>   |        |                          |                   |                  |
| Gain on realisation of financial assets   | 6      | 957,334                  | 839,612           | 1,796,946        |
| Interest income   |        | 22,908                   | 39,634            | 62,542           |
| Realised gain on forward contracts  |        | 1,992,884                | 2,857,414         | 4,850,298        |
| Redemption penalties and DRP's  | 10     | 117,394                  | 215,524           | 332,918          |
| Other Income  |        | 115,264                  | 17,851            | 133,115          |
| <b>Total income</b>   |        | <u>3,205,784</u>         | <u>3,970,035</u>  | <u>7,175,819</u> |
| <b>Expenses</b>   |        |                          |                   |                  |
| Bank charges  |        | 183                      | -                 | 183              |
| Manager fees  | 8      | 70,834                   | 104,318           | 175,152          |
| Policy administration fees  | 7      | 181,620                  | 243,519           | 425,139          |
| Promoter fees   | 10     | -                        | 312,203           | 312,203          |
| Directors' fees   |        | 31,569                   | 39,203            | 70,772           |
| Audit fees  |        | 8,505                    | 10,081            | 18,586           |
| General expenses  |        | 30,082                   | 41,106            | 71,188           |
| Custodian fees  | 7      | 31,540                   | 49,081            | 80,621           |
| Unrealised loss on forward contracts  | 13b)   | 349,533                  | 519,269           | 868,802          |
| Unrealised decrease in fair value of financial assets   | 4      | 525,415                  | 442,801           | 968,216          |
| Unrealised loss on foreign exchange   |        | 52,702                   | 101,118           | 153,820          |
| <b>Total operating expenses before finance costs</b>  |        | <u>1,281,983</u>         | <u>1,862,699</u>  | <u>3,144,682</u> |
| <b>Finance costs</b>  |        |                          |                   |                  |
| Bank interest   |        | -                        | -                 | -                |
| Profit before and after taxation  | 3      | <u>1,923,801</u>         | <u>2,107,336</u>  | <u>4,031,137</u> |
| <b>Other comprehensive income</b>   |        | -                        | -                 | -                |
| <b>Net increase in net assets attributable to holders of participating redeemable preference shares from operations</b> | 12(ii) | <u>1,923,801</u>         | <u>2,107,336</u>  | <u>4,031,137</u> |

The total column of this statement represents the statement of comprehensive income prepared in accordance with IFRS.

The notes on pages 18 to 49 form part of these financial statements.

# THE PROTECTED ASSET TEP FUND PLC

## Statement of comprehensive income for the year ended 31 December 2015

All amounts stated in Sterling

|  | Note   | Original<br>PATF<br>2015 | PATF No.2<br>2015 | Total<br>2015    |
|--|--------|--------------------------|-------------------|------------------|
| <b>Income</b>  |        |                          |                   |                  |
| Gain on realisation of financial assets  | 6      | 1,764,380                | 4,195,389         | 5,959,769        |
| Interest income  |        | 86,238                   | 73,637            | 159,875          |
| Unrealised gain on forward contracts   | 13b)   | 402,746                  | 164,750           | 567,496          |
| Redemption penalties and DRP's   | 10     | 370,765                  | 338,034           | 708,799          |
| <b>Total income</b>  |        | <u>2,624,129</u>         | <u>4,771,810</u>  | <u>7,395,939</u> |
| <b>Expenses</b>  |        |                          |                   |                  |
| Manager fees   | 8      | 98,954                   | 116,738           | 215,692          |
| Policy administration fees   | 7      | 232,227                  | 325,799           | 558,026          |
| Promoter fees  | 10     | -                        | 417,691           | 417,691          |
| Directors' fees  |        | 25,722                   | 33,667            | 59,389           |
| Audit fees   |        | 14,000                   | 14,000            | 28,000           |
| General expenses   |        | 63,303                   | 73,474            | 136,777          |
| Custodian fees   | 7      | 29,780                   | 34,480            | 64,260           |
| Unrealised (profit)/loss on foreign exchange   |        | (652)                    | 1,904             | 1,252            |
| Realised loss on forward contracts   |        | 853,054                  | 2,113,555         | 2,966,609        |
| Unrealised decrease in fair value of financial assets  | 4      | 255,816                  | 2,223,448         | 2,479,264        |
| <b>Total operating expenses before finance costs</b>   |        | <u>1,572,204</u>         | <u>5,354,756</u>  | <u>6,926,960</u> |
| <b>Finance costs</b>   |        |                          |                   |                  |
| Bank interest  |        | -                        | -                 | -                |
| Profit/(loss) before and after taxation  | 3      | <u>1,051,925</u>         | <u>(582,946)</u>  | <u>468,979</u>   |
| <b>Other comprehensive income</b>  |        | -                        | -                 | -                |
| <b>Net increase/(decrease) in net assets attributable to holders of participating redeemable preference shares from operations</b> | 12(ii) | <u>1,051,925</u>         | <u>(582,946)</u>  | <u>468,979</u>   |

The total column of this statement represents the statement of comprehensive income prepared in accordance with IFRS.

The notes on pages 18 to 49 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 2016

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All amounts stated in Sterling

|  | Note | Original<br>PATF<br>2016 | PATF No.2<br>2016  | Total<br>2016       |
|--|------|--------------------------|--------------------|---------------------|
| <b>Net assets attributable to holders of participating redeemable preference shares at 1 January</b>         |      | 25,886,033               | 34,185,483         | 60,071,516          |
| Proceeds from participating redeemable preference shares issued  |      | -                        | -                  | -                   |
| Redemption of participating redeemable preference shares   |      | <u>(5,764,432)</u>       | <u>(9,789,179)</u> | <u>(15,553,611)</u> |
| Net decrease from share transactions   |      | (5,764,432)              | (9,789,179)        | (15,553,611)        |
| Increase in net assets attributable to holders of participating redeemable preference shares from operations |      | <u>1,923,801</u>         | <u>2,107,336</u>   | <u>4,031,137</u>    |
| <b>Net assets attributable to holders of participating redeemable preference shares at 31 December</b>       | 12   | <u>22,045,402</u>        | <u>26,503,640</u>  | <u>48,549,042</u>   |

The total column of this statement represents the statement of changes in net assets attributable to holders of participating redeemable preference shares prepared in accordance with IFRS.

The notes on pages 18 to 49 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 2015

All amounts stated in Sterling

|   | Note | Original<br>PATF<br>2015 | PATF No.2<br>2015   | Total<br>2015       |
|---|------|--------------------------|---------------------|---------------------|
| <b>Net assets attributable to holders of participating redeemable preference shares at 1 January</b>                    |      | 41,776,675               | 49,649,136          | 91,425,811          |
| Proceeds from participating redeemable preference shares issued   |      | 6,173                    | -                   | 6,173               |
| Redemption of participating redeemable preference shares  |      | <u>(16,948,740)</u>      | <u>(14,880,707)</u> | <u>(31,829,447)</u> |
| Net decrease from share transactions  |      | (16,942,567)             | (14,880,707)        | (31,823,274)        |
| Increase/(decrease) in net assets attributable to holders of participating redeemable preference shares from operations |      | <u>1,051,925</u>         | <u>(582,946)</u>    | <u>468,979</u>      |
| <b>Net assets attributable to holders of participating redeemable preference shares at 31 December</b>                  | 12   | <u>25,886,033</u>        | <u>34,185,483</u>   | <u>60,071,516</u>   |

The total column of this statement represents the statement of changes in net assets attributable to holders of participating redeemable preference shares prepared in accordance with IFRS.

The notes on pages 18 to 49 form part of the financial statements.



# THE PROTECTED ASSET TEP FUND PLC

## Statement of financial position as at 31 December 2016

All amounts stated in Sterling

|   | Note | Original<br>PATF<br>2016 | PATF No.2<br>2016 | Total<br>2016     |
|---|------|--------------------------|-------------------|-------------------|
| <b>Assets</b>   |      |                          |                   |                   |
| <b>Non-current assets</b>   |      |                          |                   |                   |
| Financial assets at fair value through profit or loss   | 4    | 11,415,699               | 14,765,595        | 26,181,294        |
| <b>Current assets</b>   |      |                          |                   |                   |
| Cash and cash equivalents   |      | 10,712,958               | 12,178,897        | 22,891,855        |
| Trade and other receivables   |      | 279,580                  | 300,127           | 579,707           |
| Unpaid management shares issued   | 11   | 100                      | -                 | 100               |
|   |      | <u>10,992,638</u>        | <u>12,479,024</u> | <u>23,471,662</u> |
| <b>Total assets</b>   |      | <u>22,408,337</u>        | <u>27,244,619</u> | <u>49,652,956</u> |
| <b>Liabilities</b>  |      |                          |                   |                   |
| <b>Current liabilities</b>  |      |                          |                   |                   |
| Trade and other payables  |      | 86,055                   | 471,992           | 558,047           |
| <b>Nominal shares</b>   | 11   | 276,780                  | 268,987           | 545,767           |
| <b>Non-current liabilities attributable to holders of management shares</b>                                     | 11   | <u>100</u>               | <u>-</u>          | <u>100</u>        |
| <b>Liabilities (excluding net assets attributable to holders of participating redeemable preference shares)</b> |      | 362,935                  | 740,979           | 1,103,914         |
| <b>Net assets attributable to holders of participating redeemable preference shares</b>                         | 12   | <u>22,045,402</u>        | <u>26,503,640</u> | <u>48,549,042</u> |
| <b>Total liabilities</b>  |      | <u>22,408,337</u>        | <u>27,244,619</u> | <u>49,652,956</u> |

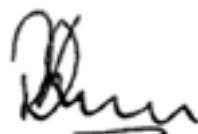
The total column of this statement represents the statement of financial position prepared in accordance with IFRS.

The notes on pages 18 to 49 form part of these financial statements.

The financial statements on pages 10 to 49 were approved by the Board of Directors and authorised for issue on 27 April 2017 and signed on its behalf on by:



**Neil Duggan**  
Director



**Rupert Cottrell**  
Director

# THE PROTECTED ASSET TEP FUND PLC

## Statement of financial position as at 31 December 2015

### All amounts stated in Sterling

|   | Note | Original<br>PATF<br>2015 | PATF No.2<br>2015 | Total<br>2015     |
|---|------|--------------------------|-------------------|-------------------|
| <b>Assets</b>   |      |                          |                   |                   |
| <b>Non-current assets</b>   |      |                          |                   |                   |
| Financial assets at fair value through profit or loss   | 4    | 15,416,939               | 16,507,784        | 31,924,723        |
| <b>Current assets</b>   |      |                          |                   |                   |
| Cash and cash equivalents   |      | 10,317,952               | 17,620,748        | 27,938,700        |
| Trade and other receivables   |      | 584,692                  | 411,410           | 996,102           |
| Unpaid management shares issued   | 11   | 100                      | -                 | 100               |
|   |      | <u>10,902,744</u>        | <u>18,032,158</u> | <u>28,934,902</u> |
| <b>Total assets</b>   |      | <u>26,319,683</u>        | <u>34,539,942</u> | <u>60,859,625</u> |
| <b>Liabilities</b>  |      |                          |                   |                   |
| <b>Current liabilities</b>  |      |                          |                   |                   |
| Trade and other payables  |      | 161,163                  | 95,732            | 256,895           |
| <b>Nominal shares</b>   | 11   | 272,387                  | 258,727           | 531,114           |
| <b>Non-current liabilities attributable to holders of management shares</b>                                     | 11   | <u>100</u>               | <u>-</u>          | <u>100</u>        |
| <b>Liabilities (excluding net assets attributable to holders of participating redeemable preference shares)</b> |      | 433,650                  | 354,459           | 788,109           |
| <b>Net assets attributable to holders of participating redeemable preference shares</b>                         | 12   | <u>25,886,033</u>        | <u>34,185,483</u> | <u>60,071,516</u> |
| <b>Total liabilities</b>  |      | <u>26,319,683</u>        | <u>34,539,942</u> | <u>60,859,625</u> |

The total column of this statement represents the statement of financial position prepared in accordance with IFRS.

The notes on pages 18 to 49 form part of these financial statements.

# THE PROTECTED ASSET TEP FUND PLC

## Statement of cash flows for the year ended 31 December 2016

All amounts stated in Sterling

|   | Note | Original<br>PATF<br>2016 | PATF No.2<br>2016 | Total<br>2016 |
|---|------|--------------------------|-------------------|---------------|
| <b>Net cash from operating activities</b>   |      | 2,683,613                | 3,047,940         | 5,731,553     |
| <b>Investing activities</b>   |      |                          |                   |               |
| Purchase of TEP investments   | 4    | (2,567,680)              | (4,897,028)       | (7,464,708)   |
| Servicing costs paid  | 4    | (275,890)                | (340,241)         | (616,131)     |
| Servicing costs removed on realisation of investment  | 4    | 162,833                  | 792,577           | 955,410       |
| PCGF investments matured  | 4    | 1,580,485                | -                 | 1,580,485     |
| TEP investments matured   | 4    | 4,576,077                | 5,744,080         | 10,320,157    |
| Net proceeds from investing activities  |      | 3,475,825                | 1,299,388         | 4,775,213     |
| <b>Financing activities</b>   |      |                          |                   |               |
| Payment on redemptions of participating redeemable preference shares                            |      | (5,764,432)              | (9,789,179)       | (15,553,611)  |
| <b>Net outflow from financing activities</b>  |      | (5,764,432)              | (9,789,179)       | (15,553,611)  |
| <b>Net increase/(decrease) in cash and cash equivalents</b>                                     |      | 395,006                  | (5,441,851)       | (5,046,845)   |
| <b>Cash and cash equivalents at beginning of year</b>   |      | 10,317,952               | 17,620,748        | 27,938,700    |
| <b>Cash and cash equivalents at end of year</b>   |      | 10,712,958               | 12,178,897        | 22,891,855    |
| <b>Comprising:</b>  |      |                          |                   |               |
| Cash  |      | 10,712,958               | 12,178,897        | 22,891,855    |
| <b>Cash and cash equivalents at end of year</b>   |      | 10,712,958               | 12,178,897        | 22,891,855    |
| <b>Reconciliation of profit before taxation to net cash generated from operating activities</b> |      |                          |                   |               |
| Profit before taxation  |      | 1,923,801                | 2,107,336         | 4,031,137     |
| Unrealised loss on investments  |      | 525,415                  | 442,801           | 968,216       |
| Decrease in receivables   |      | 309,505                  | 121,543           | 431,048       |
| (Increase)/Decrease in payables   |      | (75,108)                 | 376,260           | 301,152       |
| <b>Net cash from operations</b>   |      | 2,683,613                | 3,047,940         | 5,731,553     |

The total column of this statement represents the statement of cash flows prepared in accordance with IFRS.

The notes on pages 18 to 49 form part of these financial statements.

# THE PROTECTED ASSET TEP FUND PLC

## Statement of cash flows for the year ended 31 December 2015

### All amounts stated in Sterling

|   | Note | Original<br>PATF<br>2015 | PATF No.2<br>2015 | Total<br>2015 |
|---|------|--------------------------|-------------------|---------------|
| <b>Net cash from operating activities</b>   |      | 2,164,781                | 1,403,112         | 3,567,893     |
| <b>Investing activities</b>   |      |                          |                   |               |
| Purchase of TEP investments   | 4    | (7,639,399)              | (6,956,291)       | (14,595,690)  |
| Servicing costs paid  | 4    | (327,790)                | (485,979)         | (813,769)     |
| Servicing costs removed on<br>realisation of investment   | 4    | 1,297,344                | 3,670,035         | 4,967,379     |
| Sale of TEP investments   | 4    | -                        | -                 | -             |
| PCGF investments matured  | 4    | 1,059,300                | -                 | 1,059,300     |
| TEP investments matured   | 4    | 6,438,128                | 14,107,109        | 20,545,237    |
| Net proceeds from investing activities  |      | 827,583                  | 10,334,874        | 11,162,457    |
| <b>Financing activities</b>   |      |                          |                   |               |
| Proceeds from issue of participating<br>redeemable preference shares                                    |      | 6,173                    | -                 | 6,173         |
| Payment on redemptions of participating<br>redeemable preference shares                                 |      | (16,948,740)             | (14,880,707)      | (31,829,447)  |
| <b>Net outflow from financing activities</b>  |      | (16,942,567)             | (14,880,707)      | (31,823,274)  |
| <b>Net decrease in cash and<br/>cash equivalents</b>  |      | (13,950,203)             | (3,142,721)       | (17,092,924)  |
| <b>Cash and cash equivalents at<br/>beginning of year</b>   |      | 24,268,155               | 20,763,469        | 45,031,624    |
| <b>Cash and cash equivalents at<br/>end of year</b>   |      | 10,317,952               | 17,620,748        | 27,938,700    |
| <b>Comprising:</b>  |      |                          |                   |               |
| Cash  |      | 10,317,952               | 17,620,748        | 27,938,700    |
| <b>Cash and cash equivalents at<br/>end of year</b>   |      | 10,317,952               | 17,620,748        | 27,938,700    |
| <b>Reconciliation of profit before<br/>taxation to net cash generated<br/>from operating activities</b> |      |                          |                   |               |
| Profit/(loss) before taxation   |      | 1,051,925                | (582,946)         | 468,979       |
| Unrealised loss on investments  |      | 255,816                  | 2,223,448         | 2,479,264     |
| Decrease/(Increase) in receivables  |      | 950,281                  | (135,425)         | 814,856       |
| Decrease in payables  |      | (93,241)                 | (101,965)         | (195,206)     |
| <b>Net cash from operations</b>   |      | 2,164,781                | 1,403,112         | 3,567,893     |

The total column of this statement represents the statement of cash flows prepared in accordance with IFRS.

The notes on pages 18 to 49 form part of these financial statements.

# THE PROTECTED ASSET TEP FUND PLC

## Notes to the financial statements for the year ended 31 December 2016

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### 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 First Names House, Victoria Road, Douglas, Isle of Man, IM2 4DF.

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").

Moore Fund Administration (IOM) Limited manages the Fund, with the custodian services being provided by BNP Paribas Securities Services SCA Guernsey Branch. The Fund purchases TEPs through TIS Group Limited ("TIS") and its agent Absolute Assigned Policies Limited ("AAP") (note 14), who are among the oldest and largest market makers in TEPs.

These financial statements were authorised for issue by the Board of Directors on 27 April 2017.

### 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 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 Directors' report on page 5) assuming that, should it be necessary, redemption requests will be restricted (note 11) to ensure that premium commitments (note 5) and operating expenses 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 2016 (continued)

### 2 Summary of significant accounting policies (continued)

#### Basis of preparation (continued)

##### *New Standards and Interpretations*

These standards are effective for financial reporting periods commencing on or after 1 January 2016:

| <b>New/Revised International Financial Reporting Standards (IAS/IFRS)</b>   |
|---|
| 'Annual Improvements 2014' were issued in September 2014 and contain several amendments to IFRS which address five issues in the 2012-2014 reporting cycle. The amendments are effective for accounting periods commencing on or after 1 January 2016.  |
| 'IAS 1 Presentation of Financial Statements', (amendments) - The amendments clarify on a number of items regarding the Presentation of Financial Statements. The amendments are effective for accounting periods commencing on or after 1 January 2016. |

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

| <b>New/Revised International Financial Reporting Standards (IAS/IFRS)</b> | <b>Effective date</b> |
|---|-----------------------|
| IAS 7 Statement of Cash Flows   | 1 January 2017        |
| Annual Improvements 2016  | 1 January 2018        |
| IFRS 15 Revenue from contracts with customers                             | 1 January 2018        |
| IFRS 9 Financial Instruments  | 1 January 2018        |

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 results and position of PATF No.2 disclosed in the financial statements are those for the year ended 15 December 2016 (the sub-fund's valuation date), subject to adjustments for subscriptions and redemptions of shares in the period from 16 December 2016 to 31 December 2016. The Directors are of the opinion that the result and financial position for the year ended and as at 31 December 2016 is not materially different to those as at 15 December 2016.

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 PROTECTED ASSET TEP FUND PLC

## Notes to the financial statements for the year ended 31 December 2016 (continued)

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### 2 Summary of significant accounting policies (continued)

#### Critical accounting judgements (continued)

The most critical accounting judgement is considered to be the valuation of financial assets. 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 funds, including The Protected Capital Growth Fund ("PCGF") 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 statement of comprehensive income.

The investment in a fund is valued by the fund administrator. The value of each share of 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), this was fully recognised in the year ended 31 December 2011.

##### *Traded Endowment Policies ("TEPs")*

TEPs which 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 statement of comprehensive income. Premiums paid throughout the life of the TEP are added to their cost.

The fair value of TEPs is estimated by the Actuary, using an industry standard methodology (the actuarial basis). 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 (NAV) has been calculated, at the Directors' discretion, a further discount is 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 2016 in accordance with the Scheme Particulars. A surrender value floor on price is implemented should the discounts used to gross asset value decrease the value of the TEPs below surrender value. The discount factor is discretionary and subject to change.

# THE PROTECTED ASSET TEP FUND PLC

## Notes to the financial statements for the year ended 31 December 2016 (continued)

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### 2 Summary of significant accounting policies (continued)

#### **Valuation of financial assets (continued)**

##### *Traded Endowment Policies ("TEPs") (continued)*

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 and the liquidity requirements of the Fund.

#### **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.

#### **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 sub-funds 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 statement of comprehensive income. Translation differences on non-monetary financial assets and liabilities are recognised in the statement of comprehensive income 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 statement of comprehensive income.



# THE PROTECTED ASSET TEP FUND PLC

## Notes to the financial statements for the year ended 31 December 2016 (continued)

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### 2 Summary of significant accounting policies (continued)

#### **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. The carrying value of cash and cash equivalents in the statement of financial position equates to their amortised cost.

#### **Offsetting**

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Fund has a legal right to offset the amounts and it intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

### 3 Taxation

The Fund is subject to tax in the Isle of Man at the standard rate of tax of 0% (2015: 0%).

# THE PROTECTED ASSET TEP FUND PLC

## Notes to the financial statements for the year ended 31 December 2016 (continued)

### 4 Financial assets at fair value through profit or loss

The financial assets at fair value through profit or loss comprise investments in traded endowment policies ("TEPs") as follows:

|   | <b>Original<br/>PATF<br/>2016<br/>£</b> | <b>PATF No.2<br/>2016<br/>£</b> | <b>Total<br/>2016<br/>£</b>     | <b>Total<br/>2015<br/>£</b>   |
|---|---|---------------------------------|---------------------------------|-------------------------------|
| <b>PCGF</b>   |   |                                 |                                 |                               |
| Fair value at 1 January                                     | 2,244,084                               | -                               | 2,244,084                       | 3,162,834                     |
| Investments matured<br>(Decrease)/Increase<br>in fair value | (1,580,485)<br><u>(663,599)</u>         | <br>-<br>-                      | (1,580,485)<br><u>(663,599)</u> | (1,059,300)<br><u>140,550</u> |
| Fair value at 31 December                                   | <u>-</u>                                | <u>-</u>                        | <u>-</u>                        | <u>2,244,084</u>              |
| <br>  |   |                                 |                                 |                               |
|   | <b>Original<br/>PATF<br/>2016<br/>£</b> | <b>PATF No.2<br/>2016<br/>£</b> | <b>Total<br/>2016<br/>£</b>     | <b>Total<br/>2015<br/>£</b>   |
| <b>TEPs</b>   |   |                                 |                                 |                               |
| Fair value at 1 January                                     | 13,172,855                              | 16,507,784                      | 29,680,639                      | 42,403,610                    |
| Purchase of investments                                     | 2,567,680                               | 4,897,028                       | 7,464,708                       | 14,595,690                    |
| Servicing costs paid  | 275,890                                 | 340,241                         | 616,131                         | 813,769                       |
| Servicing costs removed on<br>realisation of investment     | (162,833)                               | (792,577)                       | (955,410)                       | (4,967,379)                   |
| Investments matured   | (4,576,077)                             | (5,744,080)                     | (10,320,157)                    | (20,545,237)                  |
| Increase/(Decrease)<br>in fair value                        | <u>138,184</u>                          | <u>(442,801)</u>                | <u>(304,617)</u>                | <u>(2,619,814)</u>            |
| Fair value at 31 December                                   | <u>11,415,699</u>                       | <u>14,765,595</u>               | <u>26,181,294</u>               | <u>29,680,639</u>             |
| <br>  |   |                                 |                                 |                               |
|   | <b>Original<br/>PATF<br/>2016<br/>£</b> | <b>PATF No.2<br/>2016<br/>£</b> | <b>Total<br/>2016<br/>£</b>     | <b>Total<br/>2015<br/>£</b>   |
| <b>Total</b>  |   |                                 |                                 |                               |
| Fair value of TEPs  | 11,415,699                              | 14,765,595                      | 26,181,294                      | 29,680,639                    |
| Fair value of PCGF  | -                                       | -                               | -                               | 2,244,084                     |
| Fair value at 31 December                                   | <u>11,415,699</u>                       | <u>14,765,595</u>               | <u>26,181,294</u>               | <u>31,924,723</u>             |

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

# THE PROTECTED ASSET TEP FUND PLC

## Notes to the financial statements for the year ended 31 December 2016 (continued)

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

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

|   | <b>Original<br/>PATF<br/>2016<br/>£</b> | <b>Original<br/>PATF<br/>2015<br/>£</b> |
|---|---|---|
| Book cost                               | 9,630,000                               | 9,630,000                               |
| Enhancement (see below)                 | 674,100                                 | 674,100                                 |
| Collapse of sub-funds (see below)       | 55,735                                  | 55,735                                  |
| Sterling 2010 Standard sub-fund matured | (1,883,200)                             | (1,883,200)                             |
| Sterling 2011 Standard sub-fund matured | (2,332,600)                             | (2,332,600)                             |
| Sterling 2012 Standard sub-fund matured | (1,904,600)                             | (1,904,600)                             |
| Sterling 2013 Standard sub-fund matured | (1,599,650)                             | (1,599,650)                             |
| Sterling 2014 Standard sub-fund matured | (1,059,300)                             | (1,059,300)                             |
| Sterling 2015 Standard sub-fund matured | (588,500)                               | -                                       |
| Sterling 2020 Standard sub-fund matured | (991,985)                               | -                                       |
|   | <u>-</u>                                | <u>1,580,485</u>                        |

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

|  | <b>Original<br/>PATF<br/>2016<br/>£</b> | <b>Original<br/>PATF<br/>2015<br/>£</b> |
|--|---|---|
| Market value (post-enhancement adjustment) | <u>-</u>                                | <u>2,244,084</u>                        |
| Carrying value                             | <u>-</u>                                | <u>2,244,084</u>                        |

The investment cost in PCGF was originally £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 was £674,100. This enhancement was not recognised in full, as the Fund would have incurred redemption penalties of a similar level if it was to withdraw from the investment. Instead the enhancement was recognised through the statement of comprehensive income over a period of 5 years, which is the period over which redemption penalties would be payable. The enhancement was fully amortised during the year ended 31 December 2011.

The PCGF Sterling 2016, 2017, 2018, 2019 and 2020 Standard sub-funds had the same 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-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 PROTECTED ASSET TEP FUND PLC

## Notes to the financial statements for the year ended 31 December 2016 (continued)

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

The PCGF Sterling 2010 Standard sub-fund matured during the year ended 31 December 2011 and all shares held in the sub-fund were compulsorily redeemed at net asset value.

The PCGF Sterling 2011 Standard sub-fund matured during the year ended 31 December 2012 and all shares held in the sub-fund were compulsorily redeemed at net asset value.

The PCGF Sterling 2012 Standard sub-fund matured during the year ended 31 December 2013 and all shares held in the sub-fund were compulsorily redeemed at net asset value.

The PCGF Sterling 2013 Standard sub-fund matured during the year ended 31 December 2014 and all shares held in the sub-fund were compulsorily redeemed at net asset value.

The PCGF Sterling 2014 Standard sub-fund matured during the year ended 31 December 2015 and all shares held in the sub-fund were compulsorily redeemed at net asset value.

The PCGF Sterling 2015 Standard sub-fund and the PCGF Sterling 2020 sub-fund were redeemed during the year at net asset value.

The total book cost of the TEPs is shown below:

|                                   | <b>Original<br/>PATF<br/>2016<br/>£</b> | <b>PATF No.2<br/>2016<br/>£</b> | <b>Total<br/>2016<br/>£</b> | <b>Total<br/>2015<br/>£</b> |
|-----------------------------------|---|---------------------------------|-----------------------------|-----------------------------|
| Book cost on acquisition          | 10,393,702                              | 13,432,363                      | 23,826,065                  | 26,681,514                  |
| Servicing costs since acquisition | <u>950,727</u>                          | <u>1,298,081</u>                | <u>2,248,808</u>            | <u>2,588,087</u>            |
| Total book cost at 31 December    | <u><u>11,344,429</u></u>                | <u><u>14,730,444</u></u>        | <u><u>26,074,873</u></u>    | <u><u>29,269,601</u></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 Paribas Securities Services SCA Guernsey Branch of £25 per transaction.

# THE PROTECTED ASSET TEP FUND PLC

## Notes to the financial statements for the year ended 31 December 2016 (continued)

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

#### The Original PATF sub-fund:

| Life office         | 2016<br>Number of<br>policies held | 2016<br>Book cost<br>on acquisition<br>£ | 2016<br>Fair<br>market value<br>£ | 2016<br>Fair<br>market value<br>% |
|---------------------|------------------------------------|--|-----------------------------------|-----------------------------------|
| Norwich Union       | 89                                 | 3,101,885                                | 3,716,376                         | 32.54                             |
| Commercial Union    | 33                                 | 938,133                                  | 980,314                           | 8.59                              |
| Royal Life          | 25                                 | 854,834                                  | 941,269                           | 8.25                              |
| Prudential          | 26                                 | 809,765                                  | 828,427                           | 7.26                              |
| Legal & General     | 25                                 | 713,777                                  | 821,968                           | 7.20                              |
| Co-operative        | 32                                 | 539,747                                  | 606,201                           | 5.31                              |
| Standard Life       | 23                                 | 446,517                                  | 412,888                           | 3.62                              |
| Sun Life of Canada  | 17                                 | 320,584                                  | 355,972                           | 3.12                              |
| Scottish Widows     | 14                                 | 314,752                                  | 351,943                           | 3.08                              |
| General Accident    | 11                                 | 284,074                                  | 285,977                           | 2.51                              |
| Royal London        | 9                                  | 218,652                                  | 249,544                           | 2.19                              |
| Scottish Provident  | 7                                  | 189,892                                  | 185,908                           | 1.63                              |
| Scottish Amicable   | 7                                  | 157,022                                  | 152,769                           | 1.34                              |
| Pearl Assurance     | 5                                  | 187,541                                  | 144,182                           | 1.26                              |
| Clerical Medical    | 6                                  | 125,948                                  | 131,647                           | 1.15                              |
| Britannic Assurance | 6                                  | 111,411                                  | 108,597                           | 0.95                              |
| Refuge Assurance    | 5                                  | 76,536                                   | 98,299                            | 0.86                              |
| Colonial Mutual     | 6                                  | 68,270                                   | 52,886                            | 0.46                              |
| Other               | 17                                 | 934,362                                  | 990,532                           | 8.68                              |
|                     | <u>363</u>                         | <u>10,393,702</u>                        | <u>11,415,699</u>                 | <u>100.00</u>                     |

The investments have fixed maturities as shown below.

#### Maturity Profile

|  | 2016<br>Number of<br>policies held | 2016<br>Fair<br>market value<br>£ |
|--|------------------------------------|-----------------------------------|
| Less than one year                             | 89                                 | 2,390,996                         |
| Greater than one year but less than five years | 167                                | 6,396,140                         |
| Greater than five years                        | 107                                | 2,628,563                         |
|  | <u>363</u>                         | <u>11,415,699</u>                 |

# THE PROTECTED ASSET TEP FUND PLC

## Notes to the financial statements for the year ended 31 December 2016 (continued)

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

#### The Original PATF sub-fund:

| Life office        | 2015<br>Number of<br>policies held | 2015<br>Book cost<br>on acquisition<br>£ | 2015<br>Fair<br>market value<br>£ | 2015<br>Fair<br>market value<br>% |
|--------------------|------------------------------------|--|-----------------------------------|-----------------------------------|
| Norwich Union      | 120                                | 3,560,320                                | 4,247,562                         | 32.25                             |
| Royal Life         | 36                                 | 1,115,639                                | 1,126,846                         | 8.56                              |
| Standard Life      | 49                                 | 1,053,151                                | 1,049,805                         | 7.97                              |
| Co-operative       | 55                                 | 935,909                                  | 1,034,210                         | 7.85                              |
| Legal & General    | 23                                 | 632,566                                  | 662,454                           | 5.03                              |
| Scottish Widows    | 29                                 | 619,551                                  | 633,240                           | 4.81                              |
| Commercial Union   | 19                                 | 568,807                                  | 588,956                           | 4.47                              |
| Prudential         | 22                                 | 621,379                                  | 583,197                           | 4.43                              |
| Sun Life of Canada | 23                                 | 408,452                                  | 443,522                           | 3.37                              |
| General Accident   | 13                                 | 330,864                                  | 336,490                           | 2.55                              |
| Phoenix Assurance  | 1                                  | 328,236                                  | 321,838                           | 2.44                              |
| Clerical Medical   | 11                                 | 269,594                                  | 269,362                           | 2.04                              |
| Royal London       | 10                                 | 230,124                                  | 252,125                           | 1.91                              |
| Scottish Amicable  | 8                                  | 196,017                                  | 174,744                           | 1.33                              |
| Equity & Law       | 2                                  | 149,234                                  | 167,796                           | 1.27                              |
| Other              | 52                                 | 1,382,256                                | 1,280,708                         | 9.72                              |
|                    | <u>473</u>                         | <u>12,402,099</u>                        | <u>13,172,855</u>                 | <u>100.00</u>                     |

The investments have fixed maturities as shown below.

#### Maturity Profile

|  | 2015<br>Number of<br>policies held | 2015<br>Fair<br>market value<br>£ |
|--|------------------------------------|-----------------------------------|
| Less than one year                             | 191                                | 4,471,845                         |
| Greater than one year but less than five years | 165                                | 5,723,219                         |
| Greater than five years                        | 117                                | 2,977,791                         |
|  | <u>473</u>                         | <u>13,172,855</u>                 |

# THE PROTECTED ASSET TEP FUND PLC

## Notes to the financial statements for the year ended 31 December 2016 (continued)

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

#### The PATF No.2 sub-fund:

| Life office         | 2016<br>Number of<br>policies held | 2016<br>Book cost<br>on acquisition<br>£ | 2016<br>Fair<br>market value<br>£ | 2016<br>Fair<br>market value<br>% |
|---------------------|------------------------------------|--|-----------------------------------|-----------------------------------|
| Norwich Union       | 155                                | 4,232,835                                | 5,092,534                         | 34.49                             |
| Commercial Union    | 55                                 | 1,506,232                                | 1,589,769                         | 10.77                             |
| Prudential          | 29                                 | 806,165                                  | 861,863                           | 5.84                              |
| Scottish Provident  | 18                                 | 878,189                                  | 822,570                           | 5.57                              |
| Standard Life       | 45                                 | 729,846                                  | 801,986                           | 5.43                              |
| Co-operative        | 35                                 | 525,650                                  | 673,168                           | 4.56                              |
| Legal & General     | 20                                 | 596,476                                  | 655,820                           | 4.44                              |
| Royal Life          | 17                                 | 557,598                                  | 626,745                           | 4.24                              |
| Sun Life of Canada  | 23                                 | 596,609                                  | 607,325                           | 4.11                              |
| Britannic Assurance | 19                                 | 518,644                                  | 525,982                           | 3.56                              |
| General Accident    | 19                                 | 386,896                                  | 417,347                           | 2.83                              |
| Phoenix Assurance   | 1                                  | 336,032                                  | 335,493                           | 2.27                              |
| Scottish Widows     | 11                                 | 264,697                                  | 294,454                           | 1.99                              |
| Sun Alliance        | 12                                 | 315,609                                  | 274,404                           | 1.86                              |
| Refuge Assurance    | 9                                  | 239,261                                  | 242,419                           | 1.64                              |
| Royal London        | 6                                  | 185,686                                  | 204,393                           | 1.38                              |
| Pearl Assurance     | 6                                  | 177,131                                  | 160,492                           | 1.09                              |
| Scottish Amicable   | 6                                  | 148,684                                  | 148,397                           | 1.01                              |
| Other               | 20                                 | 430,123                                  | 430,434                           | 2.92                              |
|                     | <u>506</u>                         | <u>13,432,363</u>                        | <u>14,765,595</u>                 | <u>100.00</u>                     |

The investments have fixed maturities as shown below.

#### Maturity Profile

|  | 2016<br>Number of<br>policies held | 2016<br>Fair<br>market value<br>£ |
|--|------------------------------------|-----------------------------------|
| Less than one year                             | 109                                | 2,927,383                         |
| Greater than one year but less than five years | 281                                | 8,583,022                         |
| Greater than five years                        | 116                                | 3,255,190                         |
|  | <u>506</u>                         | <u>14,765,595</u>                 |

# THE PROTECTED ASSET TEP FUND PLC

## Notes to the financial statements for the year ended 31 December 2016 (continued)

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

#### The PATF No.2 sub-fund:

| Life office        | 2015                    | 2015                          | 2015                   | 2015                |
|--------------------|-------------------------|-------------------------------|------------------------|---------------------|
|                    | Number of policies held | Book cost on acquisition<br>£ | Fair market value<br>£ | Fair market value % |
| Norwich Union      | 197                     | 4,664,646                     | 5,542,509              | 33.58               |
| Standard Life      | 167                     | 3,238,910                     | 4,223,461              | 25.58               |
| Co-operative       | 52                      | 761,524                       | 951,625                | 5.76                |
| Royal Life         | 24                      | 781,351                       | 817,395                | 4.95                |
| Scottish Provident | 16                      | 710,559                       | 757,466                | 4.59                |
| Prudential         | 23                      | 629,525                       | 673,644                | 4.08                |
| Commercial Union   | 20                      | 590,868                       | 605,687                | 3.67                |
| Scottish Widows    | 19                      | 425,200                       | 442,707                | 2.68                |
| Legal & General    | 13                      | 388,151                       | 381,844                | 2.32                |
| General Accident   | 15                      | 357,735                       | 378,385                | 2.29                |
| Sun Alliance       | 12                      | 367,892                       | 358,725                | 2.18                |
| Phoenix Assurance  | 1                       | 336,032                       | 347,052                | 2.10                |
| Sun Life of Canada | 11                      | 211,157                       | 221,257                | 1.34                |
| Clerical Medical   | 11                      | 207,524                       | 211,540                | 1.28                |
| Scottish Amicable  | 6                       | 157,115                       | 142,345                | 0.86                |
| Royal London       | 5                       | 122,572                       | 128,772                | 0.78                |
| Other              | 17                      | 328,654                       | 323,370                | 1.96                |
|                    | <u>609</u>              | <u>14,279,415</u>             | <u>16,507,784</u>      | <u>100.00</u>       |

The investments have fixed maturities as shown below.

#### Maturity Profile

|  | 2015<br>Number of policies held | 2015<br>Fair market value<br>£ |
|--|---------------------------------|--------------------------------|
| Less than one year                             | 283                             | 6,912,350                      |
| Greater than one year but less than five years | 222                             | 6,575,688                      |
| Greater than five years                        | 104                             | 3,019,746                      |
|  | <u>609</u>                      | <u>16,507,784</u>              |

### 5 Premium commitments

Total premiums due on policies held by the Fund at 31 December 2016, falling due within 12 months were £500,559 (2015: £546,564). Should it be necessary redemption requests will be restricted (note 11) 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 2016 (continued)

### 6 Gains on realisation of financial assets

|  | Original<br>PATF<br>2016<br>£ | PATF No.2<br>2016<br>£ | Total<br>2016<br>£ | Total<br>2015<br>£ |
|--|-------------------------------|------------------------|--------------------|--------------------|
| On sale/maturity<br>of policies        | 293,735                       | 839,612                | 1,133,347          | 5,683,188          |
| On maturity of PCGF<br>shares (note 4) | 663,599                       | -                      | 663,599            | 276,581            |
|  | <u>957,334</u>                | <u>839,612</u>         | <u>1,796,946</u>   | <u>5,959,769</u>   |

During the year TIS was entitled to receive surrender fees amounting to 3% of the value of the policies surrendered under an agreement which was formally signed on 11 March 2009. No policies were surrendered during the year ended 31 December 2016 (2015: no policies were surrendered) and no surrender fees were paid (2015: no surrender fees paid).

During the year the Fund sold policies totalling £nil (2015: £nil) (note 4).

### 7 Policy administration and custodian fees

|                            | 2016<br>£     | 2015<br>£     |
|----------------------------|---------------|---------------|
| Policy administration fees | 425,139       | 558,026       |
| Custodian fees             | <u>80,621</u> | <u>64,260</u> |

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% plus VAT 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 Securities Services SCA Guernsey Branch. 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 2016 (continued)

### 8 Manager fees

|              | 2016           | 2015           |
|--------------|----------------|----------------|
|              | £              | £              |
| Manager fees | <u>175,152</u> | <u>215,692</u> |

The Fund's current Manager, Moore Fund Administration (IOM) Limited is paid a periodic fee on a sliding scale as follows, subject to a minimum of £90,000 per annum:

| Fee      | NAV range     |
|----------|---------------|
| 15 bps   | 0 - £250m     |
| 12.5 bps | £250m - £500m |
| 7.5 bps  | £500m+        |

In addition, for as long as the Fund does not have a Regulated Promoter, the current 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 £75,000 per annum.

The Fund's previous Manager, Abacus Financial Services Limited ("AFSL") (note 14) was paid a periodic fee equal to 0.175% plus VAT 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 previous Manager was also entitled to 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 Receivable from The Protected Capital Growth Fund plc ("PCGF")

On 30 April 2014 the Fund agreed to provide PCGF with an unsecured term loan facility of £1,500,000 for the period to 31 December 2014, with interest being applied at a rate of 2% per annum above the base rate of the Bank of England.

Under the terms of the agreement repayments of £305,000 were received by the Fund on 29 August 2014.

On 28 November 2014 the Fund extended its lending to PCGF by a further £750 with regard to the PCGF 2015 Dollar Enhanced Fund.

On 31 December 2014 the Fund renewed the unsecured term loan facility for the amount of £1,216,250 for the period to 31 December 2015, with interest being applied at a rate of 2% per annum above the base rate of the Bank of England.

Under the terms of the agreement the loan was fully repaid during 2015.

# THE PROTECTED ASSET TEP FUND PLC

## Notes to the financial statements for the year ended 31 December 2016 (continued)

### 10 Promoter fees and redemption penalties

|               | 2016           | 2015           |
|---------------|----------------|----------------|
|               | £              | £              |
| Promoter fees | <u>312,203</u> | <u>417,691</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).

Redemptions of shares in PATF No.2 (but not redemptions of shares in the Original PATF) are subject to a redemption penalty calculated as a percentage of the aggregate subscription price at which the shares were acquired as follows:

| <b>Time participating shares held</b> | <b>Redemption penalty<br/>(reducing by 0.4% per quarter)</b> |
|---------------------------------------|--|
| Up to 1 year                          | 8.0% to 6.4%   |
| From 1 year to 2 years                | 6.4% to 4.8%   |
| From 2 years to 3 years               | 4.8% to 3.2%   |
| From 3 years to 4 years               | 3.2% to 1.6%   |
| From 4 years to 5 years               | 1.6% to 0%   |
| From 6 years onwards                  | 0%   |

The Directors, at their discretion, have availed of a Discretionary Redemption Penalty ("DRP") on redemptions of shares in Original PATF and PATF No.2, as defined in the Scheme Particulars. The Directors continue to review regularly the level at which the DRP sits. During the period to 15 May 2014 the DRP was applied at 5%. On 16 May 2014 the DRP was reduced from 5% to 3% and on 16 February 2015 the DRP was reduced from 3% to 2%.

Redemption penalties paid by the investors during the year amounted to £nil (2015: £9,106) and DRP's paid by the investors during the year amounted to £332,918 (2015: £699,693).

# THE PROTECTED ASSET TEP FUND PLC

## Notes to the financial statements for the year ended 31 December 2016 (continued)

### 11 Share capital

The authorised share capital of the Fund comprises 1,000,000,000 (2015: 1,000,000,000) unclassified shares at a par value of £0.001 per share and 100 (2015: 100) management shares of £1.00 each, giving a total authorised share capital of £1,000,100 (2015: £1,000,100).

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

|   | 2016<br>Number | 2016<br>£  | 2015<br>Number | 2015<br>£  |
|---|----------------|------------|----------------|------------|
| <b>Management shares<br/>of £1.00 each in issue</b> | <u>100</u>     | <u>100</u> | <u>100</u>     | <u>100</u> |

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

|                               | 2016<br>Number     | 2016<br>£      | 2015<br>Number      | 2015<br>£       |
|-------------------------------|--------------------|----------------|---------------------|-----------------|
| In issue at beginning of year | 19,507,709         | 19,507         | 32,535,154          | 32,535          |
| Issued during the year        | -                  | -              | 4,426               | 4               |
| Redeemed during the year      | <u>(4,392,972)</u> | <u>(4,393)</u> | <u>(13,031,871)</u> | <u>(13,032)</u> |
| In issue at end of year       | <u>15,114,737</u>  | <u>15,114</u>  | <u>19,507,709</u>   | <u>19,507</u>   |

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

|                               | 2016<br>Number      | 2016<br>£       | 2015<br>Number      | 2015<br>£       |
|-------------------------------|---------------------|-----------------|---------------------|-----------------|
| In issue at beginning of year | 37,142,763          | 37,142          | 54,448,280          | 54,448          |
| Issued during the year        | -                   | -               | -                   | -               |
| Redeemed during the year      | <u>(10,259,808)</u> | <u>(10,260)</u> | <u>(17,305,517)</u> | <u>(17,306)</u> |
| In issue at end of year       | <u>26,882,955</u>   | <u>26,882</u>   | <u>37,142,763</u>   | <u>37,142</u>   |

# THE PROTECTED ASSET TEP FUND PLC

## Notes to the financial statements for the year ended 31 December 2016 (continued)

### 11 Share capital (continued)

#### Nominal shares in the Original PATF sub-fund:

|                               | 2016<br>Number            | 2016<br>£             | 2015<br>Number            | 2015<br>£             |
|-------------------------------|---------------------------|-----------------------|---------------------------|-----------------------|
| In issue at beginning of year | 272,387,425               | 272,387               | 259,359,980               | 259,360               |
| Issued during the year        | <u>4,392,972</u>          | <u>4,393</u>          | <u>13,027,445</u>         | <u>13,027</u>         |
| In issue at end of year       | <u><u>276,780,397</u></u> | <u><u>276,780</u></u> | <u><u>272,387,425</u></u> | <u><u>272,387</u></u> |

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

|                               | 2016<br>Number            | 2016<br>£             | 2015<br>Number            | 2015<br>£             |
|-------------------------------|---------------------------|-----------------------|---------------------------|-----------------------|
| In issue at beginning of year | 258,726,869               | 258,727               | 241,421,352               | 241,421               |
| Issued during the year        | <u>10,259,808</u>         | <u>10,260</u>         | <u>17,305,517</u>         | <u>17,306</u>         |
| In issue at end of year       | <u><u>268,986,677</u></u> | <u><u>268,987</u></u> | <u><u>258,726,869</u></u> | <u><u>258,727</u></u> |

#### 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 Company may, but is not bound to, redeem on any dealing day no more than 5% of the shares in any sub-fund in issue. If the number of redemption requests exceeds this limit, the requests may be reduced proportionately. Any requests not redeemed in full on the first dealing day will be carried forward to each succeeding dealing day until complied with in full. Requests carried forward from an earlier dealing day will be given priority over later redemption requests.

# THE PROTECTED ASSET TEP FUND PLC

## Notes to the financial statements for the year ended 31 December 2016 (continued)

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### 11 Share capital (continued)

#### Participating redeemable preference shares (continued)

At the year ended 31 December 2016, a 5% redemption gate (note 13f) was in place on the PATF No. 2 Euro Fund.

#### 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:

- (a) firstly, in the repayment *pari passu* to the holders of participating redeemable preference shares of sums up to the nominal amount paid up thereon;
- (b) secondly, in the repayment *pari passu* to the holders of the nominal shares of sums up to the nominal amount paid up thereon;
- (c) thirdly, in the repayment *pari passu* to the holders of the management shares of sums up to the nominal amount paid up thereon;
- (d) 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;
- (e) 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 2016 (continued)

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

|   | Original<br>PATF<br>2016<br>£ | PATF No.2<br>2016<br>£ | Total<br>2016<br>£ | Total<br>2015<br>£ |
|---|-------------------------------|------------------------|--------------------|--------------------|
| Share capital (note 11)   | 15,114                        | 26,882                 | 41,996             | 56,649             |
| Share premium<br>account (note 12(i))   | -                             | 55,754,908             | 55,754,908         | 65,533,827         |
| Accumulated gains/<br>(losses) (note 12(ii))  | (4,954,200)                   | (36,792,722)           | (41,746,922)       | (44,949,329)       |
| Capital reserve<br>(note 12(iii))   | <u>26,984,488</u>             | <u>7,514,572</u>       | <u>34,499,060</u>  | <u>39,430,369</u>  |
| Net assets attributable<br>to holders of<br>participating redeemable<br>preference shares | <u>22,045,402</u>             | <u>26,503,640</u>      | <u>48,549,042</u>  | <u>60,071,516</u>  |

#### (i) Share premium account

|  | Original<br>PATF<br>2016<br>£ | PATF No.2<br>2016<br>£ | Total<br>2016<br>£ | Total<br>2015<br>£ |
|--|-------------------------------|------------------------|--------------------|--------------------|
| Balance at 1 January   | -                             | 65,533,827             | 65,533,827         | 96,047,925         |
| Arising on issue of<br>participating redeemable<br>preference shares   | -                             | -                      | -                  | 6,169              |
| Used in redemption of<br>participating redeemable<br>preference shares | -                             | (9,778,919)            | (9,778,919)        | (30,520,267)       |
| Balance at 31 December   | <u>-</u>                      | <u>55,754,908</u>      | <u>55,754,908</u>  | <u>65,533,827</u>  |

# THE PROTECTED ASSET TEP FUND PLC

## Notes to the financial statements for the year ended 31 December 2016 (continued)

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

#### (ii) Accumulated gains/(losses)

|  | <b>Original<br/>PATF<br/>2016<br/>£</b> | <b>PATF No.2<br/>2016<br/>£</b> | <b>Total<br/>2016<br/>£</b> | <b>Total<br/>2015<br/>£</b> |
|--|---|---------------------------------|-----------------------------|-----------------------------|
| Balance at 1 January   | (6,446,081)                             | (38,503,248)                    | (44,949,329)                | (41,937,803)                |
| Net increase in net assets attributable to holders of participating redeemable preference shares | 1,923,801                               | 2,107,336                       | 4,031,137                   | 468,979                     |
| Realised and unrealised gains on investments transferred to capital reserve                      | (431,920)                               | (396,810)                       | (828,730)                   | (3,480,505)                 |
| Balance at 31 December   | <u>(4,954,200)</u>                      | <u>(36,792,722)</u>             | <u>(41,746,922)</u>         | <u>(44,949,329)</u>         |

#### (iii) Capital reserve

|  | <b>Original<br/>PATF<br/>2016<br/>£</b> | <b>PATF No.2<br/>2016<br/>£</b> | <b>Total<br/>2016<br/>£</b> | <b>Total<br/>2015<br/>£</b> |
|--|---|---------------------------------|-----------------------------|-----------------------------|
| Balance at 1 January   | 32,312,607                              | 7,117,762                       | 39,430,369                  | 37,228,706                  |
| Realised and unrealised gains on investments transferred from accumulated gains/losses | 431,920                                 | 396,810                         | 828,730                     | 3,480,505                   |
| Used in redemption of participating redeemable preference shares                       | (5,760,039)                             | -                               | (5,760,039)                 | (1,278,842)                 |
| Balance at 31 December   | <u>26,984,488</u>                       | <u>7,514,572</u>                | <u>34,499,060</u>           | <u>39,430,369</u>           |



# THE PROTECTED ASSET TEP FUND PLC

## Notes to the financial statements for the year ended 31 December 2016 (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 at the individual sub-fund level.

These aggregated financial statements have been prepared in Sterling. As all assets and liabilities of the Fund are denominated in Sterling no foreign currency exposure analysis has been prepared.

Exchange rate exposures for the Euro and US Dollar sub-funds are managed within approved policy parameters utilising forward foreign exchange contracts. At 31 December 2016 and 31 December 2015, forward currency contracts were in place for each non-Sterling sub-fund of the Fund.

#### 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 2016 (15 December 2016 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               | 2,061,715          | GBP           | 1,806,146          | 04/01/2017    | (42,103)               |
| EUR               | 1,931,536          | GBP           | 1,750,055          | 02/02/2017    | (96,148)               |
| EUR               | 1,216,358          | GBP           | 1,037,671          | 02/03/2017    | 4,654                  |
| EUR               | 3,817,255          | GBP           | 3,254,267          | 19/12/2016    | (56,904)               |
| EUR               | 6,078,494          | GBP           | 5,446,192          | 18/01/2017    | (350,448)              |
| EUR               | 1,181,998          | GBP           | 1,025,150          | 17/02/2017    | (33,509)               |
| USD               | 2,205,595          | GBP           | 1,713,483          | 04/01/2017    | 74,064                 |
| USD               | 1,585,803          | GBP           | 1,295,908          | 02/02/2017    | (11,583)               |
| USD               | 2,256,643          | GBP           | 1,810,383          | 02/03/2017    | 15,886                 |
| USD               | 1,174,260          | GBP           | 888,851            | 19/12/2016    | 58,913                 |
| USD               | 3,738,787          | GBP           | 3,034,976          | 18/01/2017    | (19,990)               |
| USD               | (455,160)          | GBP           | (365,297)          | 17/02/2017    | (1,503)                |
|                   |                    |               |                    |               | <u>(458,671)</u>       |

# THE PROTECTED ASSET TEP FUND PLC

## Notes to the financial statements for the year ended 31 December 2016 (continued)

### 13 Financial risks (continued)

#### b) Forward contracts (continued)

At 31 December 2015 (15 December 2015 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               | 2,309,916          | GBP           | 1,708,770          | 05/01/2016    | (7,498)                |
| EUR               | 2,852,136          | GBP           | 2,042,053          | 02/02/2016    | 59,945                 |
| EUR               | 2,827,521          | GBP           | 1,990,511          | 02/03/2016    | 94,739                 |
| EUR               | 5,731,631          | GBP           | 4,220,020          | 17/12/2015    | (63,060)               |
| EUR               | 5,389,641          | GBP           | 3,969,685          | 19/01/2016    | (57,212)               |
| EUR               | 6,003,405          | GBP           | 4,209,962          | 17/02/2016    | 151,001                |
| USD               | 2,502,739          | GBP           | 1,651,428          | 05/01/2016    | 45,961                 |
| USD               | 1,862,183          | GBP           | 1,205,531          | 02/02/2016    | 57,371                 |
| USD               | 2,808,993          | GBP           | 1,861,123          | 02/03/2016    | 43,787                 |
| USD               | 2,799,082          | GBP           | 1,816,524          | 17/12/2016    | 44,115                 |
| USD               | 1,790,684          | GBP           | 1,159,394          | 19/01/2016    | 30,837                 |
| USD               | 1,314,242          | GBP           | 863,383            | 17/02/2016    | 10,145                 |
|                   |                    |               |                    |               | <u>410,131</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 and liabilities 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 2016 (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<br>one month<br>£ | Less than<br>one year<br>£ | Non-interest<br>bearing<br>£ | Total<br>£        |
|---|-----------------------------|----------------------------|------------------------------|-------------------|
| <b>At 31 December 2016</b>                            |                             |                            |                              |                   |
| <b>Assets</b>   |                             |                            |                              |                   |
| Financial assets at fair value through profit or loss | -                           | -                          | 26,181,294                   | 26,181,294        |
| Cash and cash equivalents                             | 22,891,855                  | -                          | -                            | 22,891,855        |
| Trade and other receivables                           | -                           | -                          | 579,707                      | 579,707           |
| Unpaid management shares issued                       | -                           | -                          | 100                          | 100               |
| <b>Total assets</b>                                   | <u>22,891,855</u>           | <u>-</u>                   | <u>26,761,101</u>            | <u>49,652,956</u> |
| <b>Liabilities</b>                                    |                             |                            |                              |                   |
| Trade and other payables                              | -                           | -                          | 558,047                      | 558,047           |
| Management shares                                     | -                           | -                          | 100                          | 100               |
| Nominal shares  | -                           | -                          | 545,767                      | 545,767           |
| Participating redeemable preference shares            | -                           | -                          | 48,549,042                   | 48,549,042        |
| <b>Total liabilities</b>                              | <u>-</u>                    | <u>-</u>                   | <u>49,652,956</u>            | <u>49,652,956</u> |
| <b>Total interest sensitivity gap</b>                 | <u>22,891,855</u>           | <u>-</u>                   | <u>(22,891,855)</u>          | <u>-</u>          |

# THE PROTECTED ASSET TEP FUND PLC

## Notes to the financial statements for the year ended 31 December 2016 (continued)

### 13 Financial risks (continued)

#### c) Interest rate risk (continued)

|   | Less than<br>one month<br>£ | Less than<br>one year<br>£ | Non-interest<br>bearing<br>£ | Total<br>£        |
|---|-----------------------------|----------------------------|------------------------------|-------------------|
| <b>At 31 December 2015</b>                            |                             |                            |                              |                   |
| <b>Assets</b>   |                             |                            |                              |                   |
| Financial assets at fair value through profit or loss | -                           | -                          | 31,924,723                   | 31,924,723        |
| Cash and cash equivalents                             | 27,938,700                  | -                          | -                            | 27,938,700        |
| Trade and other receivables                           | -                           | -                          | 996,102                      | 996,102           |
| Unpaid management shares issued                       | -                           | -                          | 100                          | 100               |
| <b>Total assets</b>                                   | <u>27,938,700</u>           | <u>-</u>                   | <u>32,920,925</u>            | <u>60,859,625</u> |
| <b>Liabilities</b>                                    |                             |                            |                              |                   |
| Trade and other payables                              | -                           | -                          | 256,895                      | 256,895           |
| Management shares                                     | -                           | -                          | 100                          | 100               |
| Nominal shares  | -                           | -                          | 531,114                      | 531,114           |
| Participating redeemable preference shares            | -                           | -                          | 60,071,516                   | 60,071,516        |
| <b>Total liabilities</b>                              | <u>-</u>                    | <u>-</u>                   | <u>60,859,625</u>            | <u>60,859,625</u> |
| <b>Total interest sensitivity gap</b>                 | <u>27,938,700</u>           | <u>-</u>                   | <u>(27,938,700)</u>          | <u>-</u>          |

#### 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 in the near future, which can represent better investment value.

# THE PROTECTED ASSET TEP FUND PLC

## Notes to the financial statements for the year ended 31 December 2016 (continued)

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### 13 Financial risks (continued)

#### d) Price risk (continued)

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 NAVs of the respective sub-funds:

#### The Protected Asset TEP Fund plc at 31 December 2016:

| Sub-fund                | Movement in Share Price     |                              |
|-------------------------|-----------------------------|------------------------------|
|                         | TEP values<br>raised by 15% | TEP values<br>lowered by 15% |
| Original PATF Sterling  | 7.30%                       | -7.30%                       |
| Original PATF Euro      | 9.50%                       | -9.50%                       |
| Original PATF US Dollar | 7.28%                       | -7.28%                       |
| PATF No.2 Sterling      | 7.84%                       | -7.83%                       |
| PATF No.2 Euro          | 8.57%                       | -8.57%                       |
| PATF No.2 US Dollar     | 8.51%                       | -8.50%                       |

#### The Protected Asset TEP Fund plc 31 December 2015:

| Sub-fund                | Movement in Share Price     |                              |
|-------------------------|-----------------------------|------------------------------|
|                         | TEP values<br>raised by 15% | TEP values<br>lowered by 15% |
| Original PATF Sterling  | 6.12%                       | -6.12%                       |
| Original PATF Euro      | 9.48%                       | -9.48%                       |
| Original PATF US Dollar | 10.38%                      | -10.37%                      |
| PATF No.2 Sterling      | 6.26%                       | -6.26%                       |
| PATF No.2 Euro          | 7.05%                       | -7.05%                       |
| PATF No.2 US Dollar     | 10.93%                      | -10.93%                      |

# THE PROTECTED ASSET TEP FUND PLC

## Notes to the financial statements for the year ended 31 December 2016 (continued)

### 13 Financial risks (continued)

#### d) Price risk (continued)

##### Life Office concentration risk

The Fund is exposed to counterparty 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 2016

| Original PATF    | Weighting | PATF No.2          | Weighting |
|------------------|-----------|--------------------|-----------|
| Norwich Union    | 32.54%    | Norwich Union      | 34.49%    |
| Commercial Union | 8.59%     | Commercial Union   | 10.77%    |
| Royal Life       | 8.25%     | Prudential         | 5.84%     |
| Prudential       | 7.26%     | Scottish Provident | 5.57%     |
| Legal & General  | 7.20%     | Standard Life      | 5.43%     |

##### At 31 December 2015

| Original PATF   | Weighting | PATF No.2          | Weighting |
|-----------------|-----------|--------------------|-----------|
| Norwich Union   | 32.25%    | Norwich Union      | 33.58%    |
| Royal Life      | 8.56%     | Standard Life      | 25.58%    |
| Standard Life   | 7.97%     | Co-operative       | 5.76%     |
| Co-operative    | 7.85%     | Royal Life         | 4.95%     |
| Legal & General | 5.03%     | Scottish Provident | 4.59%     |

##### Fair value hierarchy

The Fund is required 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 directly (that is, as prices) or indirectly (that is, derived prices) (level 2); and
- Inputs for the asset or liability that are not based on observable market assets (that is, unobservable inputs) (level 3)

The Fund recognises transfers between levels of the fair value hierarchy as at the end of the reporting period.

# THE PROTECTED ASSET TEP FUND PLC

## Notes to the financial statements for the year ended 31 December 2016 (continued)

### 13 Financial risks (continued)

#### d) Price risk (continued)

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

##### At 31 December 2016

| Financial assets at fair value through profit or loss | Level 1<br>£ | Level 2<br>£ | Level 3<br>£      | Total<br>£        |
|---|--------------|--------------|-------------------|-------------------|
| Original PATF – TEPs                                  | -            | -            | 11,415,699        | 11,415,699        |
| PATF No.2 – TEPs                                      | -            | -            | 14,765,595        | 14,765,595        |
|   | <u>-</u>     | <u>-</u>     | <u>26,181,294</u> | <u>26,181,294</u> |

##### At 31 December 2015

| Financial assets at fair value through profit or loss | Level 1<br>£ | Level 2<br>£ | Level 3<br>£      | Total<br>£        |
|---|--------------|--------------|-------------------|-------------------|
| PCGF  | -            | -            | 2,244,084         | 2,244,084         |
| Original PATF – TEPs                                  | -            | -            | 13,172,855        | 13,172,855        |
| PATF No.2 – TEPs                                      | -            | -            | 16,507,784        | 16,507,784        |
|   | <u>-</u>     | <u>-</u>     | <u>31,924,723</u> | <u>31,924,723</u> |

There were no transfers between levels in the year.

# THE PROTECTED ASSET TEP FUND PLC

## Notes to the financial statements for the year ended 31 December 2016 (continued)

### 13 Financial risks (continued)

#### d) Price risk (continued)

##### Significant unobservable inputs used in measuring fair value

The table below sets out information about significant unobservable inputs used at 31 December 2016 and 31 December 2015 in measuring financial instruments categorised as Level 3 in the fair value hierarchy:

| Description             | Fair value at<br>31 December<br>2016 | Valuation<br>technique   | Unobservable<br>input   | Sensitivity to changes in<br>significant unobservable<br>inputs  |
|-------------------------|--------------------------------------|--|---|--|
| Original<br>PATF - TEPs | £11,415,699                          | Estimated by<br>the Actuary<br>using an<br>industry<br>standard<br>methodology<br>(See note 2) | Valuation as per the<br>actuarial model and<br>the discretionary<br>discount factor,<br>applied in<br>accordance with the<br>Scheme Particulars | The estimated fair<br>value would increase/<br>decrease if:<br><br>The discount factor<br>used was increased/<br>decreased |
| PATF No.2<br>- TEPs     | £14,765,595                          | Estimated by<br>the Actuary<br>using an<br>industry<br>standard<br>methodology<br>(See note 2) | Valuation as per the<br>actuarial model and<br>the discretionary<br>discount factor,<br>applied in<br>accordance with the<br>Scheme Particulars | The estimated fair<br>value would increase/<br>decrease if:<br><br>The discount factor<br>used was increased/<br>decreased |

| Description             | Fair value at<br>31 December<br>2015 | Valuation<br>technique   | Unobservable<br>input   | Sensitivity to changes in<br>significant unobservable<br>inputs  |
|-------------------------|--------------------------------------|--|---|--|
| Original<br>PATF - TEPs | £13,172,855                          | Estimated by<br>the Actuary<br>using an<br>industry<br>standard<br>methodology<br>(See note 2) | Valuation as per the<br>actuarial model and<br>the discretionary<br>discount factor,<br>applied in<br>accordance with the<br>Scheme Particulars | The estimated fair<br>value would increase/<br>decrease if:<br><br>The discount factor<br>used was increased/<br>decreased |
| PATF No.2<br>- TEPs     | £16,507,784                          | Estimated by<br>the Actuary<br>using an<br>industry<br>standard<br>methodology<br>(See note 2) | Valuation as per the<br>actuarial model and<br>the discretionary<br>discount factor,<br>applied in<br>accordance with the<br>Scheme Particulars | The estimated fair<br>value would increase/<br>decrease if:<br><br>The discount factor<br>used was increased/<br>decreased |



# THE PROTECTED ASSET TEP FUND PLC

## Notes to the financial statements for the year ended 31 December 2016 (continued)

### 13 Financial risks (continued)

#### d) Price risk (continued)

##### Financial instruments not measured at fair value

The financial instruments not measured at fair value through profit or loss are short-term financial assets and financial liabilities whose carrying value amounts approximate to fair value.

The following table sets out the fair values of financial instruments not measured at fair value and analyses it by the level in the fair value hierarchy into which each fair value measurement is categorised:

##### At 31 December 2016

|  | Level 1<br>£      | Level 2<br>£      | Level 3<br>£ | Total<br>£        |
|--|-------------------|-------------------|--------------|-------------------|
| <b>Financial assets</b>                    |                   |                   |              |                   |
| Cash and cash equivalents                  | 22,891,855        | -                 | -            | 22,891,855        |
| Receivable from PCGF                       | -                 | -                 | -            | -                 |
| Trade and other receivables                | -                 | 579,707           | -            | 579,707           |
| Unpaid management shares                   | -                 | 100               | -            | 100               |
|  | <u>22,891,855</u> | <u>579,807</u>    | <u>-</u>     | <u>23,471,662</u> |
| <b>Financial liabilities</b>               |                   |                   |              |                   |
| Trade and other payables                   | -                 | 558,047           | -            | 558,047           |
| Management shares                          | -                 | 100               | -            | 100               |
| Nominal shares                             | -                 | 545,767           | -            | 545,767           |
| Participating redeemable preference shares | -                 | 48,549,042        | -            | 48,549,042        |
|  | <u>-</u>          | <u>49,652,956</u> | <u>-</u>     | <u>49,652,956</u> |

##### At 31 December 2015

|  | Level 1<br>£      | Level 2<br>£      | Level 3<br>£ | Total<br>£        |
|--|-------------------|-------------------|--------------|-------------------|
| <b>Financial assets</b>                    |                   |                   |              |                   |
| Cash and cash equivalents                  | 27,938,700        | -                 | -            | 27,938,700        |
| Receivable from PCGF                       | -                 | -                 | -            | -                 |
| Trade and other receivables                | -                 | 996,102           | -            | 996,102           |
| Unpaid management shares                   | -                 | 100               | -            | 100               |
|  | <u>27,938,700</u> | <u>996,202</u>    | <u>-</u>     | <u>28,934,902</u> |
| <b>Financial liabilities</b>               |                   |                   |              |                   |
| Trade and other payables                   | -                 | 256,895           | -            | 256,895           |
| Management shares                          | -                 | 100               | -            | 100               |
| Nominal shares                             | -                 | 531,114           | -            | 531,114           |
| Participating redeemable preference shares | -                 | 60,071,516        | -            | 60,071,516        |
|  | <u>-</u>          | <u>60,859,625</u> | <u>-</u>     | <u>60,859,625</u> |

# THE PROTECTED ASSET TEP FUND PLC

## Notes to the financial statements for the year ended 31 December 2016 (continued)

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### 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 and 13d).

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 are all held with The Royal Bank of Scotland International Limited and Nationwide International. Subsequent to the year end the bank deposits with Nationwide International were transferred to The Royal Bank of Scotland International Limited and the accounts were closed.

#### 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.

The Fund will attempt to sell, should a secondary market exist, or surrender policies in order to fund liquidity requirements of the Fund.

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.

The Fund may, but is not bound to, redeem on any dealing day more than 5% of the shares in any sub-fund issue. If the number of redemption requests exceeds this limit, the requests may be reduced proportionately. Any requests not redeemed in full on the first dealing day will be carried forward to each succeeding dealing day until complied in full. Requests carried forward from an earlier dealing day will be given priority over later redemption requests.

#### 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 Fund's 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.

The Royal Bank of Scotland International Limited holds a second charge over the policies held by the Fund as security in respect of any liabilities that are owed to it. At 31 December 2016 no amounts were owed to the Royal Bank of Scotland International Limited.

# THE PROTECTED ASSET TEP FUND PLC

## Notes to the financial statements for the year ended 31 December 2016 (continued)

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### 13 Financial risks (continued)

#### g) Capital risk management (continued)

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 some of the sub-funds are not denominated in Sterling. The Fund enters into forward Euro and US Dollar currency contracts to protect the Euro and US Dollar investors in the Fund (see note 13a and 13b).

### 14 Controlling party and related party transactions

TIS Group Limited ("TIS") owns 99 of the management shares which have no interest in the assets of the Fund and therefore the Directors do not consider TIS as a controlling party. 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 2016, TIS owned no participating redeemable preference shares (2015: owned no participating redeemable preference shares).

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

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 £7,464,708 (2015: £14,595,690). 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 was entitled to receive surrender fees amounting to 3% of the value of the policies surrendered under an agreement which was formally signed on 11 March 2009. No policies were surrendered during the year ended 31 December 2016 (2015: nil) and no surrender fees were paid (2015: no surrender fees paid).

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 £425,139 (2015: £558,026) in respect of administrative services and an amount of £31,419 was outstanding at the year end (2015: £61,651). The agreement may be terminated by the Fund giving 12 months' notice or by TMS giving not less than 6 months' notice.

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 ("AAP") t/a PDL International ("PDL") on the same date. AAP owns one of the management shares. In addition to being a Director of the Fund Katherine Spiteri is also a Director of Absolute Assigned Policies Limited. The fees payable to the Promoter for the current and prior year are set out in note 10. An amount of £22,188 (2015: £27,863) was outstanding at the year end.

The Original PATF Sterling sub-fund invested in The Protected Capital Growth Fund plc ("PCGF"). The total investment cost at the prior year end was £1,580,485 and the market value (post-enhancement adjustment) was £2,244,084 (note 4). The investment was sold during 2016.

# THE PROTECTED ASSET TEP FUND PLC

## Notes to the financial statements for the year ended 31 December 2016 (continued)

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### 15 Events after the reporting date

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

| <b>Sub-fund</b>         |               | <b>NAV per share</b> |
|-------------------------|---------------|----------------------|
| Original PATF Sterling  | 31 March 2017 | 1.8618               |
| Original PATF Euro      | 31 March 2017 | 1.2887               |
| Original PATF US Dollar | 31 March 2017 | 1.5066               |
| PATF No.2 Sterling      | 15 March 2017 | 1.1000               |
| PATF No.2 Euro          | 15 March 2017 | 1.0598               |
| PATF No.2 US Dollar     | 15 March 2017 | 1.1514               |

Following the year ended 31 December 2016 there have been net redemptions of:

| <b>Sub-fund</b>         |            |
|-------------------------|------------|
| Original PATF Sterling  | £945,651   |
| Original PATF Euro      | €599,772   |
| Original PATF US Dollar | \$605,029  |
| PATF No.2 Sterling      | £483,943   |
| PATF No.2 Euro          | €1,546,949 |
| PATF No.2 US Dollar     | \$280,892  |

## **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 28 July 2011, to the Directors of The Protected Asset TEP Fund plc (the "Statement of Net Asset Value")**

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We have examined the Statement of Net Asset Value, set out on pages 51 to 53 in accordance with our engagement letter dated 1 February 2017.

#### **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 28 July 2011. Our responsibility is to examine the Statement of Net Asset Value and to report our opinion in accordance with our letter of engagement dated 1 February 2017.

#### **Basis of opinion**

Our opinion is based solely on our examination of the Statement of Net Asset Value, in accordance with our engagement letter dated 1 February 2017, set out on pages 51 to 53 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 28 July 2011.

#### **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**

**2 May 2017**


# THE PROTECTED ASSET TEP FUND PLC

## Statement of Net Asset Value (NAV) as at 31 December 2016

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|  | <b>Original<br/>PATF<br/>2016<br/>£</b> | <b>PATF No.2<br/>2016<br/>£</b> |
|--|---|---------------------------------|
| Net assets attributable to holders of participating redeemable preference shares |   |                                 |
| – Audited statement of financial position (page 14)                              | 22,045,402                              | 26,503,640                      |
| Management shares unpaid at the year end   | 100                                     | -                               |
| Adjustments in accordance with the Scheme Particulars (see notes):               |   |                                 |
| Unamortised sales and marketing expenses   | -                                       | 257                             |
| Share dealing 16 December 2016   | -                                       | 511,272                         |
| Other adjustments  | 981                                     | (488)                           |
|  | <u>22,046,483</u>                       | <u>27,014,681</u>               |
| Number of shares in issue at 15 December 2016                                    | 15,114,737                              | 27,465,677                      |
| Number of shares redeemed on 16 December 2016                                    | -                                       | (582,722)                       |
| Number of shares in issue at 31 December 2016 (note 11)                          | <u>15,114,737</u>                       | <u>26,882,955</u>               |
| Net asset value per share  | <u>1.4586</u>                           | <u>1.0049</u>                   |

**For and on behalf of the Board**



**Rupert Cottrell  
Director**

**27 April 2017**

## THE PROTECTED ASSET TEP FUND PLC

### Statement of Net Asset Value (NAV) as at 31 December 2016 (continued)

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

| <b>Sub-fund</b>         | <b>Total<br/>net asset<br/>value<br/>£</b> | <b>Total net<br/>assets in<br/>designated<br/>currency</b> | <b>Number<br/>of shares<br/>in issue</b> | <b>NAV per<br/>share</b> |
|-------------------------|--|--|--|--------------------------|
| Original PATF Sterling  | 12,379,375                                 | 12,379,375   | 6,732,143                                | £1.8388                  |
| Original PATF Euro      | 4,603,173                                  | 5,380,619  | 4,197,189                                | €1.2819                  |
| Original PATF US Dollar | 5,063,935                                  | 6,247,375  | 4,185,405                                | \$1.4926                 |
|                         | <u>22,046,483</u>                          |  | <u>15,114,737</u>                        |                          |

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

| <b>Sub-fund</b>     | <b>Total<br/>net asset<br/>value<br/>£</b> | <b>Total net<br/>assets in<br/>designated<br/>currency</b> | <b>Number<br/>of shares<br/>in issue</b> | <b>NAV per<br/>share</b> |
|---------------------|--|--|--|--------------------------|
| PATF No.2 Sterling  | 13,834,530                                 | 13,834,530   | 12,666,866                               | £1.0921                  |
| PATF No.2 Euro      | 9,492,307                                  | 11,333,827   | 10,790,536                               | €1.0503                  |
| PATF No.2 US Dollar | 3,687,844                                  | 4,568,517  | 4,008,275                                | \$1.1397                 |
|                     | <u>27,014,681</u>                          |  | <u>27,465,677</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 2016, 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 2016 (continued)

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#### Notes

In accordance with the provisions of the Scheme Particulars:

#### Sales and marketing expenses

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

|   | <b>PATF No.2</b> | <b>PATF No.2</b> |
|---|------------------|------------------|
|   | <b>2016</b>      | <b>2015</b>      |
|   | <b>£</b>         | <b>£</b>         |
| Brought forward                           | 2,867            | 48,986           |
| Additions                                 | -                | -                |
| Redemption penalties (note 10)            | -                | (9,106)          |
| Amortisation for the year                 | (2,610)          | (37,013)         |
| Unamortised net book value at 31 December | <u>257</u>       | <u>2,867</u>     |











Protected  
Asset TEP  
Fund plc

First Names House, Victoria Road, Douglas, Isle of Man, IM2 4DF  
Telephone: +44 (0) 1624 661020 Facsimile: +44 (0) 1624 617823