

Lloydstrust Gilt Fund Limited

Annual Report and
Audited Financial Statements
For the year ended
30th June 2010



Lloyds TSB | International

Lloydstrust Gilt Fund Limited

Company Informations

REGISTERED OFFICE
PO Box 160, 25 New Street, St Helier,
Jersey, JE4 8RG, Channel Islands

PRINCIPAL PLACE OF BUSINESS
PO Box 311, 11 - 12 Esplanade, St Helier,
Jersey, JE4 8ZU, Channel Islands

DIRECTORS
c/o Registered Office
R. D. Willcox (Chairman)
I. M. J. Hardy
B. C. James
N. R. Jeacock-Fewtrell

Advocate T. J. Herbert
PO Box 87, 22 Grenville Street, St Helier,
Jersey, JE4 8PX, Channel Islands

MANAGER AND REGISTRAR
Lloyds TSB Offshore Fund Managers Limited,
PO Box 160, 25 New Street, St Helier,
Jersey, JE4 8RG, Channel Islands
Tel : +44 (0) 1534 845555

LEGAL ADVISERS
In Jersey:
Mourant Ozannes,
PO Box 87, 22 Grenville Street, St Helier,
Jersey, JE4 8PX, Channel Islands
In England:
Linklaters,
One Silk Street, London, EC2Y 8HQ

INVESTMENT MANAGER
Scottish Widows Investment Partnership Limited,
33 Old Broad Street, London, EC2N 1HZ

CUSTODIAN
Capita Trust Company (Jersey) Limited,
PO Box 532, 12 Castle Street, St Helier,
Jersey, JE2 3RT, Channel Islands

SECRETARY
Lloyds TSB Offshore Corporate Services Limited
PO Box 160, 25 New Street, St Helier,
Jersey, JE4 8RG, Channel Islands

INDEPENDENT AUDITORS
PricewaterhouseCoopers CI LLP,
Twenty Two Colomberie, St Helier,
Jersey, JE1 4XA, Channel Islands

Investment Objective & Policy

The investment objective of the Company is to invest in sterling denominated Government and other public securities, principally those issued by the Government of Great Britain and those which pay interest without the deduction of tax to non residents of the country of the issuer.

The Company provides an opportunity for investors who require a good level of income to take advantage of a managed portfolio of British Government Securities ("gilts") which also provide security and a measure of capital protection. This level of income may be achieved partly by purchasing gilts at prices currently above their ultimate redemption values and could be at the expense of capital, for example in times of stable or rising interest rates.

The Company shall invest primarily in British Government securities in respect of which persons ordinarily resident outside the United Kingdom may receive income not subject to United Kingdom taxation. In addition, investment may be made in other sterling bonds, issued or guaranteed by or on behalf of certain governments, local authorities or international organisations.

The Company may also hold cash or monies on current or deposit accounts with certain classes of institution for limited purposes.

A flexible investment policy will be pursued by investing in varying proportions of long, medium and short-dated stocks depending on economic conditions.

It should be remembered that the price of shares and the income from them can go down as well as up and is not guaranteed. Consequently investors may, on selling their shares, receive an amount greater or less than the amount they originally invested.

Dividends are not guaranteed and may fluctuate in money terms.

Directors' Report

The Directors have pleasure in submitting their Annual Report together with the Audited Financial Statements for the year ended 30th June 2010.

Results

The results for the year are set out in the Financial Statements on pages 10 to 31.

Distributions

Distributions for the year are detailed in Note 5 to the Financial Statements.

Directors

Mr I.M.J. Hardy, Advocate T.J. Herbert, Mr B.C. James, Mr N.R. Jeacock-Fewtrell and Mr R.D. Willcox were Directors throughout the year, have since continued to act and are willing to remain in office.

During the year ended 30th June 2010 and subsequently, no Director had a beneficial interest in the Company.

No Director has a service contract with the Company and is, or was, materially interested in any service or other contract entered into by the Company.

Advocate Herbert is a partner of Mourant Ozannes, the Jersey legal advisers to the Company and the Manager. Mourant Ozannes receive fees in connection with advising the Company and the Manager.

Mr I.M.J. Hardy, Mr B.C. James, Mr N.R. Jeacock-Fewtrell and Mr R.D. Willcox are Directors of Lloyds TSB Offshore Fund Managers Limited (the "Manager") which has a management contract with the Company. Fees earned by the Manager are disclosed in the Financial Statements.

Investment Activities

The Report of the Manager is set out on page 6.

Independent Auditors

PricewaterhouseCoopers CI LLP were re-appointed as Independent auditors at the Annual General Meeting held on 13th November 2009 and have indicated their willingness to continue in office.

Prospectus

A supplement to the Prospectus dated January 2009 was issued in April 2009.

The Supplement contains notification that with effect from 19th January 2009, Lloyds TSB Group plc changed its name to Lloyds Banking Group plc. As a result changes have been made to the wording of the Data Protection section of the Fund's application form. Shareholders are advised that the wording; "The Lloyds TSB Group includes all companies with the Lloyds TSB name, Cheltenham & Gloucester plc and Scottish Widows plc, and their associated companies." has been replaced with "Your Group" means the Lloyds Banking Group, which includes you and a number of other companies using brands including Lloyds TSB, Halifax and Bank of Scotland, and their associated companies. More information on the Lloyds Banking Group can be found at www.lloydsbankinggroup.com. For these purposes "associated companies" includes Lloyds Banking Group plc and any subsidiary, affiliate or other firm directly or indirectly controlled from time to time by either Lloyds Banking Group plc or you."

All other references in the Prospectus to Lloyds TSB Group plc and the Lloyds TSB Group should now be read as Lloyds Banking Group plc and the Lloyds Banking Group respectively.

Copies of the Prospectus and Supplement to the Prospectus are available, free of charge, on application to the Manager. Alternatively they can be accessed on our website at www.lloydstsb-offshore.com/funds.

European Union Savings Tax Directive ("EUSTD")

Shareholders who have elected to have retention tax deducted from their income payments should note that the previous rate of 15% increased to 20% with effect from 1st July 2008. This will increase further to 35% on 1st of July 2011.

Management and administration providers

The names and addresses of the company's management and administration providers are stated on page 1.

Comparatives Tables

The distribution, performance record and net asset value per share tables are stated on pages 32 and 33.

Directors' Report (continued)

Directors' Responsibilities

The Directors are required by the Companies (Jersey) Law 1991 to prepare Financial Statements for each financial period which give a true and fair view of the state of affairs of the Company for that period and are in accordance with applicable laws.

In preparing these Financial Statements the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements that are reasonable and prudent;
- state whether applicable accounting standards have been followed subject to any material departures disclosed and explained in the financial statements 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 which 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 (Jersey) Law 1991 and the Collective Investment Funds (Recognized Funds) (Rules) (Jersey) Order 2003 (as amended). They are also responsible for the safeguarding of the assets which includes the appointment of a duly qualified Custodian. The Directors must also ensure that they or their duly appointed agents take reasonable steps for the prevention and detection of fraud, error and non-compliance with law and regulations.

The Directors confirm that they have complied with the above requirements in preparing the Financial Statements.

So far as the Directors are aware there is no relevant audit information of which the Company's Auditors are unaware and each Director has taken all the steps that he or she ought to have taken as director in order to make himself or herself aware of any relevant audit information and to establish that the Company's Auditors are aware of that information.

The Directors have selected Lloyds TSB Offshore Limited website as the host website for the Company accounts and believe this selection to be a reasonable one; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

Information published on the internet is accessible in many countries. Legislation in Jersey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Distributor Status

In October 2009, HM Revenue & Customs published the final version of the offshore fund regulations which, together with the supplementary guidance, provide the framework for the offshore funds "Reporting Fund Regime".

The Distributor status will cease for all accounting periods on or after 31st May 2011 and will be replaced by the "Reporting Fund Regime".

The HM Revenue & Customs has certified the Company as a distributing fund for the purposes of Chapter V Part XVII of the Income and Corporation Taxes Act 1988, in respect of all applicable accounting periods up to 30th June 2009

An application for distributor status in respect of the year ended 30th June 2010 will be made in due course and an application to register for the new Reporting Regime in respect of the year ended 30th June 2011 will be made before 30th September 2010.

A separate letter explaining the changes will be sent to each shareholder in due course.

Directors' Report (continued)

General Information

The market value per share of the property of the Fund at 1st July 2009 was £11.16 and at 30th June 2010 was £11.57.

The Company is an open-ended investment company with variable capital and Shareholders are not liable for the debts of the Company.

The Company holds a certificate as a recognized Securities Fund under the Collective Investment Funds (Recognized Funds) (Rules) (Jersey) Order 2003 (as amended) and holds a permit under Article 7 of the Collective Investment Funds (Jersey) Law, 1988.

The Company is a recognised scheme under Section 270 of the Financial Services and Markets Act 2000 of the United Kingdom.

Performance figures in the Report of the Manager are quoted gross of distributions.

By Order of the Board

Lloyds TSB Offshore Corporate Services Limited
Secretary

29th July 2010

Report of the Manager

Performance

The Company produced a return 5.99% for the year ended 30th June 2010, compared to a median return of 9.84% in the Lipper Hindsight Fixed Income Sterling sector.

Background & Strategy

Gilts were range bound for the early part of the review period, with the 10 year benchmark yield little changed at around 3.7%, but in December yields moved markedly higher and prices fell accordingly. The initial catalyst was an encouraging US employment report, heightening investors' appetite for risk and encouraging a shift from government bonds into riskier assets such as equities. Another contributory factor was growing concern over sovereign risk and the threat of a ratings downgrade.

Moving into 2010 UK markets remained volatile, with the yield on the benchmark 10 year gilt climbing as high as 4.27% before ending March at 3.94%. In January, weak US corporate results provoked a renewed flight to quality by UK investors, but in February, anxieties over the state of public finances, an end to quantitative easing and opinion polls suggesting a hung parliament at the general election caused yields to spike. However, gilts soon recovered ground on news that government borrowing for February was below economists' forecasts.

In April, the spotlight turned onto budget deficits elsewhere in Europe. Fears over peripheral Europe's ability to fund its budget deficits prompted a flight to the perceived quality of "core" government bond markets. The gilt market was boosted by this move: aided by the reasonably settled outcome of the election and the commitment of the coalition to tackle the UK's own huge budget deficit. Yields fell to 3.36% by the end of June.

The Company produced a positive return in the 12 months to 30 June 2010. In the early part of the review period, the gilt yield curve was distorted by stock-specific anomalies arising from Debt Management Office issuance and Bank of England purchases. The market attached a liquidity premium to gilts that were being repurchased, and a discount to those that were being sold, and the Manager sought to take advantage of these anomalies.

The Fund was short duration practically throughout the review period. The Company also bought some short-dated inflation-linked bonds, where valuations on these bonds looked attractive relative to our inflation forecasts. Once more, this position was maintained throughout the review period. As inflation has picked up these performed very strongly.

Early on, the short duration position was expressed through an underweighting of 50 year bonds into 10 year and 20 year bonds, but this was closed off during September. In October, the Company moved overweight in 50 year bonds, believing the very long end of the yield curve would outperform. A short position at the 20 year area of the curve, coupled with a long at five years, proved beneficial.

During November we added to our short duration position, and extended our holding in short-dated inflation-linked assets. The short duration hurt performance in the first six months of 2010 as yields fell, but this was largely mitigated by yield curve positioning.

Outlook

The outlook for the UK is subject to considerable uncertainty given the extent of fiscal tightening that is being put in place. We expect growth next year of 2.7% but remain broadly optimistic, with 3.4% growth projected for 2012. The additional VAT hike is likely to keep CPI inflation above 2% through until early 2012. A significant amount of fiscal tightening has been put in place, and government borrowing has fallen below earlier expectations. Nevertheless, we expect ten-year yields to rise to 4% in 12 months' time. Accordingly, the Company remains short duration. We anticipate that very long-dated bonds will do well in the coming months. Accordingly, 20-30 year bonds have been sold in favour of 50 year bonds.

Scottish Widows Investment Partnership Limited

29th July 2010

Report of the Custodian to the Members of Lloydstrust Gilt Fund Limited

Statement of Custodian's Responsibilities

The Custodian is required under the Collective Investment Funds (Recognized Funds) (Rules) (Jersey) Order 2003 (as amended) ("the Rules") to ensure that, inter alia, it:

- satisfies itself that the sale, issue, redemption, cancellation and valuation of shares in the Company are carried out in accordance with the Rules; and
- takes into its custody all the assets of the Company and holds them in trust for the shareholders in accordance with the Rules; and
- enquires into the conduct of the Company in each annual accounting period and reports thereon to shareholders in a report, which shall contain the matters prescribed by the Rules. The Custodian's Report is included in this Annual Report.

Report of the Custodian to the Members of Lloydstrust Gilt Fund Limited

In accordance with Article 2.06 of the Collective Investment Funds (Recognized Funds) (Rules) (Jersey) Order 2003 (as amended) (the "Rules"), Capita Trust Company (Jersey) Limited, has acted throughout the year as independent Custodian to the Company.

In accordance with Article 7.08 of the Rules we confirm, in our capacity as the Custodian, that we have enquired into the conduct of the Company for the year ended 30th June 2010 and in our opinion, to the best of our knowledge having made such enquiry, the affairs of the Company have been conducted in all material respects for the year then ended:

- in accordance with the limitations imposed on the investment and borrowing powers of the Company by the Memorandum and Articles of Association, by prospectuses and by all Orders for the time being in force under Article 11 of the Collective Investment Funds (Jersey) Law 1988 (as amended) ("the Law"); and
- otherwise in accordance with the provisions of the Memorandum and Articles of Association and the Law.

Capita Trust Company (Jersey) Limited,
Custodian

12 Castle Street,
St Helier,
Jersey JE2 3RT
Channel Islands

29th July 2010

Report of the Independent Auditors to the Members of Lloydstrust Gilt Fund Limited

We have audited the financial statements (the “financial statements”) of Lloydstrust Gilt Fund Limited for the year ended 30 June 2010 which comprise the balance sheet, the statement of comprehensive income, the statement of changes in net assets attributable to holders of participating redeemable preference shares and the cash flow statement and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors’ responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and International Financial Reporting Standards are set out in the Statement of Directors’ Responsibilities in the Directors’ Report.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the Company’s members as a body in accordance with Article 113A of the Companies (Jersey) Law 1991 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies (Jersey) Law 1991 and the Collective Investment Funds (Recognized Funds) (Rules) (Jersey) Order 2003 (as amended). We report to you whether in our opinion the information given in the Directors’ Report is consistent with the financial statements. We also report to you if, in our opinion, the Company has not kept proper accounting records or if we have not received all the information and explanations we require for our audit.

We read the other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. This other information comprises only the company information, investment objective and policy, the directors’ report, the report of the manager, the report of the custodian, the distribution table and the performance record. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company’s circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Report of the Independent Auditors to the Members of Lloydstrust Gilt Fund Limited (continued)

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with International Financial Reporting Standards, of the state of the Company's affairs as at 30 June 2010 and of its movement in net assets attributable to holders of participating redeemable preference shares from operations and cash flows for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies (Jersey) Law 1991 and the Collective Investment Funds (Recognized Funds) (Rules) (Jersey) Order 2003 (as amended); and
- the information given in the Directors' Report is consistent with the financial statements.

Karl Hairon
For and on behalf of PricewaterhouseCoopers CI LLP
Chartered Accountants
Jersey, Channel Islands

29th July 2010

Balance Sheet

At 30th June 2010

	Note	30th June 2010 £	30th June 2009 £
ASSETS			
Cash and cash equivalents		1,517,377	205,497
Financial assets at fair value through profit or loss		165,172,150	176,266,176
Other accrued income and pre-paid expenses	4	<u>2,749,160</u>	<u>3,138,535</u>
TOTAL ASSETS		<u><u>169,438,687</u></u>	<u><u>179,610,208</u></u>
EQUITY			
Ordinary share capital	15	<u>1,000</u>	<u>1,000</u>
TOTAL EQUITY		<u><u>1,000</u></u>	<u><u>1,000</u></u>
LIABILITIES			
Cancellations payable		9,835	38,590
Proposed distributions	5	1,489,045	1,814,226
Accrued expenses	6	169,906	172,142
Nominal shares	15	<u>299,044</u>	<u>287,270</u>
TOTAL LIABILITIES *		<u><u>1,967,830</u></u>	<u><u>2,312,228</u></u>
* Excluding net assets attributable to holders of participating redeemable preference shares			
Net assets attributable to holders of participating redeemable preference shares	18	<u>167,469,857</u>	<u>177,296,980</u>
TOTAL LIABILITIES AND EQUITY		<u><u>169,438,687</u></u>	<u><u>179,610,208</u></u>

The Financial Statements on pages 10 to 31 were approved by the Board of Directors on 29th July 2010 and are signed on its behalf by:

R.D. Willcox }
B.C. James } Directors

The notes on pages 16 to 31 form an integral part of these Financial Statements.

Statement of Comprehensive Income

For the year ended 30th June 2010

	Note	30th June 2010 £	30th June 2009 £
Operating profit			
Net gain on financial assets at fair value through profit or loss	7	5,295,641	15,139,995
Investment income		6,331,209	7,745,551
Other income	8	4,172	93,668
Total operating expenses	10	(1,804,564)	(1,923,932)
Operating profit		<u>9,826,458</u>	<u>21,055,282</u>
Finance Costs			
Distributions to holders of participating redeemable preference shares	5	(6,406,982)	(7,481,284)
Total finance costs		<u>(6,406,982)</u>	<u>(7,481,284)</u>
Profit before tax		<u>3,419,476</u>	<u>13,573,998</u>
Increase in net assets attributable to holders of participating redeemable preference shares from operations		<u>3,419,476</u>	<u>13,573,998</u>

The notes on pages 16 to 31 form an integral part of these Financial Statements.

Statement of changes in net assets attributable to holders of participating redeemable preference shares For the year ended 30th June 2010

	30th June 2010	30th June 2009
	£	£
Net assets attributable to holders of participating redeemable preference shares at 1st July	177,296,980	180,053,770
Proceeds from participating redeemable preference shares issued	5,935,810	3,734,130
Redemption of participating redeemable preference shares	<u>(19,182,409)</u>	<u>(20,064,918)</u>
Net decrease from share transactions	<u>(13,246,599)</u>	<u>(16,330,788)</u>
Increase in net assets attributable to holders of participating redeemable preference shares from operations	<u>3,419,476</u>	<u>13,573,998</u>
Net assets attributable to holders of participating redeemable preference shares at 30th June	<u>167,469,857</u>	<u>177,296,980</u>

The notes on pages 16 to 31 form an integral part of these Financial Statements.

Cash Flow Statement

For the year ended 30th June 2010

	30th June 2010 £	30th June 2009 £
Cash flows from operating activities		
Purchase of financial assets and settlement of financial liabilities	(236,538,366)	(200,975,369)
Receipts from sale of investments (including realised gains and losses)	250,918,866	217,445,623
Investment income received	8,742,086	9,584,014
Bank interest received	3,610	77,181
Interest paid	(3,169)	(3,246)
Other income received	—	20,550
Operating expenses paid	<u>(1,803,631)</u>	<u>(1,935,337)</u>
Net cash inflow from operating activities	<u>21,319,396</u>	<u>24,213,416</u>
Cash flows from financing activities		
Distributions paid to holders of participating redeemable preference shares	(6,732,162)	(7,867,161)
Proceeds received from issue of participating redeemable preference shares	5,935,810	3,734,130
Proceeds paid due to redemption of participating redeemable preference shares	<u>(19,211,164)</u>	<u>(20,054,840)</u>
Net cash outflow from financing activities	<u>(20,007,516)</u>	<u>(24,187,871)</u>
Net Increase in cash and cash equivalents	1,311,880	25,545
Cash and cash equivalents opening balance	<u>205,497</u>	<u>179,952</u>
Cash and cash equivalents closing balance	<u><u>1,517,377</u></u>	<u><u>205,497</u></u>

The notes on pages 16 to 31 form an integral part of these Financial Statements.

Investment Portfolio

	Holding 30.06.09	Holding 30.06.10	Market Value 30.06.10 £	Percentage of Total Net Assets %	Market Value 30.06.09 £
United Kingdom					
Government Bonds 98.61% (99.40%)					
Conversion 9% 2011	29,539,000	19,160,000	20,803,928	12.42	33,934,964
Treasury 2.25% 2014	20,503,000	—	—	—	19,741,498
Treasury 2.5% 2013					
Index linked	—	3,101,000	8,585,025	5.13	—
Treasury 2.5% 2016					
Index linked	—	645,000	2,000,055	1.19	—
Treasury 2.75% 2015	—	11,392,000	11,722,368	7.00	—
Treasury 3.75% 2019	—	15,874,000	16,417,843	9.80	—
Treasury 3.75% 2020	—	2,705,000	2,768,162	1.65	—
Treasury 4% 2016	—	280,000	303,293	0.18	—
Treasury 4% 2022	11,199,000	10,107,000	10,455,894	6.24	11,317,844
Treasury 4% 2060	—	2,853,000	2,757,196	1.65	—
Treasury 4.25% 2011	—	1,813,000	1,858,796	1.11	—
Treasury 4.25% 2027	1,746,000	4,167,000	4,270,800	2.55	1,752,579
Treasury 4.25% 2036	10,444,000	—	—	—	10,274,337
Treasury 4.25% 2039	1,878,000	840,000	849,946	0.51	1,843,345
Treasury 4.25% 2046	3,902,000	1,071,000	1,088,297	0.65	3,856,667
Treasury 4.25% 2049	6,185,000	8,209,000	8,348,307	4.98	6,123,824
Treasury 4.25% 2055	2,790,000	7,372,000	7,529,761	4.50	2,772,448
Treasury 4.5% 2013	1,657,000	4,132,000	4,490,534	2.68	1,760,128
Treasury 4.5% 2019	25,561,000	13,462,000	14,776,295	8.82	27,388,612
Treasury 4.5% 2034	—	7,736,000	8,098,818	4.84	—
Treasury 4.5% 2042	7,446,000	4,593,000	4,867,753	2.91	7,661,398
Treasury 4.75% 2015	466,000	—	—	—	515,232
Treasury 4.75% 2020	10,656,000	4,935,000	5,500,798	3.28	11,751,703
Treasury 4.75% 2030	—	1,180,000	1,282,861	0.77	—
Treasury 4.75% 2038	5,353,000	37,000	40,582	0.02	5,715,473
Treasury 5% 2025	11,359,000	—	—	—	12,476,851
Treasury 6% 2028	—	1,347,000	1,692,923	1.01	—
Treasury 8% 2013	1,720,000	5,848,000	7,070,817	4.22	2,074,659
Treasury 8.75% 2017	10,932,000	12,679,000	17,591,098	10.50	15,304,614
Total Value of Investments			<u>165,172,150</u>	<u>98.61</u>	<u>176,266,176</u>
Other Assets			<u>4,266,537</u>	<u>2.56</u>	<u>3,344,032</u>
Total Value of Assets			<u>169,438,687</u>	<u>101.17</u>	<u>179,610,208</u>
Liabilities & Equity			<u>(1,968,830)</u>	<u>(1.17)</u>	<u>(2,313,228)</u>
Net Assets attributable to holders of participating redeemable preference shares			<u>167,469,857</u>	<u>100.00</u>	<u>177,296,980</u>
Cost of investments purchased		£236,538,366			
Proceeds from investments sold		£250,918,866			

Investment Portfolio (continued)

Investments Purchased and Sold

This schedule refers to investments both purchased and sold during the year, which would not appear on the portfolio listing.

	Nominal
Treasury 3.25% 2011	4,223,000
Treasury 4.75% 2010	6,835,000
Treasury 5% 2014	12,189,000
Treasury 5.25% 2012	1,644,000
Treasury 8% 2015	3,993,000

Investment Dealing

There was no dealing commission paid during the year.

During the year transactions representing more than 10% of the aggregate value of the transactions in the property of the Fund were carried out by the following stockbrokers:

Barclays	HSBC	Royal Bank of Scotland
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Summary of Material Portfolio Changes

This schedule refers to securities bought and sold during the year which had a value of greater than 2% of the net asset value of the Fund. Where these exceed 20 the Directors consider that the disclosure of the 20 largest purchases and sales is sufficient to reflect the nature of the operating activity of the Fund and that further disclosure of all transactions over 2% of the Net Assets of the Fund would not add any further value.

Purchases	Cost £	Sales	Proceeds £
Treasury 3.75% 2019	13,804,970	Treasury 4.75% 2020	11,800,475
Treasury 4.5% 2019	11,821,634	Treasury 4.5% 2019	7,995,364
Treasury 4.75% 2030	7,104,915	Treasury 2.25% 2014	7,080,075
Treasury 5% 2014	6,988,049	Conversion 9% 2011	6,732,094
Treasury 4.25% 2055	6,934,415	Treasury 2.75% 2015	6,622,420
Treasury 4% 2022	6,624,135	Treasury 5% 2025	6,535,084
Treasury 5% 2014	6,541,338	Treasury 5% 2025	6,108,433
Treasury 4.5% 2019	5,346,878	Treasury 3.75% 2019	5,400,404
Treasury 4.5% 2034	5,159,329	Treasury 4.75% 2010	5,382,316
Treasury 2.5% 2013 Index Linked	5,068,890	Treasury 4.75% 2030	5,328,980
Treasury 8% 2013	5,055,980	Treasury 4.25% 2036	5,154,808
Treasury 8% 2015	5,045,170	Treasury 4.25% 2039	5,120,978
Treasury 2.5% 2013 Index Linked	4,726,901	Treasury 5% 2014	5,067,354
Treasury 4.25% 2039	4,716,711	Treasury 2.25% 2014	5,042,317
Treasury 3.25% 2011	4,437,478	Treasury 3.75% 2019	5,036,276
Treasury 4.25% 2039	4,433,236	Treasury 4.5% 2042	4,715,388
Treasury 2.75% 2015	4,043,436	Conversion 9% 2011	4,435,149
Treasury 4.25% 2049	4,014,755	Treasury 2.25% 2014	4,041,250
Treasury 4.75% 2010	3,579,793	Treasury 4.25% 2046	4,015,539
Treasury 2.25% 2014	3,558,404	Treasury 5% 2014	3,967,328

Notes to the Financial Statements

30th June 2010

1. The Company is an open ended investment company registered in Jersey, Channel Islands. Full details of the Company are stated on pages 1 to 4.

2. BASIS OF PRESENTATION

The Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The policies set out below have been consistently applied to all periods presented.

The Financial Statements have been prepared under the historical cost convention, as modified by the revaluation of investments, and in accordance with the Collective Investment Funds (Recognized Funds) (Rules) (Jersey) Order 2003 (as amended). Jersey is not part of the United Kingdom and the Company is not regulated by the Financial Services Authority of the United Kingdom (FSA).

All amounts reported in the Statement of Comprehensive Income are in respect of continuing activities.

The capital of the Company comprises of one class of shares relating to a single portfolio ("Fund") consisting of securities, cash, other assets and liabilities. These Financial Statements present the balance sheet, statement of comprehensive income, statement of changes in net assets attributable to holders of participating redeemable preference shares and cash flow statement.

The net assets attributable to holders of redeemable preference shares are classified as Financial Liabilities and therefore, in the opinion of the Directors, the Capital of the Company is only represented by the Management Shares and Nominal Shares. Details of Management Shares and Nominal Shares are disclosed in Notes 3(g) and 15.

Critical accounting estimates and judgements

The Company makes assumptions and estimates that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The accounting policies deemed critical to the Company's results and financial position, based upon materiality and significant judgements and estimates, are discussed on the following pages.

Notes to the Financial Statements (continued)

3. 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 applied consistently to all periods presented, unless otherwise stated in the following text. The Directors also monitor new standards and ensure that they are applied when relevant.

The following interpretation is effective for the Company's accounting periods beginning 1st July 2008 but is not relevant for the Company's operations:

- IFRIC 16 'Hedges of a net investment in a foreign operation'

The following standards, amendments and interpretations are effective on or after 1st January 2009 but are not relevant for the Company's operations:

- IAS 23 (Amendment), 'Borrowing costs'
- IAS 39 & IFRIC 9 (Amendment), 'Embedded derivatives'
- IAS 39 & IFRS 7 (Amendment), 'Reclassification of financial assets'
- IFRS 1 (Amendment), 'First-time adoption of IFRS'
- IAS 27 'Consolidated and separate financial statements'
- IFRS 2 (Amendment), 'Share-based payment'
- IFRIC 15 'Agreements for construction of real estates'
- IAS 27 (Revised) 'Consolidated and separate financial statements'
- IFRS 1 (Amendment), 'Additional exemptions for first time adopters'
- IFRS 2 (Amendment), 'Group cash-settled share-based payment transactions'
- IFRS 3 (Revised) 'Business combinations'
- IFRIC 17 'Distributions of non-cash assets to owners'
- IFRIC 18 'Transfers of assets from customers'
- IFRS 8 'Operating segments'
- IFRIC 12 'Service concession arrangements'
- IFRIC 13 'Customer Loyalty programmes'

No additional Standard Amendments and interpretations are effective on or after 1st January 2010.

Improvements to IFRS were issued in May 2008 and April 2009 respectively and contain numerous amendments to IFRS, which IASB consider non-urgent but necessary. 'Improvement to IFRS' comprise amendments that result in accounting changes for presentation, recognition of measurements purposes as well as terminology or editorial amendments related to a variety of individual standards. Most of the amendments are effective for annual periods beginning on or after 1st January 2009 and 1st January 2010 respectively, with earlier application permitted. No material changes to accounting policies are expected as a result of these amendments.

Functional currency and presentation currency

The Company has adopted sterling as its presentation and functional currency, as the Company's primary activity is to invest in sterling denominated securities, all assets and liabilities are valued in sterling, the Company has no exposure to currency other than sterling and its main investors are based in the UK.

Segmental reporting

The Company is organised into one main business segment, focusing on achieving returns by investing in sterling denominated Government bonds and other public securities. No additional disclosure is included in relation to segment reporting as the Company's activities are limited to one main business and geographic segment.

Notes to the Financial Statements (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets and financial liabilities at fair value through profit or loss

(a) Classification

The Company classifies its investments in debt securities as financial assets at fair value through profit or loss. Financial assets and financial liabilities are designated by the Board of Directors at fair value through profit or loss at inception.

Financial assets and financial liabilities designated at fair value through profit or loss at inception are those that are managed and their performance evaluated on a fair value basis in accordance with the Company's documented investment strategy. The Company's policy is for the Investment Manager and the Board of Directors to evaluate the information about these financial assets on a fair value basis together with other related financial information.

(b) Recognition

Purchases and sales are recognised on trade date (the date on which the Company commits to purchase or sell the asset).

(c) Measurement

Financial assets and financial liabilities at fair value through profit or loss are initially recognised at fair value, and transaction costs for all financial assets and financial liabilities carried at fair value through profit or loss are expensed in the statement of comprehensive income as incurred. Subsequent to initial recognition, all financial assets and financial liabilities at fair value through profit or loss are measured at fair value.

Gains and losses arising from changes in the fair value of 'financial assets or financial liabilities at fair value through profit or loss' are recognised in the statement of comprehensive income in the period in which they arise.

(d) Fair value estimation

As required by IAS 39 financial assets and financial liabilities at fair value through profit or loss are valued at the bid prices ruling at 10.00 a.m. on the last business day of the accounting period.

(e) Revenue recognition

Investment income is recognised in the statement of comprehensive income on a time proportionate basis for all debt instruments using the effective interest method ("EIR"). This is a method of calculating the amortised cost of a financial asset or financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability.

(f) Cash and cash equivalents

Cash and cash equivalents include cash in hand and deposits held at call with banks.

Notes to the Financial Statements (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets and financial liabilities at fair value through profit or loss (continued)

(g) Share capital

- (i) The Management Shares have been subscribed for by the Manager and are 'non-participating'. The holders thereof are entitled only to income arising on the assets represented by the Management Shares. These shares are classified as Ordinary share capital in the balance sheet.
- (ii) Unclassified Shares may be issued as either participating redeemable preference shares ("Participating Shares") or Nominal Shares. Participating Shares are redeemable at the shareholder's option and are classified as financial liabilities. Participating Shares are carried at the redemption amount that is payable if the holder exercises the right to redeem shares at the balance sheet date.
Participating Shares are issued and redeemed at the holder's option at prices based on the Company's net asset value per share at the time of issue or redemption. The Company's net asset value per share is calculated by dividing the net assets attributable to the holders of participating redeemable preference shares with the total number of Participating Shares in issue. In accordance with the provisions of the Company's regulations, investments are valued based on the latest traded market price for the purpose of determining the net asset value per share for subscriptions and redemptions. Each holder of a Participating Share is entitled, on a poll, to one vote for each Participating Share held. Participating Shares have a right to dividends declared.
- (iii) Nominal Shares have been accounted for in accordance with the Companies (Jersey) Law 1991, and corresponding amounts have been included in debtors and financial liabilities.
A Nominal Share will be created when a Participating Share is cancelled. A Nominal Share will be cancelled when a Participating Share is created until the number of Nominal Shares falls to zero.
- (iv) Both issued Nominal and Participating Shares are carried at a value of £ 0.01 per Share.
Details of the Company's share capital and transactions are shown in Note 15.

(h) Share premium

The premium on issues and redemptions of the Participating Shares is accounted for within the share premium account which forms part of Net Assets Attributable to holders of Participating Redeemable Preference Shares. Details are shown in Notes 16 and 18.

(i) Distributions payable to holders of participating redeemable preference shares

Distributions to holders of Participating Shares are recognised in the statement of comprehensive income as finance costs when they are ratified by the Directors.

(j) Accrued income and expenses

Accrued income and expenses are recognised initially at fair value and subsequently stated at amortised cost using the effective interest method.

Notes to the Financial Statements (continued)

4. OTHER ACCRUED INCOME AND PRE-PAID EXPENSES

	30th June 2010 £	30th June 2009 £
Accrued income	2,449,116	2,850,265
Other debtors	300,044	288,270
Total other accrued income and prepaid expenses	<u>2,749,160</u>	<u>3,138,535</u>

5. DISTRIBUTIONS

The distributions take account of income received on the creation of shares and income paid on the cancellation of shares, and comprise:

	30th June 2010 £	30th June 2009 £
30th September	1,714,300	2,012,008
31st December	1,622,750	1,833,586
31st March	1,580,887	1,821,464
30th June (Payable)	1,489,045	1,814,226
	<u>6,406,982</u>	<u>7,481,284</u>
Income paid on cancellation of shares	94,350	104,938
Income received on creation of shares	(20,870)	(19,591)
Net distributions for the year	<u>6,480,462</u>	<u>7,556,631</u>

Details of the distributions per share are set out on page 32.

Notes to the Financial Statements (continued)

6. ACCRUED EXPENSES

	30th June 2010 £	30th June 2009 £
Due to Manager	125,919	133,424
Due to Custodian	5,923	5,904
Other creditors	38,064	32,814
Total accrued expenses	<u>169,906</u>	<u>172,142</u>

7. NET GAIN ON FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

The net gain on investments during the year comprise:

	30th June 2010 £	30th June 2009 £
Proceeds from sales of investments during the year	250,918,866	217,445,623
Original cost of investments sold during the year	(246,843,331)	(211,637,676)
Gains realised on investments sold during the year	4,075,535	5,807,947
Net unrealised appreciation for the year	1,220,106	9,332,048
Net gain on financial assets at fair value through profit or loss	<u>5,295,641</u>	<u>15,139,995</u>

8. OTHER INCOME

	Note	30th June 2010 £	30th June 2009 £
Bank interest		4,172	77,296
Stocklending income	9	—	16,372
Other income		<u>4,172</u>	<u>93,668</u>

Notes to the Financial Statements (continued)

9. STOCKLENDING INCOME

	Note	30th June 2010 £	30th June 2009 £
Gross income		—	33,584
Less : fees paid to			
State Street Bank & Trust*		—	(6,718)
The Manager	11	—	(5,247)
The Custodian	12	—	(5,247)
		<u>—</u>	<u>(17,212)</u>
Net income		<u>—</u>	<u>16,372</u>

* (State Street Bank & Trust act as Facilitating Agent in negotiating terms for entering into a lending transaction.)
From 31st October 2008, the Directors suspended this programme until further notice.

10. TOTAL OPERATING EXPENSES

	Note	30th June 2010 £	30th June 2009 £
Payable to the Manager :			
Annual management charge	11	1,455,621	1,553,417
Registrar fees	11	217,872	237,576
Payable to the Custodian :			
Custodian fees	12	50,001	50,001
Safe custody fees	12	7,895	9,457
Other expenses:			
Administration expenses		63,493	63,973
Dealing charges		2,332	2,308
Audit fee		7,350	7,200
		<u>1,804,564</u>	<u>1,923,932</u>
Total operating expenses		<u>1,804,564</u>	<u>1,923,932</u>

Notes to the Financial Statements (continued)

11. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise influence over the party in making financial or operating decisions. The following are considered by the Directors of the Company to be related parties:

The Manager in accordance with the Management Agreement.

The Investment Manager in accordance with the Investment Management Agreement.

The fees received by the Manager are set out in Notes 9 and 10. The Investment Manager is paid by the Manager. Details of amounts due to the Manager at the end of the year are shown in Note 6.

The Manager is involved in all transactions in Shares of the Company, the aggregate values of which are set out in the Statement of changes in net assets attributable to holders of participating redeemable preference shares on page 12.

At the year end the Manager held Participating Shares in the Company as follows:

30th June 2010	1,999
30th June 2009	2,020

(a) Management and Registrar fees

The Manager, which is related to the Company by virtue of a management agreement, is entitled to a daily fee equal to an annual rate of 0.85% of the value of the net assets of the Company calculated daily on a mid market basis and paid weekly from the income earned by the Company.

The Manager, in its capacity as Registrar, is entitled to a fee payable by the Company of £12.00 for each shareholding which appears on the Share Register on the last business day of each annual and half yearly accounting period.

(b) Stocklending income

The Company's Articles of Association allow the Custodian, on request of the Manager, to enter into stocklending transactions when it reasonably appears to the Manager to be economically appropriate to do so with a view to generating additional income for the Company with no, or an acceptable level, of risk and otherwise in accordance with the Collective Investment Funds (Recognized Funds) (Rules) (Jersey) Order 2003 (as amended).

A stocklending programme is where a lender transfers securities to a borrower otherwise than by way of sale and a requirement is imposed on the borrower to transfer those securities back to the lender otherwise than by way of sale. The borrower pays the lender for the privilege of borrowing the securities. Income earned is apportioned between the Company, the Manager, the Custodian and the Facilitating Agent. The fees received by each party are set out in Note 9.

From 31st October 2008, the Directors decided to suspend this programme until further notice.

(c) Director' Fees

Directors who are employees of Lloyds Banking Group do not receive Directors fees. All other Directors currently receive a fee of £5,000 per annum (2009: £5,000 per annum).

Notes to the Financial Statements (continued)

12. CUSTODIAN

The Custodian is entitled to a fee paid monthly, calculated on the following scale by reference to the value of the net assets of the Company.

The fees received by the Custodian are set out in Notes 9 and 10. Details of amounts due to the Custodian at the end of the year are shown in Note 6.

Value of Net Assets of the Fund in £ millions	Annual Fee
Up to 100	0.04% (minimum fee £25,000)
Over 100 and up to 150	£40,000
Over 150 and up to 200	£50,000
Over 200 and up to 250	£60,000
Over 250 and up to 300	£67,000
Over 300 and up to 350	£74,000
Over 350 and up to 400	£80,000

Thereafter a further £5,000 for every additional £50 million increase in the net asset value of the Fund.

The Custodian is also entitled to reimbursement by the Fund of its expenses in connection with its duties as Custodian and to make transaction charges to cover the cost of effecting settlement of stock and cash.

13. CONTROLLING PARTY

In the opinion of the Directors, there is no ultimate controlling party of the Company as defined by International Accounting Standards No.24 Related Party Disclosures.

14. EQUALISATION

The price of a Share includes an equalisation payment calculated by dividing the net undistributed income of the Fund by the number of shares in issue at the time when the prices are calculated.

The payment of the first distribution after the issue of a Share includes an amount of equalisation calculated by averaging the amounts received by way of equalisation during the period to which the distribution relates.

Notes to the Financial Statements (continued)

15. SHARE CAPITAL

	30th June 2010		30th June 2009	
	£		£	
Authorised:				
5,000 Management Shares of £1		5,000		5,000
160,000,000 Unclassified Shares of 1p		1,600,000		1,600,000
		<u>1,605,000</u>		<u>1,605,000</u>
Issued Share Capital:				
1,000 Management shares		<u>1,000</u>		<u>1,000</u>
Participating Shares:				
	Shares	£	Shares	£
Balance brought forward	15,775,882	157,758	17,255,722	172,557
Creations	530,250	5,303	335,400	3,354
Redemptions	<u>(1,707,650)</u>	<u>(17,077)</u>	<u>(1,815,240)</u>	<u>(18,153)</u>
Balance carried forward	<u>14,598,482</u>	<u>145,984</u>	<u>15,775,882</u>	<u>157,758</u>
Nominal Shares:				
Balance brought forward	28,726,956	287,270	27,247,116	272,471
Creations	1,707,650	17,077	1,815,240	18,153
Redemptions	<u>(530,250)</u>	<u>(5,303)</u>	<u>(335,400)</u>	<u>(3,354)</u>
Balance carried forward	<u>29,904,356</u>	<u>299,044</u>	<u>28,726,956</u>	<u>287,270</u>

16. SHARE PREMIUM

	30th June 2010		30th June 2009	
	£		£	
Balance brought forward		113,183,294		129,413,937
Premium on creations		5,909,638		3,711,186
Premium on redemptions		<u>(19,070,983)</u>		<u>(19,941,829)</u>
Balance carried forward		<u>100,021,949</u>		<u>113,183,294</u>

17. CAPITAL RESERVE

	Realised gain on Investments	Unrealised movement on investments	Total
	£	£	£
At 30th June 2009	75,003,758	3,899,409	78,903,167
Net movement in the year	<u>4,075,535</u>	<u>1,220,106</u>	<u>5,295,641</u>
At 30th June 2010	<u>79,079,293</u>	<u>5,119,515</u>	<u>84,198,808</u>

Notes to the Financial Statements (continued)

18. NET ASSETS ATTRIBUTABLE TO HOLDERS OF PARTICIPATING REDEEMABLE PREFERENCE SHARES

		30th June 2010 £	30th June 2009 £
Participating Shares	(Note 15)	145,984	157,758
Share premium	(Note 16)	100,021,949	113,183,294
Capital reserves	(Note 17)	84,198,808	78,903,167
Undistributed income		(16,896,884)	(14,947,239)
Net assets attributable to holders of participating redeemable preference shares		<u>167,469,857</u>	<u>177,296,980</u>

The distributions detailed in Note 5 have been declared by the Directors using a dividend policy based on the "Accruals" method of accounting for income on debt instruments ("UK GAAP"), as opposed to the "Effective Interest Rate" method of accounting for investment income ("EIR") which is the basis used for recognition of income on debt instruments as explained in the accounting policies. Future distributions will continue to be made on the basis of the existing distribution policy.

Undistributed income under the "Accruals" method as at 30th June 2010 amounts to £64,966 (£5,440 as at 30th June 2009).

19. TAXATION

The Company is liable to be charged at a tax rate of 0% under Schedule D under the Income Tax (Jersey) Law 1961, as amended (the "Income Tax Law") in respect of (i) the income or profits of any trade carried on by the Company in Jersey or elsewhere, (ii) any interest of money, whether yearly or otherwise, or other annual payment paid to the Company, whether such payment is made within or outside of Jersey, (iii) dividends and other distributions of a company regarded as resident in Jersey paid to the Company, (iv) income arising to the Company from securities outside of Jersey and (v) any other income of the Company that is not derived from the ownership or disposal of land in Jersey.

It is not expected that the Company will be in receipt of income charged to tax under any Schedule under Income Tax Law other than Schedule D. As such the Company is no longer subject to the payment of tax in Jersey.

20. FINANCIAL INSTRUMENTS AND RISK PROFILE

The Company's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), liquidity risk, counter-party risk, capital risk and certain other risks. The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse affects on the Company's financial performance. The Company is able to use derivative financial instruments to moderate certain risk exposures.

Notes to the Financial Statements (continued)

20. FINANCIAL INSTRUMENTS AND RISK PROFILE (continued)

The Company's investment objective and policy are stated on page 2. To achieve these the Company must hold or purchase financial instruments, which may include:

- Investments comprising fixed income securities and floating rate securities.
- Cash, liquid resources, short term debtors and creditors that arise directly from its investment activities.
- Hedging instruments, such as traded options, which the Company may enter into for the purpose of managing the risks arising from the Company's investment activities.

Market price risk

The overall market position and therefore the risk exposure for the Company are governed by the Prospectus, the Collective Investment Funds (Recognized Funds) (Rules) (Jersey) Order 2003 (as amended) and the investment objectives for the Company. These positions are monitored on a daily basis by the Manager and are reviewed on a quarterly basis by the Board of Directors.

The Company invests principally in fixed interest securities. The value of fixed interest securities is not fixed and may go down as well as up. This may be the result of a specific factor affecting the value of an individual bond or be caused by general market factors (such as interest rates, government policy or the health of the underlying economy) which could affect the entire portfolio. In line with the Company's investment objectives and policies, the Company will invest in a managed portfolio of sterling fixed interest securities which have been issued by governments, local authorities, public utilities and corporations. Under Jersey regulations these securities must be approved transferable securities.

The year end portfolio for the Company is detailed on page 14.

The Manager controls this risk and monitors the movements in the bonds and interest rates against the relevant bond index and market interest rates respectively.

The Manager considers that a reasonably possible movement in the market risk components would be equivalent to a 5% movement in the bond index and a 1% movement in market interest rates.

The table below summarises the impact of increases/(decreases) in the bond index, and market interest rates on the net asset value at 30th June 2010. The analysis is based on the assumption that the bond index increases/(decreases) by 5%, and market interest rates increase/(decrease) by 1%, with all other variables held constant. The analysis also assumes that the movement in the portfolio of the Company is directly correlated with the bond index and market interest rates.

Year	Value £	Bonds 5% movement in bond index	Cash 1% movement in interest rates
30.06.10	167,469,857	7,803,067	15,174
30.06.09	177,296,980	8,327,203	2,055

Interest rate risk

The Company receives income from investments. The income received by the Company is not fixed in nature and is derived from the securities held in the portfolio of the Company which may be varied from time to time in accordance with the Company's investment objective and policy.

In accordance with the Company's policy, the Investment Manager monitors the Company's overall interest rate sensitivity on a daily basis, and the Board of Directors reviews it on a quarterly basis.

The interest bearing financial assets and liabilities held in the Company expose it to risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows.

Notes to the Financial Statements (continued)

20. FINANCIAL INSTRUMENTS AND RISK PROFILE (continued)

Interest rate risk (continued)

The table on the previous page summarises the effect of interest rate risks on the Company. It includes the Company's assets and trading liabilities at fair values, categorised by the earlier of contractual repricing or maturity dates. Other than those financial instruments identified before, the Company has no significant exposure to interest rate risks.

The tables below show the interest rate profile of the Company's financial assets and liabilities at 30th June 2010.

Currency	Total £ 000's	Fixed rate assets £ 000's	Floating rate assets £ 000's	Interest free assets £ 000's	Interest free liabilities £ 000's
Sterling	167,470	165,172	1,517	2,749	1,968

Currency	Weighted average coupon rate %	Weighted average effective interest rate %	Weighted average period for which rate is fixed Years
Sterling	4.72	2.88	13.67

Credit risk

The Company takes on exposure to credit risk, which is the risk that a counter-party will be unable to pay amounts in full when due. Impairment provisions are provided for losses that have been incurred by the balance sheet date, if any.

In accordance with the Company's policy, the Manager monitors the Company's credit position on a daily basis, and the Board of Directors reviews it on a quarterly basis.

The Company only invests in sterling denominated Government and other public securities which are all AAA credit rated.

Counter-party risk

Certain transactions that the Company enters into expose it to the risk that the counter-party will not deliver the investment (purchase) or cash (sale) after the Company has fulfilled its responsibilities. It is the policy of the Manager to buy and sell investments only through approved brokers.

Capital risk

In order to achieve the desired rate of income return from the Company, the income return may be at the expense of capital growth in the value of the shares.

Notes to the Financial Statements (continued)

20. FINANCIAL INSTRUMENTS AND RISK PROFILE (continued)

Liquidity risk

The Company is exposed to daily cash redemptions of Participating Shares which are redeemed on demand at the holder's option. It therefore invests all of its assets in investments that are traded in an active market and can be readily disposed of, as such the Company's Financial assets are considered to be readily realisable. The Manager manages the Company's cash to meet its liabilities. Where investments cannot be realised in time to meet any redemptions of Shares, the Company may borrow up to 10% of its value to ensure settlement of its liabilities. No such borrowings have arisen during the year.

In accordance with the Company's policy, the Manager monitors the liquidity position on a daily basis, and the Board of Directors reviews it on a quarterly basis.

The table below analyses the Company's financial liabilities into relevant maturity groups based on the remaining period at the balance sheet date to the contractual maturity date.

	Less than 1 Month	1-3 Months
As at 30th June 2010		
Share Capital	167,769,901	—
Cancellation payable	9,835	—
Proposed dividend	—	1,489,045
Accrued expenses	130,440	39,466
	<u>167,910,176</u>	<u>1,528,511</u>
Total financial liabilities		
As at 30th June 2009		
Share Capital	177,585,250	—
Cancellation payable	38,590	—
Proposed dividend	—	1,814,226
Accrued expenses	137,808	34,334
	<u>177,761,648</u>	<u>1,848,560</u>
Total financial liabilities		

Capital risk management

The net assets attributable to holders of redeemable preference shares are classified as Financial Liabilities and therefore, in the opinion of the Directors, the Capital of the Company is only represented by the Management Shares and Nominal Shares. Details of Management Shares and Nominal Shares are disclosed in Notes 3(g) and 15.

Due to the nature of the Management Shares and Nominal Shares the Directors have decided that no active capital risk management is required.

Stocklending

The Directors have considered the risks associated with Stocklending and have agreed that any such risks would be mitigated by entering into an arrangement only with a suitably experienced partner, lending only to approved counterparties and ensuring that the counterparty deposited collateral of a readily realisable nature and of sufficient value to cover the cost of the security being lent. The Directors also propose that no such arrangement would be initiated unless the Company was in a position to derive sufficient benefit as to outweigh any potential costs and risks associated with the programme.

Due to the market conditions, from 31st October 2008, the Directors decided to suspend this programme until further notice.

Notes to the Financial Statements (continued)

20. FINANCIAL INSTRUMENTS AND RISK PROFILE (continued)

Fair value estimation

The fair value of financial assets and liabilities traded in active markets (such as publicly traded derivatives and trading securities) are based on quoted market prices at the close of trading on the year end date. The quoted market price used for financial assets held by the Company is the current bid price; the appropriate quoted market price for financial liabilities is the current asking price. When the Company holds derivatives with offsetting market risks, it uses mid-market prices as a basis for establishing fair values for the offsetting risk positions and applies this bid or asking price to the net open position, as appropriate. If a significant movement in fair value occurs subsequent to the close of trading on the year end date, valuation techniques will be applied to determine the fair value.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

The Company adopted the amendment to IFRS 7, effective 1 January 2009. This requires the Company to classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has 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 from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety.

If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgement, considering factors specific to the asset or liability.

The determination of what constitutes 'observable' requires significant judgement by the Directors. The Directors consider observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

There have been no transfers between levels.

The Financial assets at fair value through profit or loss of the Company are all quoted in active markets and therefore fall under level 1 as defined above.

Notes to the Financial Statements (continued)

20. FINANCIAL INSTRUMENTS AND RISK PROFILE (continued)

Derivatives

Derivatives will only be used where they accord with existing investment objectives and policy. They may not be used for the purpose of reducing risk independently of investment strategy in respect of the underlying physical assets or for merely speculative purposes. Derivatives will only be used for efficient portfolio management. Derivatives may not be used for the purpose of gearing or leveraging or for purposes of producing, enhancing or generating income. No derivative can be traded on an OTC basis, and no uncovered positions are allowed.

The Company may hold the following derivatives:

(a) Futures

Futures are contractual obligations to buy or sell financial instruments on a future date at a specified price established in an organised market. Any futures contracts are collateralised by cash or marketable securities; changes in the futures contracts' value are settled daily with the exchange. Interest rate futures are contractual obligations to receive or pay a net amount based on changes in interest rates at a future date at a specified price, established in an organised financial market. Futures are settled on a net basis.

(b) Options

An option is a contractual arrangement under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, either to buy (a call option) or sell (a put option) at or by a set date or during a set period, a specific amount of securities or a financial instrument at a predetermined price. The seller receives a premium from the purchaser in consideration for the assumption of future securities prices. Where options are held by the underlying Fund, they are exchange-traded. The Fund is exposed to credit risk on purchased options only to the extent of their carrying amount, which is their fair value. Options are settled on a gross basis.

The notional amounts of certain types of financial instrument provide a basis for comparison with instruments recognised on the balance sheet, but they do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and do not therefore indicate the Company's exposure to credit or market price risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates relative to their terms. The aggregate contractual or notional amount of derivative financial instruments on hand, the extent to which instruments are favourable or unfavourable, and thus the aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

During the year, the Company has not entered into any derivative contracts.

Distribution table - Unaudited

For the year ended 30th June 2010

	Gross income	Equalisation Payable	Distribution Paid Current year	Distribution Paid Prior year
<u>1st Quarter</u>				
Group 1	0.1100	—	0.1100	0.1200
Group 2	0.06472	0.04528	0.1100	0.1200
<u>2nd Quarter</u>				
Group 1	0.1070	—	0.1070	0.1123
Group 2	0.05578	0.05122	0.1070	0.1123
<u>3rd Quarter</u>				
Group 1	0.1060	—	0.1060	0.1132
Group 2	0.07093	0.03507	0.1060	0.1132
<u>4th Quarter</u>				
Group 1	0.1020	—	0.1020	0.1150
Group 2	0.05638	0.04562	0.1020	0.1150

1st Quarter

Group 1 : Shares purchased prior to 1st July 2009

Group 2 : Shares purchased between 1st July 2009 and 30th September 2009

2nd Quarter

Group 1 : Shares purchased prior to 1st October 2009

Group 2 : Shares purchased between 1st October 2009 and 31st December 2009

3rd Quarter

Group 1 : Shares purchased prior to 1st January 2010

Group 2 : Shares purchased between 1st January 2010 and 31st March 2010

4th Quarter

Group 1 : Shares purchased prior to 1st April 2010

Group 2 : Shares purchased between 1st April 2010 and 30th June 2010

Performance Record - Unaudited

Shares in Lloydstrust Gilt Fund Limited were first offered to the public in December 1978 at an offer price of £10 per share.

Calendar Year	Highest offer price £	Lowest bid price £	Income per Share p	Income Per £1,000 invested 31/12/1999 £
2000	12.20	11.12xd	69.00	57.74
2001	12.26	11.13xd	67.00	56.07
2002	12.21	11.02xd	61.00	51.05
2003	12.39	11.00xd	54.33	45.46
2004	11.94	10.95xd	51.63	43.21
2005	12.11	11.08xd	56.75	47.49
2006	12.20	10.98xd	53.50	44.77
2007	11.05xd	10.27xd	49.70	41.59
2008	11.80	10.38xd	48.38	40.49
2009	11.87	10.95xd	44.52	37.26
30.06.10	11.58	10.95xd	20.80	17.41

NET ASSET VALUE

Year	Net Asset Value of Fund	Net Asset Value per Share	No. of Shares in issue
30.06.06	£237,871,732	£10.98	21,649,124
30.06.07	£203,565,623	£10.34	19,690,772
30.06.08	£180,053,770	£10.43	17,255,722
30.06.09	£177,296,980	£11.24	15,775,882
30.06.10	£167,469,857	£11.47	14,598,482

Notice of Meeting

Notice is hereby given that the 32nd Annual General Meeting of Lloydstrust Gilt Fund Limited will be held at 11 - 12 Esplanade, St. Helier, Jersey, on Friday, 12th November 2010 at 9.00 a.m. for the following purposes:

Agenda

Ordinary Business

1. To appoint the Chairman of the meeting.
2. To read the convening notice.
3. RESOLUTION 1
To receive and if deemed appropriate, adopt the Annual Report and Audited Financial Statements of the Company for the year ended 30th June 2010.
4. RESOLUTION 2
To consider, and if deemed appropriate, re-elect Ross Davey Willcox as a Director of the Company.
5. RESOLUTION 3
To consider, and if deemed appropriate, re-elect Ian Mark Jeremie Hardy as a Director of the Company.
6. RESOLUTION 4
To consider, and if deemed appropriate, re-elect Brian Charles James as a Director of the Company.
7. RESOLUTION 5
To consider, and if deemed appropriate, re-elect Nigel Ross Jeacock-Fewtrell as a Director of the Company.
8. RESOLUTION 6
To consider, and if deemed appropriate, re-elect Advocate Timothy Joseph Herbert as a Director of the Company.
9. RESOLUTION 7
To re-appoint PricewaterhouseCoopers CI LLP as Auditors of the Company for the ensuing year and to authorise the Directors to fix their remuneration.
10. RESOLUTION 8
To fix the remuneration of each of the Directors at a maximum of £5,000 per annum.

Notice of Meeting (continued)

A Member entitled to attend and vote at this Meeting may appoint one or more Proxies to attend and, on a poll, vote instead of him. A Proxy need not be a Member of the Company. A proxy form is enclosed at the back of the Report and Accounts. To be valid, completed proxy forms must be deposited at the Company's Registered Office not less than 48 hours before the appointed time for holding the meeting, or any adjournment thereof.

In the case of joint holders the vote of the senior shall be accepted to the exclusion of the votes of the other joint holder(s).

The quorum requirement is two members present in person or by proxy. If a quorum is not present, the meeting shall stand adjourned to Friday, 19th November 2010 at 9.00 a.m. at the same venue and at such adjourned meeting the shareholders present in person or by proxy shall be the quorum.

By Order of the Board
Lloyds TSB Offshore Corporate Services Limited,
Secretary,
PO Box 160,
25 New Street,
St. Helier,
Jersey JE4 8RG,
Channel Islands.

Date: 29th July 2010

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LLOYDSTRUST GILT FUND LIMITED

FORM OF PROXY

BLOCK LETTERS PLEASE

FULL NAME(S)

ADDRESS

I/We being a Member(s) of the above named Company hereby appoint the Chairman of the Meeting (see Note 1.) as my/our proxy to attend and vote for me/us on my/our behalf at the Thirty Second Annual General Meeting of the Company to be held on Friday, 12th November 2010 at 9.00 a.m. and at any adjournment thereof.

I/We direct my/our proxy to vote on the resolutions as follows:

ORDINARY RESOLUTIONS:

1. Adoption of the Annual Report and Audited Financial Statements for the year ended 30th June 2010
2. Re-election of Ross Davey Willcox
3. Re-election of Ian Mark Jeremie Hardy
4. Re-election of Brian Charles James
5. Re-election of Nigel Ross Jeacock-Fewtrell
6. Re-election of Advocate Timothy Joseph Herbert
7. Re-appoint PricewaterhouseCoopers CI LLP as Auditors and authorise the Directors to fix their remuneration
8. To fix the remuneration of each of the Directors at a maximum of £5,000 per annum.

FOR	AGAINST

NOTES:

1. If you wish to appoint another person to be your proxy instead of the Chairman of the Meeting, you should delete the words "the Chairman of the Meeting", and write the name of your proxy in the space provided and initial the alteration.
2. Except as otherwise indicated by you, the proxy will vote, or abstain from voting, at the meeting or any adjournment thereof as the proxy thinks fit.
3. In the case of a corporation, the form of proxy must be executed under its common seal or under the hand of an officer or attorney duly authorised in writing.
4. In the case of joint holders, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the joint holders, and for this purpose seniority shall be determined by the order in which the names stand in the Register of Members.
5. To be valid, forms of proxy must reach the registered office of the Company, PO Box 160, 25 New Street, St. Helier, Jersey JE4 8RG, Channel Islands, not later than 48 hours before the time appointed for the meeting (or any adjourned meeting). Any power of attorney or other authority under which the form of proxy is signed must be sent with the form of proxy.

Signature

Date



