

Lloyds TSB Offshore Gilt Fund Limited

Annual Report and  
Audited Financial Statements  
For the year ended  
30th September 2009



Lloyds TSB | International



# Lloyds TSB Offshore Gilt Fund Limited

## 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 du Feu & Jeune,  
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 Lloyds TSB Offshore Gilt Fund Limited ("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 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 main area of investment is those 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, and particularly in the case of early encashment, you might not get back the amount originally invested. Dividends are not guaranteed and may fluctuate in money terms.

# Report of the Directors

The Directors have pleasure in submitting their Report together with the Audited Financial Statements for the year ended 30th September 2009.

## Results

The results for the year are set out in the Financial Statements on pages 10 to 33.

## 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 continued to act and are willing to remain in office.

During the year ended 30th September 2009 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 T.J. Herbert is a partner of Mourant du Feu & Jeune, the Jersey legal advisers to the Company and the Manager. Mourant du Feu & Jeune 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 pages 5 and 6.

## Independent Auditors

PricewaterhouseCoopers CI LLP were re-appointed as Independent Auditors at the Annual General Meeting held on 27th February 2009 and have indicated their willingness to continue in office.

## Prospectus

A supplement to the Prospectus dated October 2008 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](http://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.

## 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.

## Stocklending

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

# Report of the Directors (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. They are also responsible for the safeguarding of the assets of the Company 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.

## Website

The Directors have selected Lloyds TSB Offshore Limited's website as the host website for the Company Financial Statements 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.

## General Information

The market value per share of the 'A' class at 1st October 2008 was 109.50p and at 30th September 2009 was 117.90p.

The market value per share of the 'B' class at 1st October 2008 was 106.50p and at 30th September 2009 was 113.80p.

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, 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.

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 September 2008. An application for distributor status in respect of the year ended 30th September 2009 will be made in due course.

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

The Company is listed on the Channel Islands Stock Exchange and on the Malta Stock Exchange.  
By Order of the Board

Lloyds TSB Offshore Corporate Services Limited  
Secretary

26th November 2009

# Report of the Manager

## Performance

The Company produced a return of 10.00% (monthly distribution) and 10.35% (quarterly distribution) over the year ended 30th September 2009, compared to a return of 10.16% in the Lipper Hindsight Fixed Income Sterling sector.

## Background & Strategy

It was a year of two halves for UK gilts. Yields tumbled and prices accordingly rose in the six months to 31 March. Thereafter, prices were influenced by a two-way pull between new government bond issuance and Bank of England bond repurchases. This caused yields to fluctuate as investor sentiment went first one way, then the other.

During the first half of the review period, a seemingly relentless flow of weak economic news encouraged a "flight to safety" trend. Investors shifted into gilts from riskier assets such as equities and corporate bonds. Prices were also boosted by repeated reductions to UK base rates. Starting at the beginning of October, the Bank of England cut rates from 5.0% to an all-time low of just 0.5%. Prices suffered a reversal in January 2009, depressed by concerns about the level of public borrowing necessary to support economic rescue plans. The government revealed plans to issue at least £220 billion of assets, primarily gilts, in the coming financial year. The setback proved temporary, and gilts continued to strengthen in February and March. They were provided with further support from the Bank of England's programme of quantitative easing (QE). The Bank of England announced plans to buy £75 billion of gilts to expand the monetary supply and stave off deflationary concerns, a plan that was subsequently extended to its current total of £175 billion.

Effectively, gilt prices have been influenced by a two-way pull between new government bond issuance and central bank repurchases. While increasing the supply of bonds in the market serves to depress prices, central banks' buying operations act as a support. Throughout the review period, the rate of repurchases has outweighed new issuance. Against that, fears over supply have periodically dominated investors' thinking, meaning prices were volatile for the latter half of the review period. Over the year as a whole, gilts were ahead.

The Company performed strongly in the first six months of the review period. This was achieved through a combination of duration and yield curve positioning. An overall long duration boosted performance in October and November as yields fell precipitously, although this was partially offset in October by underperformance in two-year and 20-year bonds. In November, yield curve positioning proved beneficial; a position in 10 year bonds at the expense of 30 year bonds boosted performance as the yield curve steepened.

In early December, as gilt yields continued to fall, the Company was taken short duration. In the event, gilts continued to rally, causing the Company to underperform. Early in 2009 the Company moved long duration once more, correctly anticipating the boost to gilt prices that QE would deliver. From March, the Manager has taken advantage of market distortions presented by the combination of QE and new issuance. The market attaches a liquidity premium to gilts that are being repurchased, and a discount to those that are being sold. Accordingly, it was possible to sell the more liquid gilts and buy less liquid gilts of similar maturities for a significant pick-up in yield.

The long duration position worked against the Company in April, when yields rose, and duration was reduced once more in May. The Company was moved short duration in August, with an underweighting of 50 year bonds into 10 year and 20 year bonds.

# Report of the Manager (continued)

## Outlook

Looking ahead, a number of conflicting factors will affect the gilt market. Net new gilt issuance in 2010-11 is likely to be a little below the £220 billion scheduled this financial year. But there is unlikely to be a repeat of this year's Bank of England purchases (amounting to £140 billion or more in the financial year) and there may be some unwinding. We expect that by this time next year the MPC will have embarked on a series of official rate increases to keep inflation on target in the medium term. We expect the 10-year gilt yield to be some way above the current level at 2.25% in a year's time

Scottish Widows Investment Partnership Limited

26th November 2009

# Report of the Custodian to the Members of Lloyds TSB Offshore 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 Lloyds TSB Offshore 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 September 2009 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

26th November 2009

# Report of the Independent Auditors to the Members of Lloyds TSB Offshore Gilt Fund Limited

We have audited the Financial Statements ("the Financial Statements") of Lloyds TSB Offshore Gilt Fund Limited for the year ended 30th September 2009 which comprise the balance sheet, the income statement, the statement of changes in net assets attributable to holders of participating redeemable preference shares, the cash flow statement, the investment portfolio, the summary of material portfolio changes 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.

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 110 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. We report to you whether in our opinion the information given in the Report of the Directors is consistent with the Financial Statements. We also report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit.

We read other information contained in the Annual Report, and consider whether it is consistent with the Audited Financial Statements. This other information comprises only the Investment Objective and Policy, the Report of the Directors, the Report of the Manager, the Report of the Custodian, the Distribution Table, the Performance Record and the Net Asset Value per Share summary. 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 Lloyds TSB Offshore 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 30th September 2009 and of its results 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; and
- the information given in the Report of the Directors is consistent with the Financial Statements.

PricewaterhouseCoopers CI LLP  
Chartered Accountants  
Jersey, Channel Islands

26th November 2009

# Balance Sheet

At 30th September 2009

	Note	30th September 2009 £	30th September 2008 £
<b>ASSETS</b>			
Cash and cash equivalents		1,041,171	890,149
Creation receivable		—	199,930
Financial assets at fair value through profit or loss		95,400,283	94,047,363
Other accrued income and pre-paid expenses	4	<u>2,069,891</u>	<u>2,055,036</u>
<b>TOTAL ASSETS</b>		<u><u>98,511,345</u></u>	<u><u>97,192,478</u></u>
<b>EQUITY</b>			
Ordinary share capital	15	<u>1,000</u>	<u>1,000</u>
<b>TOTAL EQUITY</b>		<u>1,000</u>	<u>1,000</u>
<b>LIABILITIES</b>			
Cancellation payable		—	76,549
Proposed distribution	5	636,659	701,676
Accrued expenses	6	<u>225,636</u>	<u>218,777</u>
<b>TOTAL LIABILITIES *</b>		<u>862,295</u>	<u>997,002</u>
* Excluding net assets attributable to holders of participating redeemable preference shares			
Net assets attributable to holders of participating redeemable preference shares	18	<u>97,648,050</u>	<u>96,194,476</u>
<b>TOTAL LIABILITIES AND EQUITY</b>		<u><u>98,511,345</u></u>	<u><u>97,192,478</u></u>

The Financial Statements on pages 10 to 33 were approved by the Board of Directors on 26th November 2009 and are signed on its behalf by:

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

The notes on pages 17 to 33 form an integral part of these Financial Statements.

# Income Statement

## For the year ended 30th September 2009

	Note	30th September 2009 £	30th September 2008 £
<b>Operating Profit</b>			
Net gain on financial assets at fair value through profit or loss	7	6,238,301	2,311,645
Investment income		4,356,822	4,798,794
Other income	8	22,006	102,614
Total operating expenses	10	(1,097,459)	(1,160,414)
Operating profit		<u>9,519,670</u>	<u>6,052,639</u>
<b>Finance Costs</b>			
Distributions to holders of participating redeemable preference shares	5	(3,440,053)	(3,740,768)
Total finance costs		<u>(3,440,053)</u>	<u>(3,740,768)</u>
Profit before tax		<u>6,079,617</u>	<u>2,311,871</u>
Increase in net assets attributable to holders of participating redeemable preference shares from operations		<u>6,079,617</u>	<u>2,311,871</u>

The notes on pages 17 to 33 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 September 2009

	30th September 2009 £	30th September 2008 £
Net assets attributable to holders of participating redeemable preference shares at 1st October	<u>96,194,476</u>	<u>107,589,928</u>
Creation of participating redeemable preference shares	5,748,864	2,908,694
Redemption of participating redeemable preference shares	<u>(10,374,907)</u>	<u>(16,616,017)</u>
Net decrease from share transactions	(4,626,043)	(13,707,323)
Increase in net assets attributable to holders of participating redeemable preference shares from operations	<u>6,079,617</u>	<u>2,311,871</u>
Net assets attributable to holders of participating redeemable preference shares at 30th September	<u><u>97,648,050</u></u>	<u><u>96,194,476</u></u>

The notes on pages 17 to 33 form an integral part of these Financial Statements.

# Cash Flow Statement

For the year ended 30th September 2009

	30th September 2009 £	30th September 2008 £
<b>Cash flows from operating activities</b>		
Purchase of financial assets and settlement of financial liabilities	(106,023,158)	(98,377,761)
Proceeds from sale of investments (including realised gains and losses)	110,748,731	106,945,711
Investment income received	4,538,065	4,963,390
Bank interest received	23,487	76,840
Interest paid	(1,982)	(7,538)
Other income received	2,975	22,076
Operating expenses paid	(1,088,618)	(1,150,894)
Net cash inflow from operating activities	<u>8,199,500</u>	<u>12,471,824</u>
<b>Cash flows from financing activities</b>		
Distributions paid to holders of participating redeemable preference shares	(3,505,070)	(3,834,275)
Proceeds received from issue of participating redeemable preference shares	5,858,597	2,555,831
Payments on redemption of participating redeemable preference shares	(10,402,005)	(16,512,486)
Net cash outflow from financing activities	<u>(8,048,478)</u>	<u>(17,790,930)</u>
Net increase/(decrease) in cash and cash equivalents	151,022	(5,319,106)
Cash and cash equivalents opening balance	890,149	6,209,255
Cash and cash equivalents closing balance	<u>1,041,171</u>	<u>890,149</u>

The notes on pages 17 to 33 form an integral part of these Financial Statements.

# Investment Portfolio

	Holding 30.09.08	Holding 30.09.09	Market Value 30.09.09 £	Percentage of Total Net Assets %	Market Value 30.09.08 £
<b>United Kingdom</b>					
<b>Government Bonds 88.50% (87.00%)</b>					
Conversion 9% 2011	1,286,000	1,286,000	1,461,900	1.50	1,451,844
Treasury 2.25% 2014	—	7,094,000	6,976,410	7.14	—
Treasury 2.5% 2013 Index linked	—	424,000	1,079,864	1.11	—
Treasury 3.75% 2019	—	1,778,000	1,781,705	1.82	—
Treasury 4% 2022	—	1,158,000	1,172,294	1.20	—
Treasury 4.25% 2011	6,646,000	774,000	810,256	0.83	6,681,815
Treasury 4.25% 2027	2,992,000	1,659,000	1,717,770	1.76	2,836,347
Treasury 4.25% 2032	9,962,000	—	—	—	9,421,302
Treasury 4.25% 2036	—	1,139,000	1,160,787	1.19	—
Treasury 4.25% 2039	—	3,408,000	3,481,064	3.56	—
Treasury 4.25% 2046	7,077,000	4,020,000	4,148,736	4.25	6,719,102
Treasury 4.25% 2049	—	3,352,000	3,460,561	3.54	—
Treasury 4.25% 2055	578,000	732,000	760,033	0.78	560,589
Treasury 4.5% 2019	—	11,188,000	11,956,202	12.24	—
Treasury 4.5% 2042	—	3,939,000	4,217,011	4.32	—
Treasury 4.75% 2010	437,000	3,256,000	3,349,522	3.43	442,532
Treasury 4.75% 2015	4,042,000	1,144,000	1,263,066	1.29	4,154,990
Treasury 4.75% 2020	7,022,000	—	—	—	7,121,298
Treasury 4.75% 2030	—	1,195,000	1,314,839	1.35	—
Treasury 4.75% 2038	4,240,000	2,906,000	3,223,309	3.30	4,419,683
Treasury 5% 2012	4,067,000	—	—	—	4,186,387
Treasury 5% 2014	5,145,000	4,874,000	5,390,313	5.52	5,358,548
Treasury 5% 2018	4,528,000	—	—	—	4,732,462
Treasury 5% 2025	11,509,000	5,528,000	6,177,850	6.33	11,917,823
Treasury 5.25% 2012	47,000	889,000	966,036	0.99	48,808
Treasury 5.75% 2009	—	2,791,000	2,817,216	2.89	—
Treasury 8.75% 2017	10,409,000	12,906,000	17,729,618	18.16	13,641,536
<b>Overseas Borrowers 9.20% (10.77%)</b>					
EIB 4.75% 2012	10,383,000	8,415,000	8,983,921	9.20	10,352,297
<b>Total Value of Investments</b>			<u>95,400,283</u>	<u>97.70</u>	<u>94,047,363</u>
<b>Other Assets</b>			<u>3,111,062</u>	<u>3.19</u>	<u>3,145,115</u>
<b>Total Value of Assets</b>			<u>98,511,345</u>	<u>100.89</u>	<u>97,192,478</u>
<b>Liabilities &amp; Equity</b>			<u>(863,295)</u>	<u>(0.89)</u>	<u>(998,002)</u>
<b>Net assets attributable to holders of participating redeemable preference shares</b>			<u><u>97,648,050</u></u>	<u><u>100.00</u></u>	<u><u>96,194,476</u></u>

## Investment Portfolio (continued)

The total cost of investments purchased during the year ended 30th September 2009 amounted to £106,023,158 (£98,377,761 as at 30th September 2008).

The total proceeds from investments sold during the year ended 30th September 2009 amounted to £110,748,731 (£106,365,909 as at 30th September 2008).

### Investment Dealing

There was no dealing commission paid during the year.

No transactions in the property of the Company were undertaken with or through any associates of the Manager or Custodian.

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

HSBC

RBC Dominion

Royal Bank of Scotland

### Investments Purchased and Sold

This schedule refers to investments both purchased and sold during the year, and as a result do not appear on the portfolio listings.

Treasury 4% 2016	9,127,000
Treasury 4.5% 2013	980,000

## Summary of Material Portfolio Changes

This schedule refers to securities purchased and sold during the year which had a value of greater than 2% of the net asset value of the Company. 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 Company and that further disclosure of all transactions over 2% of the Net Assets of the Company, as required by Statement Of Recommended Practice (SORP) for Financial Statements of Authorised Open-Ended Investment Companies as issued by the FSA, would not add any further value.

Purchases	Cost	Sales	Proceeds
	£		£
Treasury 4.5% 2019	6,977,074	Treasury 4.75% 2020	6,964,451
Treasury 5% 2025	5,156,546	Treasury 4.25% 2011	5,098,721
Treasury 4.5% 2019	5,063,515	Treasury 4.5% 2019	4,350,278
Treasury 5% 2014	4,236,184	Treasury 4% 2016	3,928,282
Treasury 8.75% 2017	3,928,546	Treasury 4.5% 2046	3,801,692
Treasury 4.5% 2042	3,731,755	Treasury 5% 2014	3,613,318
Treasury 2.25% 2014	3,154,682	Treasury 4.75% 2015	3,155,058
Treasury 4% 2016	3,131,949	Treasury 5% 2025	3,142,483
Treasury 4% 2022	3,072,540	Treasury 4.25% 2032	3,112,269
Treasury 4.5% 2019	2,956,263	Treasury 4.25% 2032	3,065,694
Treasury 5.75% 2009	2,943,660	Treasury 4.25% 2011	2,962,170
Treasury 2.25% 2014	2,869,250	Treasury 4% 2016	2,951,270
Treasury 4.25% 2049	2,578,309	Treasury 4% 2016	2,930,784
Treasury 4.25% 2039	2,412,557	Treasury 5% 2012	2,892,796
Treasury 4.5% 2019	1,986,302	Treasury 5% 2014	2,884,301
Treasury 4.25% 2036	1,984,713	Treasury 4.25% 2032	2,581,380
		Treasury 4.25% 2027	2,176,482
		Treasury 4.25% 2011	2,008,495
		Treasury 4.25% 2011	1,974,877

# Notes to the Financial Statements

## 30th September 2009

1. The Company is registered in Jersey, Channel Islands.

### 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. 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 Income Statement are in respect of continuing activities.

The capital of the Company comprises of two classes of shares relating to a single portfolio ("Fund") consisting of securities, cash, other assets and liabilities. These Financial Statements present the balance sheet, income statement, 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 below.

### 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.

# Notes to the Financial Statements

## (continued)

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The following interpretation is effective for the Fund's accounting periods beginning 1st October 2008 but is not relevant for the Fund'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 Fund'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'

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 investments 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 and equity securities as financial assets at fair value through profit or loss. These 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 the 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 income statement 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 income statement in the period in which they arise.

##### (d) Revenue recognition

Investment income is recognised in the income statement 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.

##### (e) 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. Previous years Financial Statements were valued using the mid market prices. The Directors have quantified the difference and consider it to be immaterial and therefore have not re-stated 2008 figures.

##### (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)

#### (g) Share capital

- (i) The Management Shares have been subscribed for by the Manager and are 'non-participating'. The holders thereof are therefore 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 "A" class participating redeemable preference shares ("A Participating Shares") or "B" class participating redeemable preference shares ("B 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 by 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.

The "A" and "B" Participating Shares rank *pari passu* in all respects except that their entitlements to dividends and their respective interests in the net assets of the Company are determined by reference of a notional (but not vested) unit of participation.

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 Redeemable Participating 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 income statement as finance costs when they are ratified by the Directors.

# Notes to the Financial Statements

## (continued)

### 4. OTHER ACCRUED INCOME AND PRE-PAID EXPENSES

	30th September 2009	30th September 2008
	£	£
Accrued income	726,901	748,336
Other debtors	1,342,990	1,306,700
Total other accrued income	<u>2,069,891</u>	<u>2,055,036</u>

### 5. DISTRIBUTIONS

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

	30th September 2009	30th September 2008
	£	£
31st October	106,102	114,968
30th November	102,682	111,523
31st December	672,842	747,780
31st January	102,193	109,561
28th February	103,393	106,678
31st March	656,536	707,539
30th April	103,484	106,290
31st May	102,966	105,844
30th June	647,864	717,595
31st July	102,846	106,710
31st August	102,486	104,604
30th September	636,659	701,676
	<u>3,440,053</u>	<u>3,740,768</u>
Income paid on cancellation of shares	26,015	64,046
Income received on creation of shares	(54,264)	(14,478)
Net distributions for the year	<u>3,411,804</u>	<u>3,790,336</u>

Details of the distribution per share are set out on pages 34 to 36.

# Notes to the Financial Statements

## (continued)

### 6. ACCRUED EXPENSES

	30th September 2009 £	30th September 2008 £
Due to Manager	161,721	148,848
Due to Custodian	4,195	3,376
Other Creditors	59,720	66,553
	<hr/>	<hr/>
Total accrued expenses	<u>225,636</u>	<u>218,777</u>

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

The net gains on investments during the year comprise:

	30th September 2009 £	30th September 2008 £
Proceeds from sales of investments during the year	110,748,731	106,365,909
Original cost of investments sold during the year	(107,123,530)	(106,486,702)
	<hr/>	<hr/>
Gains/(losses) realised on investments sold during the year	3,625,201	(120,793)
Net unrealised appreciation for the year	2,613,100	2,432,438
	<hr/>	<hr/>
Net gains on investments	<u>6,238,301</u>	<u>2,311,645</u>

# Notes to the Financial Statements

## (continued)

### 8. OTHER INCOME

	Note	30th September 2009 £	30th September 2008 £
Bank interest		21,471	79,351
Stocklending income	9	535	23,263
Other income		<u>22,006</u>	<u>102,614</u>

### 9. STOCKLENDING INCOME

		30th September 2009 £	30th September 2008 £
Gross income		1,098	47,720
less fees paid to:			
State Street Bank & Trust*		(219)	(9,545)
The Custodian		(172)	(7,456)
The Manager		(172)	(7,456)
Net income		<u>535</u>	<u>23,263</u>

\* (State Street Bank & Trust acts as the Facilitating Agent in negotiating terms for entering into a lending transaction.)

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)

### 10. TOTAL OPERATING EXPENSES

		30th September 2009 £	30th September 2008 £
	Note		
Payable to the Manager:			
Annual management fee	11	828,272	862,718
Registrar fees	11	146,964	158,064
Payable to the Custodian:			
Custodian fees	12	38,905	39,309
Safe custody fees	12	6,952	7,665
Other expenses:			
Administration expenses		69,166	85,458
Audit fees		7,200	7,200
Total operating expenses		<u>1,097,459</u>	<u>1,160,414</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 September 2009	30th September 2008
'A' Class	5,810.30	5,985.81
'B' Class	<u>6,491.91</u>	<u>6,217.75</u>
	<u>12,302.21</u>	<u>12,203.56</u>

#### (a) Management and Registrar Fee

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 appeared on the Share Register on the last business day of each annual and half yearly accounting period.

Details of the amounts due to the Manager at the end of the year are shown in note 6.

#### 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.

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. 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)

## 11. RELATED PARTY TRANSACTIONS (continued)

### (c) Directors' Fees

Directors who are employees of the Lloyds Banking Group do not receive Director fees. All other Directors receive a fee of £5,000 per annum.

## 12. CUSTODIAN

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.

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:

Value of Net Assets of the Company 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 Company.

The Custodian is also entitled to reimbursement by the Company 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 element calculated by dividing the net undistributed income of the Company by the number of shares in issue at the time when the prices are calculated. The payment of the first dividend 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 dividend relates.

# Notes to the Financial Statements

## (continued)

### 15. SHARE CAPITAL

	30th September 2009 £	30th September 2008 £
<b>Authorised Share Capital:</b>		
1,000 Management Shares of £1	1,000	1,000
749,900,000 Unclassified shares of 1p	7,499,000	7,499,000
	<u>7,500,000</u>	<u>7,500,000</u>
<b>Issued Share Capital:</b>		
1,000 Management Shares	<u>1,000</u>	<u>1,000</u>
<b>Participating Shares:</b>		
Balance brought forward	873,488	1,001,045
Creations	49,451	25,374
Redemptions	(90,197)	(152,931)
Balance carried forward	<u>832,742</u>	<u>873,488</u>
<b>Nominal Shares:</b>		
Balance brought forward	1,300,747	1,173,190
Creations	90,197	152,931
Redemptions	(49,451)	(25,374)
Balance carried forward	<u>1,341,493</u>	<u>1,300,747</u>
Total Share Capital	<u>2,174,235</u>	<u>2,174,235</u>
<b>Participating Shares in issue:</b>		
'A' participating Class	53,214,299	56,972,049
'B' participating Class	<u>30,059,934</u>	<u>30,376,734</u>
Balance carried forward	<u>83,274,233</u>	<u>87,348,783</u>

# Notes to the Financial Statements

## (continued)

### 16. SHARE PREMIUM

	30th September 2009 £	30th September 2008 £
Balance brought forward	87,173,088	100,830,843
Premium on creations	5,583,201	2,715,911
Premium on redemptions	(10,180,995)	(16,373,666)
	<hr/>	<hr/>
Balance carried forward	<u>82,575,294</u>	<u>87,173,088</u>

### 17. CAPITAL RESERVES

	Realised gains on investments £	Unrealised movement on investments £	Total £
At 30th September 2008	8,745,018	988,466	9,733,484
Net movement in the year	3,625,201	2,613,100	6,238,301
	<hr/>	<hr/>	<hr/>
At 30th September 2009	<u>12,370,219</u>	<u>3,601,566</u>	<u>15,971,785</u>

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

		30th September 2009 £	30th September 2008 £
Share Capital	(Note 15)	2,174,235	2,174,235
Share premium	(Note 16)	82,575,294	87,173,088
Capital reserves	(Note 17)	15,971,785	9,733,484
Undistributed income		(3,073,264)	(2,886,331)
Net assets attributable to holders of participating redeemable preference shares		<hr/> <u>97,648,050</u>	<hr/> <u>96,194,476</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, 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 September 2009 amounts to £32,362 (£59,488 as at 30th September 2008).

# Notes to the Financial Statements

## (continued)

### 19. TAXATION

With effect from 1st January 2009 Exempt Company Status is no longer available under Jersey Income Tax regulations.

However from that date, 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 without 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 out 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 RISK MANAGEMENT

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 effects on the Company's financial performance. The Company is able to use derivative financial instruments to moderate certain risk exposures.

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 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.

# Notes to the Financial Statements

## (continued)

### 20. FINANCIAL RISK MANAGEMENT (continued)

#### Market price risk (continued)

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 September 2009. 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.

Period	Value £	Bonds 5% movement in bond index	Cash 1% movement in interest rates
30.09.09	97,648,050	4,518,948	10,411
30.09.08	96,194,476	4,451,906	8,901

#### 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.

The table above 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 re-pricing or maturity dates. Other than those financial instruments identified above, the Company has no significant exposure to interest rate risks.

The tables below and on the next page show the interest rate profile of the Company's financial assets and liabilities at 30th September 2009:

Total £000's	Fixed rate interest assets £000's	Floating rate interest assets £000's	Interest Free Assets £000's	Interest Free Liabilities £000's
97,648	95,400	1,041	2,069	862

# Notes to the Financial Statements

## (continued)

### 20. FINANCIAL INSTRUMENTS AND RISK PROFILE (continued)

#### Interest rate risk (continued)

Currency	Weighted average Coupon rate %	Weighted average effective interest rate %	Weighted average period for which rate is fixed Years
Sterling	4.59	3.09	13.30

#### 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.

#### 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.

#### 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.

# Notes to the Financial Statements

## (continued)

### 20. FINANCIAL INSTRUMENTS AND RISK PROFILE (continued)

#### Liquidity risk (continued)

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 September 2009		
Share Capital	97,649,050	—
Cancellation payable	—	—
Proposed distribution	99,196	537,463
Accrued expenses	165,916	59,720
	<u>97,914,162</u>	<u>597,183</u>
Total financial liabilities		
As at 30th September 2008		
Share Capital	96,195,476	—
Cancellation payable	76,549	—
Proposed distribution	106,318	595,358
Accrued expenses	152,224	66,553
	<u>96,530,567</u>	<u>661,911</u>
Total financial liabilities		

#### 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.

#### 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.

# Notes to the Financial Statements

## (continued)

### 20. FINANCIAL INSTRUMENTS AND RISK PROFILE (continued)

#### Derivatives (continued)

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 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 did not enter into any derivative contracts.

# Distribution table (Unaudited)

## For the year ended 30th September 2009

### Class A Shares

	Gross income	Equalisation payable	Distribution paid current year	Distribution paid prior year
<u>1st Quarter</u>				
Group 1	1.030	—	1.030	1.005
Group 2	0.321	0.709	1.030	1.005
<u>2nd Quarter</u>				
Group 1	1.020	—	1.020	0.995
Group 2	0.001	1.019	1.020	0.995
<u>3rd Quarter</u>				
Group 1	1.020	—	1.020	1.030
Group 2	0.223	0.797	1.020	1.030
<u>4th Quarter</u>				
Group 1	1.010	—	1.010	1.045
Group 2	0.428	0.582	1.010	1.045

#### 1st Quarter

Group 1 : Shares purchased prior to 1st October 2008

Group 2 : Shares purchased between 1st October 2008 and 31st December 2008

#### 2nd Quarter

Group 1 : Shares purchased prior to 1st January 2009

Group 2 : Shares purchased between 1st January 2009 and 31st March 2009

#### 3rd Quarter

Group 1 : Shares purchased prior to 1st April 2009

Group 2 : Shares purchased between 1st April 2009 and 30th June 2009

#### 4th Quarter

Group 1 : Shares purchased prior to 1st July 2009

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

## Distribution table (continued) (Unaudited)

### For the year ended 30th September 2009

#### Class B Shares

	Gross income	Equalisation payable	Distribution paid current year	Distribution paid prior year
<u>31st October 2008</u>				
Group 1	0.350	—	0.35	0.335
Group 2	0.317	0.033	0.35	0.335
<u>30th November 2008</u>				
Group 1	0.340	—	0.34	0.335
Group 2	0.259	0.081	0.34	0.335
<u>31st December 2008</u>				
Group 1	0.340	—	0.34	0.335
Group 2	0.260	0.080	0.34	0.335
<u>31st January 2009</u>				
Group 1	0.340	—	0.34	0.335
Group 2	0.250	0.090	0.34	0.335
<u>28th February 2009</u>				
Group 1	0.340	—	0.34	0.330
Group 2	0.290	0.050	0.34	0.330
<u>31st March 2009</u>				
Group 1	0.340	—	0.34	0.330
Group 2	0.320	0.020	0.34	0.330
<u>30th April 2009</u>				
Group 1	0.340	—	0.34	0.340
Group 2	0.320	0.020	0.34	0.340
<u>31st May 2009</u>				
Group 1	0.340	—	0.34	0.340
Group 2	0.310	0.030	0.34	0.340
<u>30th June 2009</u>				
Group 1	0.340	—	0.34	0.350
Group 2	0.290	0.050	0.34	0.350
<u>31st July 2009</u>				
Group 1	0.340	—	0.34	0.350
Group 2	0.320	0.020	0.34	0.350
<u>31st August 2009</u>				
Group 1	0.340	—	0.34	0.345
Group 2	0.340	0.000	0.34	0.345
<u>30th September 2009</u>				
Group 1	0.330	—	0.33	0.350
Group 2	0.330	0.000	0.33	0.350

## **Distribution table (continued) (Unaudited)**

### **For the year ended 30th September 2009**

#### 31st October 2008

Group 1 : Shares purchased prior to 1st October 2008

Group 2 : Shares purchased between 1st October 2008 and 31st October 2008

#### 30th November 2008

Group 1 : Shares purchased prior to 1st November 2008

Group 2 : Shares purchased between 1st November 2008 and 30th November 2008

#### 31st December 2008

Group 1 : Shares purchased prior to 1st December 2008

Group 2 : Shares purchased between 1st December 2008 and 31st December 2008

#### 31st January 2009

Group 1 : Shares purchased prior to 1st January 2009

Group 2 : Shares purchased between 1st January 2009 and 31st January 2009

#### 28th February 2009

Group 1 : Shares purchased prior to 1st February 2009

Group 2 : Shares purchased between 1st February 2009 and 28th February 2009

#### 31st March 2009

Group 1 : Shares purchased prior to 1st March 2009

Group 2 : Shares purchased between 1st March 2009 and 31st March 2009

#### 30th April 2009

Group 1 : Shares purchased prior to 1st April 2009

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

#### 31st May 2009

Group 1 : Shares purchased prior to 1st May 2009

Group 2 : Shares purchased between 1st May 2009 and 31st May 2009

#### 30th June 2009

Group 1 : Shares purchased prior to 1st June 2009

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

#### 31st July 2009

Group 1 : Shares purchased prior to 1st July 2009

Group 2 : Shares purchased between 1st July 2009 and 31st July 2009

#### 31st August 2009

Group 1 : Shares purchased prior to 1st August 2009

Group 2 : Shares purchased between 1st August 2009 and 31st August 2009

#### 30th September 2009

Group 1 : Shares purchased prior to 1st September 2009

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

## Performance Record (Unaudited)

### Share prices and dividends

Shares in Lloyds TSB Offshore Gilt Fund Limited 'A' Class were first offered to the public in November 1978 at an offer price of £1.00 per Share.

Shares in Lloyds TSB Offshore Gilt Fund Limited 'B' Class were first offered to the public in March 1988 at an offer price of £1.07 per Share.

Year	Highest offer price	Lowest bid price	Dividends per Share	Per £1,000 invested at 31.12.98
	p	p	p	£
<b>'A' Class</b>				
1999	127.77	113.40	7.050	55.18
2000	120.20	110.70xd	6.930	54.24
2001	120.80	109.90xd	6.660	52.12
2002	120.20	109.00xd	6.000	46.96
2003	121.70	108.90xd	5.070	39.68
2004	118.20	108.70xd	4.480	35.06
2005	121.30	110.20	4.220	33.03
2006	122.50	110.30xd	4.300	33.65
2007	111.60	104.00xd	4.210	32.95
2008	120.20	105.30xd	4.075	31.89
30.09.2009	122.00	112.80xd	3.050	23.87
<b>'B' Class</b>				
1999	126.50	110.50xd	7.300	56.66
2000	117.20	108.90xd	6.930	55.69
2001	117.40xd	107.80xd	6.660	53.52
2002	116.80	106.90xd	6.000	48.22
2003	118.30xd	106.30xd	5.070	40.75
2004	114.70xd	105.70xd	4.480	36.00
2005	117.70	106.90xd	4.220	33.91
2006	119.60xd	107.60xd	4.300	34.56
2007	108.10xd	101.40xd	4.210	33.83
2008	116.10	102.10xd	4.075	32.75
30.09.2009	117.80xd	109.50xd	3.050	24.51

## Net asset value per share (Unaudited)

Year	Net Asset Value of Fund	Net Asset Value per Share	No. of Shares in issue
30.09.06	£146,488,772	112.34p	130,400,922
30.09.07	£107,589,928	107.48p	100,104,583
30.09.08	£96,194,476	110.13p	87,348,783
30.09.09	£97,648,050	117.26p	83,274,233

# Notice of Meeting

Notice is hereby given that the 32nd Annual General Meeting of Lloyds TSB Offshore Gilt Fund Limited will be held at 11-12 Esplanade, St. Helier, Jersey, on Friday, 26th February 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 September 2009.
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 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, 5th March 2010 at 09.30 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: 26th November 2009

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## LLOYDS TSB OFFSHORE 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 32nd Annual General Meeting of the Company to be held on Friday, 26th February 2010 at 9.00 a.m. and at any adjournment thereof.

I/We have indicated with an "X" in the spaces below how I/we wish my/our votes to be cast in respect of the Resolutions which are set out in the Notice convening the Meeting. If no specific direction as to voting is given, then I/we authorise the Chairman of the Meeting to vote or abstain at his/her discretion.

ORDINARY RESOLUTIONS:

1. Adoption of the Annual Report & Audited Financial Statements for the year ended 30th September 2009
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 Timothy Joseph Herbert
7. Re-appoint PricewaterhouseCoopers CI LLP as Auditors and to 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 principal place of business of the Company, PO Box 311, 11-12 Esplanade, St. Helier, Jersey JE4 8ZU, 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 .....



