
LLOYDS GILT FUND LIMITED

Annual Report and
Audited Financial Statements

For the year ended 30 September 2016



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Company Information

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
B. Lysiak

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

Manager And Registrar

Lloyds Investment Fund Managers Limited
PO Box 160, 25 New Street,
St Helier,
Jersey, JE4 8RG,
Channel Islands.

Legal Advisers

Mourant Ozannes
PO Box 87, 22 Grenville Street,
St Helier,
Jersey, JE4 8PX,
Channel Islands.

Investment Manager

Aberdeen Asset Investments Limited
Bow Bells House,
1 Bread Street,
London,
EC4M 9HH.

Custodian

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

Secretary

Lloyds Corporate Services (Jersey) Limited
PO Box 160, 25 New Street,
St Helier,
Jersey, JE4 8RG,
Channel Islands.

Independent Auditor

PricewaterhouseCoopers CI LLP
37 Esplanade,
St Helier,
Jersey, JE1 4XA,
Channel Islands.

Paying Agent

Lloyds Bank International Limited
PO Box 311, Peveril Buildings,
Peveril Square,
Douglas,
Isle of Man, IM99 1JJ.

Investment Objective and Policy

The investment objective of Lloyds 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'). 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 ('UK') may receive income not subject to UK 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 shortdated 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.

Directors' Profiles

Ross Davey Willcox (Chairman) – Head of International Products, Retail, Lloyds Banking Group.

Joined the Lloyds Banking Group in 1977 and has held a number of managerial positions in the UK and Internationally. Was appointed Managing Director of the Lloyds Investment Fund Managers Limited in 1999 and is currently Chairman/ Director of the Jersey based Fund Management Company. Current responsibilities include the value proposition of all investment products for International Wealth. A qualified Banker, a Fellow of the Securities & Investment Institute and a Chartered Director. Aged 57.

Ian Mark Jeremie Hardy – Senior Product Manager, International Products, Retail, Lloyds Banking Group.

Joined the Lloyds Banking Group in 1981 and held a number of managerial positions before being appointed Managing Director of the Group's Guernsey based Lloyds Investment Fund Managers Limited in 1997 and a Director of the Fund in 2000. Current responsibilities include provision of technical and regulatory advice on a range of investment products and services. Holder of an upper second class honours degree from the University of Aston in Birmingham in Business Administration and Transport Planning. Aged 57.

Timothy Joseph Herbert – Consultant, Mourant Ozannes.

Jersey born and educated. M.A. in jurisprudence Trinity College Oxford 1982. Member of Middle Temple. Joined Mourant du Feu & Jeune (now Mourant Ozannes) in May 1983. Sworn in as an advocate of the Royal Court, September 1985. Tim Herbert was a partner of Mourant Ozannes from 1987 to 2012. In July 2012 he stepped down from the partnership and is now retained by Mourant Ozannes as a consultant to the firm. He has extensive experience in corporate and commercial law and mutual funds advice. Holds other external directorships and also acts as Honorary Consul for Finland. Aged 57.

Brian Charles James – Head of Investment Operations Jersey, Retail, Lloyds Banking Group.

Joined the Lloyds Banking Group in 1988 and held a number of managerial positions primarily in Financial Control and Risk Management roles before being appointed as a Director of the Jersey based Fund Management Company and as a Director of the Company in 1997. Current responsibilities include leading a team of specialists delivering operational support for a range of offshore investment products and services. A Chartered Director. Aged 55.

Bronislaw Lysiak –Senior Manager Intermediary Sales, International Private Banking, Lloyds Banking Group.

Joined the Lloyds Banking Group in 1993 and has held a number of managerial positions within a regulated personal customer sales environment. Current responsibilities are for sales and distribution of investment products to regulated intermediaries and institutions. Holder of an Advanced Financial Planning Certificate in Taxation, Trust and Investment Planning and Higher National Diploma in Business and Finance. Aged 52.

Report of the Directors

The Directors have pleasure in submitting their Annual Report together with the Audited Financial Statements for the year ended 30 September 2016.

The Company is domiciled and incorporated as a limited liability company in Jersey, Channel Islands, United Kingdom under the Companies (Jersey) Law 1991 and is listed on the Channel Islands Securities Exchange Authority and the Malta Stock Exchange. Full details of the Company are stated on pages 2 to 7.

Results

The results for the year are set out in the financial statements on pages 12 to 36.

Distributions

Distributions for the year are detailed in Note 5 to the financial statements.

Directors

The Directors of the company who were in office during the year and up to the date of signing the financial statements were:

Mr I.M.J. Hardy (appointed 8 May 2000)
Mr T.J. Herbert (appointed 4 February 2005)
Mr B.C. James (appointed 12 March 1997)
Mr B. Lysiak (appointed 5 June 2014)
Mr R.D. Willcox (appointed 23 July 1998)

During the year ended 30 September 2016 and subsequently, no Director has had a beneficial interest in the Company.

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

Mr T.J. Herbert is a consultant to Mourant Ozannes, who are the Jersey legal advisers to the Company and the Manager. Mourant Ozannes receives fees in connection with advising the Company and the Manager. These are disclosed in Note 10.

Mr I.M.J. Hardy, Mr B.C. James and Mr R.D. Willcox (Chairman), are Directors of Lloyds Investment Fund Managers Limited (the 'Manager') which has a management contract with the Company. Fees earned by the Manager are disclosed in these financial statements in Note 9.

Investment Activities

The Report of the Investment Manager is set out on page 8.

Independent Auditor

PricewaterhouseCoopers CI LLP were reappointed as Independent Auditors at the Annual General Meeting held on 16 March 2016 and have indicated their willingness to remain in office.

Prospectus

Copies of the Prospectus dated November 2014 are available, free of charge, on application to the Manager. Alternatively they can be accessed on our website at international.lloydsbank.com/international-investments/funds/

Management and Administration Providers

The names and addresses of management and administration providers are stated on page 2.

Comparatives Tables

The Distribution Table (unaudited), Performance Record (unaudited) and Net Asset Value per Share (unaudited) tables are stated on pages 37 to 41.

Report of the Directors (continued)

Directors' Responsibilities

The Directors are responsible for preparing the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRS). The Directors are required by the Companies (Jersey) Law 1991 to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company for that year 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 and estimates 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 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 noncompliance with laws 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 ought to have taken as Director, in order to make himself aware of any relevant audit information and to establish that the Company's Auditors are aware of that information.

Market Conditions

Some of the assets held within certain Funds can be affected by market conditions and this may affect the share price of those Funds. The Directors would like to remind shareholders that investment in the Company should be considered as a long term commitment, as the price of shares may rise and fall in the short term in response to changing market conditions.

The Manager wrote to all shareholders in November 2016 to make them aware of the performance expectations for Government Bonds and whilst the Fund may still produce an income, their total returns, which include stock market movements, may be reduced and could even be negative.

This communication was based on the use of forecasting data, which is updated quarterly and estimates what the average returns from Government Bonds might be over 10 years. This means that the performance expectations on the asset class will change over time and there may be periods when the investment returns might be higher or lower than those available from savings accounts.

Information Exchange

Jersey has entered into a number of information exchange agreements with the authorities of other jurisdictions. These include requirements set out under The European Union Savings Tax Directive (EUSD), Foreign Account Tax Compliance Act (FATCA) in the United States of America, Common Reporting Standards (CRS) and UK Crown Dependencies Inter Governmental Agreements.

Report of the Directors (continued)

Shareholders should be aware that information on their investment may be shared with the relevant authorities, and may be passed to the tax authorities in their country of residence, citizenship or residence for tax purposes. For the avoidance of doubt this information may include (but not be limited to) details of shareholder names, addresses, unique identifiers (such as tax or national insurance numbers), amount of investment, redemption or sale proceeds and dividend payments.

Financial Risk Management

The Directors have taken into consideration the financial risk management of the Company, this has been disclosed in Note 19 of the financial statements.

Reporting Funds Regime

HM Revenue & Customs accepted the entry of the Company into the Reporting Funds Regime with effect from 1 October 2010 for the purposes of regulation 51 of the Offshore Funds (Tax) Regulations 2009.

General Information

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 market value per Share of the 'A' class as at 3 October 2016 was 140.10p (xd) and as at 30 September 2016 was 141.50p.

The market value per Share of the 'B' class as at 3 October 2016 was 134.90p (xd) and as at 30 September 2016 was 135.90p.

The latest prices can be viewed on our website at <http://international.lloydsbank.com/international-investments/funds/prices/>

The Company is listed on the Channel Islands Securities Exchange Authority (the 'CISEA') and the Malta Stock Exchange.

Website

The Directors have selected Lloyds Bank International Limited's website as the host website for the Company's 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.

By order of the Board

Lloyds Corporate Services (Jersey) Limited
Secretary

16 December 2016

Report of the Investment Manager

Performance

The Company produced a return of 12.4% (monthly and quarterly distribution) over the year ended 30 September 2016, compared to a return of 12.6% in the FTSE British Government All Stocks index.

Background & Strategy

Despite reasonable volatility, gilt yields finished the first three months of the review period almost unchanged. A prime contributor to the volatility was the European Central Bank's ("ECB") under delivery of monetary stimulus in December. Moving into 2016, bond markets endured a notable increase in volatility. Market turbulence was caused by declines in commodity prices, particularly oil; renewed fears of an economic growth slowdown in Chinese and other emerging markets; and fears over the health of various European financial industries. Markets stabilised in March, thanks to a combination of comments from US Federal Reserve Chair Janet Yellen which lowered market expectations of future interest rate rises), further ECB monetary policy stimulus following a further deterioration in the Eurozone inflation outlook, and an increase in oil prices.

The steep fall in UK 10 year Gilt yields in the first three months of 2016 was partially due to investor risk aversion, which prompted a flight to higher quality assets such as government bonds, and partially due to deterioration in the UK's economic outlook. Significant bouts of sterling weakness resulted from negative developments surrounding the UK's European Union referendum in June. The result of that referendum victory for the "Leave" campaign caused large swings in markets and a rally in UK government bonds. As at 30 September, the yield on the 10 year gilt had fallen to 0.65% having reached new historic lows in the previous month.

Our 10 year/30 year yield curve flattener position detracted from performance, as the periods of "risk off" moves in markets resulted in the UK curve steepening. This position was removed at the end of June.

We made no material changes to portfolio positioning in July during the aftermath of the EU referendum, and maintained a neutral duration stance overall.

In early August we added a long duration position to express our view of a negative outlook for the UK economy due to heightened uncertainty. We later took profits on this position following a sharp drop in gilt yields after the Bank of England's ("BoE") Monetary Policy Committee surprised markets with a rate cut to 0.25%, a resumption of quantitative easing and a corporate bond buying programme. In September, we took profits on our long 30 year breakeven position (involving buying an inflation linked asset and selling the corresponding nominal asset). The position reached levels we believed to be back to around fair value, with longer term inflation expectations having increased during the period.

Outlook

There is a sense that the monetary toolkit of policy makers in the form of quantitative easing and rate cuts is now close to having been fully exploited. Mark Carney, the governor of the BoE, has said that the central bank's overall views on the economy have not changed following the release of its August stimulus package. Another interest rate cut could be on the cards in the next six months. Meanwhile, there is an increasing expectation that fiscal stimulus in the form of lower taxation and/or increased public spending will be employed in the UK possibly at the time of the next Budget.

This report is solely for information purposes and is not intended to be and should not be construed as an offer or recommendation to buy and sell investments, nor shall it form the basis or part of any contract to be relied upon in any way.

Aberdeen Asset Investments Limited

16 December 2016

Report of the Custodian to the Members of Lloyds 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 year 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 Gilt Fund Limited

In accordance with Article 2.06 of 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 30 September 2016 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

16 December 2016

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

We have audited the accompanying financial statements of Lloyds Gilt Fund Limited (“the Company”) which comprise the statement of financial position and investment portfolio as of 30 September 2016 and the statement of comprehensive income, statement of changes in net assets attributable to holders of participating redeemable preference shares and the cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information.

Directors’ responsibility for the Financial Statements

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards and with the requirements of Jersey law. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors’ responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors’ judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Company as of 30 September 2016, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the requirements of the Companies (Jersey) Law 1991 and the Collective Investment Funds (Recognized Funds)(Rules)(Jersey) Order 2003 (as amended).

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

Report on other legal and regulatory requirements

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises the company information, the investment objective and policy, the directors' profiles, the report of the directors, the report of the investment manager, the report of the custodian to the members of Lloyds Gilt Fund Limited, distribution tables (Unaudited), performance records (Unaudited), net asset value per share (Unaudited), the notice of meeting and the form of proxy.

In our opinion the information given in the report of the directors is consistent with the financial statements.

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 part 4 of the Rules Schedule 3 of the Collective Investment Funds (Recognised Funds)(Rules)(Jersey) Order 2003 (as amended) 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.

The maintenance and integrity of the Lloyds Gilt Fund Limited (<http://international.lloydsbank.com/international-investments/funds/uk/>) website is the responsibility of the directors; 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.

Legislation in Jersey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Rebecca Brewer,
For and on behalf of PricewaterhouseCoopers
CI LLP
Chartered Accountants
Jersey, Channel Islands
16 December 2016

Statement of Financial Position

As at 30 September 2016

		30 September 2016	30 September 2015
	Note	£	£
Current Assets			
Cash and cash equivalents		197,739	44,829
Financial assets at fair value through profit or loss		47,739,843	53,788,650
Other accrued income and other debtors	4	2,044,470	2,077,169
Total Assets		49,982,052	55,910,648
Equity			
Ordinary share capital	14	1,000	1,000
Total Equity		1,000	1,000
Current Liabilities			
Cancellation payable		2,901	224,075
Distribution payable	5	131,216	193,673
Accrued expenses and other creditors	6	104,137	110,663
Nominal shares	14	1,825,902	1,749,299
Total Liabilities *		2,064,156	2,277,710
Net assets attributable to holders of participating redeemable preference shares	17	47,916,896	53,631,938
Total Liabilities And Equity		49,982,052	55,910,648

* Excluding net assets attributable to holders of participating redeemable preference shares.

The financial statements on pages 12 to 36 were approved by the Board of Directors on 16 December 2016 and are signed on its behalf by:

R. D. Willcox }
B. Lysiak } Directors

The notes on pages 20 to 36 form an integral part of these financial statements.

Statement of Comprehensive Income

For the year ended 30 September 2016

		30 September 2016	30 September 2015
	Note	£	£
Operating profit			
Net gain on financial assets at fair value through profit or loss	7	5,302,098	3,236,634
Unclaimed Distributions *	8	19,826	—
Investment income		944,043	1,227,094
Other income	8	315	683
Total operating expenses	9	(629,452)	(723,297)
Operating profit		5,636,830	3,741,114
Finance costs			
Distributions to holders of participating redeemable preference shares	5	(917,748)	(1,319,978)
Total finance costs		(917,748)	(1,319,978)
Profit before tax		4,719,082	2,421,136
Increase in net assets attributable to holders of participating redeemable preference shares from operations		4,719,082	2,421,136

* In accordance with 9.08 (6) of the Collective Investment Funds (Recognised Funds) (Rules) (Jersey) Order 2003 any distribution payment which shall remain unclaimed after a period of 10 years from the date of payment shall then be transferred to and become part of the capital property.

There were no components of 'other comprehensive income' which are required to be separately disclosed during the current and preceding periods.

The notes on pages 20 to 36 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 30 September 2016

	30 September 2016	30 September 2015
	£	£
Net assets attributable to holders of participating redeemable preference shares as at 1 October	53,631,938	66,052,302
Creation of participating redeemable preference shares	1,677,271	3,123,570
Redemption of participating redeemable preference shares	(12,111,395)	(17,965,070)
Net decrease from share transactions	(10,434,124)	(14,841,500)
Increase in net assets attributable to holders of participating redeemable preference shares from operations	4,719,082	2,421,136
Net assets attributable to holders of participating redeemable preference shares as at 30 September	47,916,896	53,631,938

The notes on pages 20 to 36 form an integral part of these financial statements.

Cash Flow Statement

For the year ended 30 September 2016

	30 September 2016 £	30 September 2015 £
Cash flows from operating activities		
Purchase of financial assets and settlement of financial liabilities	(36,809,478)	(117,301,973)
Receipts from sale of investments	47,539,562	131,733,494
Investment income received	1,674,170	2,172,843
Unclaimed distributions over 10 years	19,826	—
Bank interest received	315	683
Interest paid	(306)	(1,870)
Operating expenses paid	(635,672)	(745,632)
Net cash inflow from operating activities	11,788,417	15,857,545
Cash flows from financing activities		
Distributions paid to holders of participating redeemable preference shares	(980,204)	(1,456,668)
Proceeds received from issue of participating redeemable preference shares	1,677,271	3,123,570
Payments on redemption of participating redeemable preference shares	(12,332,574)	(17,768,493)
Net cash outflow from financing activities	(11,635,507)	(16,101,591)
Net increase/(decrease) in cash and cash equivalents	152,910	(244,046)
Cash and cash equivalents as at 1 October	44,829	288,875
Cash and cash equivalents as at 30 September	197,739	44,829

The notes on pages 20 to 36 form an integral part of these financial statements.

Investment Portfolio

As at 30 September 2016

	Holding 30.09.15	Holding 30.09.16	Market Value 30.09.16 £	Percentage of Total Net Assets %	Market Value 30.09.15 £
United Kingdom Government Bonds 99.65% (97.26%)					
Treasury 1.25% 2018	3,907,000	1,310,000	1,336,795	2.79	3,959,842
Treasury 1.5% 2026	—	200,000	214,117	0.45	—
Treasury 1.75% 2017	—	2,106,000	2,116,319	4.42	—
Treasury 1.75% 2019	4,847,000	1,902,000	1,988,528	4.15	4,982,304
Treasury 2% 2016	4,456,000	—	—	—	4,476,854
Treasury 2% 2020	—	2,258,000	2,413,125	5.04	—
Treasury 2% 2025	—	5,943,000	6,634,504	13.85	—
Treasury 2.5% 2065	—	166,000	230,001	0.48	—
Treasury 2.75% 2024	—	1,905,000	2,231,898	4.66	—
Treasury 3.25% 2044	3,473,000	2,961,000	4,115,538	8.59	4,019,338
Treasury 3.5% 2045	2,775,000	3,166,000	4,622,483	9.65	3,361,865
Treasury 3.5% 2068	805,000	695,000	1,229,976	2.57	1,078,446
Treasury 3.75% 2021	1,199,000	2,015,000	2,361,882	4.93	1,367,364
Treasury 3.75% 2052	904,000	853,000	1,406,640	2.94	1,202,004
Treasury 4% 2016	3,753,000	—	—	—	3,875,404
Treasury 4% 2060	895,000	913,000	1,689,004	3.52	1,295,982
Treasury 4.25% 2032	2,767,000	986,000	1,421,171	2.97	3,555,374
Treasury 4.25% 2036	—	54,000	80,854	0.17	—
Treasury 4.25% 2039	1,394,000	—	—	—	1,854,020
Treasury 4.25% 2040	1,834,000	544,000	853,046	1.78	2,461,934
Treasury 4.25% 2049	830,000	320,000	555,392	1.16	1,188,834
Treasury 4.5% 2019	1,592,000	1,592,000	1,763,697	3.68	1,791,318
Treasury 4.5% 2034	2,881,000	2,027,000	3,070,196	6.41	3,850,687
Treasury 4.5% 2042	1,733,204	1,434,204	2,377,121	4.96	2,444,779
Treasury 4.75% 2030	95,000	95,000	141,322	0.29	127,733
Treasury 4.75% 2038	—	186,000	304,101	0.63	—
Treasury 5% 2025	422,000	—	—	—	546,446

Investment Portfolio (continued)

As at 30 September 2016

	Holding 30.09.15	Holding 30.09.16	Market Value 30.09.16 £	Percentage of Total Net Assets %	Market Value 30.09.15 £
United Kingdom Government Bonds (continued)					
Treasury 6% 2028	454,000	—	—	—	672,867
Treasury 8% 2021	3,121,000	1,562,000	2,127,132	4.44	4,274,834
Treasury 8.75% 2017	1,209,000	2,278,000	2,455,001	5.12	1,400,421
Total Value of Investments			47,739,843	99.65	53,788,650
Other Assets			2,242,209	4.68	2,121,998
Total Assets			49,982,052	104.33	55,910,648
Liabilities & Equity			(2,065,156)	(4.33)	(2,278,710)
Net assets attributable to holders of participating redeemable preference shares			47,916,896	100.00	53,631,938

	Year ended 30.09.16 £	Year ended 30.09.15 £
Cost of investments purchased	36,809,478	117,301,973
Proceeds from investments sold	47,539,562	131,733,494

Investment Portfolio (continued)

As at 30 September 2016

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 IXL 2044

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 Company were carried out by the following counterparties:

HSBC Securities
JPMorgan Chase
Deutsche Bank London
Barclays Capital

Investment Portfolio (continued)

As at 30 September 2016

Summary of Material Portfolio Changes

This schedule refers to securities purchased or sold during the year which had a value of greater than 2% of the net asset value of the Company. The Directors consider that where applicable the disclosure of the 20 largest purchases and sales is sufficient to reflect the nature of the operating activity of the Company.

Purchases	Cost £	Sales	Proceeds £
Treasury 2% 2025	6,455,250.91	Treasury 4% 2016	6,651,293.94
Treasury 5% 2025	3,761,134.30	Treasury 5% 2025	3,799,266.49
Treasury 4% 2016	3,355,953.57	Treasury 3.5% 2045	2,746,068.32
Treasury 1.75% 2017	2,969,173.81	Treasury 4.25% 2032	2,671,250.00
Treasury 3.5% 2045	2,428,243.39	Treasury 4% 2016	2,606,539.90
Treasury 2.75% 2024	2,261,822.03	Treasury 1.75% 2019	2,168,533.97
Treasury 2% 2020	2,116,818.78	Treasury 8% 2021	2,119,360.23
Treasury 4% 2016	2,079,380.36	Treasury 2% 2016	2,078,359.97
Treasury 4% 2016	2,077,983.10	Treasury 2% 2016	2,078,103.94
Treasury IXL 2044	1,917,468.45	Treasury 4.25% 2040	1,751,835.61
Treasury 8.75% 2017	1,449,792.38	Treasury IXL 2044	1,748,215.04
Treasury 8.75% 2017	1,098,927.12	Treasury 4.25% 2039	1,585,692.74
Treasury 8.75% 2017	838,430.92	Treasury 1.25% 2018	1,155,993.36
Treasury 3.5% 2045	826,793.43	Treasury 4.25% 2049	1,083,076.51
Treasury 3.75% 2021	526,699.55	Treasury 4% 2016	1,015,922.50
Treasury 3.75% 2021	413,370.46	Treasury 4% 2016	757,212.94
Treasury 4% 2016	316,074.55	Treasury 1.75% 2017	713,129.81
Treasury 4.75% 2038	314,259.92	Treasury 1.25% 2018	708,493.58
Treasury 2% 2025	302,484.92	Treasury 8.75% 2017	671,024.42
Treasury 2% 2020	246,770.89	Treasury 4.5% 2034	545,737.50

Notes to the Financial Statements

For the year ended 30 September 2016

1. The Company

The Company is domiciled and incorporated as a limited liability company in Jersey, Channel Islands, United Kingdom under the Companies (Jersey) Law 1991 and is listed on the Channel Islands Securities Exchange Authority and the Malta Stock Exchange. Full details of the Company, Investment Objective and Policy and Report of the Directors are stated on pages 2 to 7.

2. Basis of Presentation

The financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') on the going concern basis.

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

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of investments, held at fair value through profit or loss and in accordance with Companies (Jersey) Law 1991 and with the Collective Investment Funds (Recognized Funds) (Rules) (Jersey) Order 2003 (as amended). Jersey is not part of the United Kingdom ('UK') and the Company is not regulated by the Financial Conduct Authority ('FCA') or the Prudential Regulation Authority ('PRA') of the UK.

All amounts reported in the statement of comprehensive income are in respect of continuing activities. The Company comprises of two classes of Preference Shares relating to a single portfolio ('Fund') consisting of securities, cash, other assets and liabilities. These financial statements present the statement of financial position, statement of comprehensive income, statement of changes in net assets attributable to holders of participating redeemable preference shares, cash flow statement, investment portfolio, notes to the financial statements, distribution tables, performance records and net asset value per share.

The net assets attributable to holders of participating redeemable preference shares are classified as financial liabilities, therefore, in the opinion of the Directors, the Capital of the Company is only represented by the Management Shares. Details of Management Shares, Participating Shares and Nominal Shares are disclosed in Notes 3 and 14.

Significant accounting estimates and judgements.

The Company makes assumptions and estimates that affect the reported amounts of assets and liabilities at the statement of financial position date. 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 significant to the Company's results and financial position, based upon materiality and significant judgements and estimates, are discussed in the following notes. See Note 3 for further details on what are considered to be the significant accounting policies.

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 years presented, unless otherwise stated in the following text.

The Directors also monitor new standards and ensure that they are applied where relevant.

Notes to the Financial Statements (continued)

For the year ended 30 September 2016

3. Summary of Significant Accounting Policies (continued)

3. Adoption of new and revised IFRS's

3.1 Standards, amendments and interpretations effective for the current year

The following new standards, amendments and interpretations have been adopted in these financial statements.

Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: The Company has applied the amendments to IFRS 10, IFRS 12 and IAS 28 - Investment Entities for the first time in the current year.

The amendments address issues that have arisen in the context of applying the consolidation exception for investment entities.

The Company did not control any entities during the year or the prior year and as a result, the investment entities amendments have had no impact on the Company.

Amendments to IAS 28 Investments in Associates and Joint Ventures: The Company has applied the amendments to IAS 28 Investments in Associates and Joint Ventures for the first time in the current year.

The Company had no Associates or Joint Ventures during the year or the prior year and as a result, the investment entities amendments have had no impact on the Company.

3.2 The following New and revised standards, amendments and interpretations have been published but are not yet effective:

- IFRS 9, 'Financial Instruments' (effective from 1 January 2018).
- IFRS 15, 'Revenue from contracts with customers' (effective 1 January 2017).
- IAS 7, 'Cash Flow Statements' (effective from 1 January 2017).
- IAS 12, 'Income Taxes' (effective from 1 January 2017).

There are no other standards, interpretations or amendments to existing standards that are not yet effective that would be expected to have a significant impact on the Company.

Functional currency and presentation currency

The Company has adopted sterling as its presentational 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 currencies 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)

For the year ended 30 September 2016

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.

(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 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 year in which they arise.

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 Rate 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 year.

Bank Interest is recognised in the statement of comprehensive income on a time proportionate basis using the EIR method. The EIR is the rate that exactly discounts estimated future cash payments or receipts throughout the expected life of the financial asset or liability, or, when appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability.

Fair value estimation

The fair value of financial instruments traded in active markets (such as publicly traded derivatives and trading securities) is based on quoted market prices at the statement of financial position date. The quoted market price used for financial assets and financial liabilities held by the Fund is the current mid market price as required by IFRS 13 financial assets and financial liabilities at fair value at close of business on the last business day of the accounting year.

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)

For the year ended 30 September 2016

3. Summary of Significant Accounting Policies (continued)

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 Statement of Financial Position.

(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 statement of financial position 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 have a nominal value of £ 0.01 per share.

Details of the Company's share capital transactions are shown in Note 14.

Share premium

The premium on issues and redemptions of the Participating Shares is accounted for within the share premium account which forms part of the net assets attributable to holders of participating redeemable preference shares. Details are shown in Notes 15 and 17.

Distributions payable to holders of participating redeemable preference shares

Distributions to holders of Participating Shares are recognised as finance costs when they are declared by the Directors.

Accrued income and expenses

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

Notes to the Financial Statements (continued)

For the year ended 30 September 2016

4. Other Accrued Income and Other Debtors

	30 September 2016 £	30 September 2015 £
Accrued income	217,568	326,870
Management shares	1,000	1,000
Nominal shares	1,825,902	1,749,299
Total other accrued income and other debtors	<u>2,044,470</u>	<u>2,077,169</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:

	30 September 2016 £	30 September 2015 £
31 October 2015	32,016	42,616
30 November 2015	31,613	40,430
31 December 2015	185,400	287,632
31 January 2016	31,115	38,560
29 February 2016	30,530	38,324
30 March 2016	185,443	269,015
30 April 2016	29,787	37,048
31 May 2016	29,607	36,792
30 June 2016	181,285	265,013
31 July 2016	25,004	36,430
31 August 2016	24,732	34,445
30 September 2016	131,216	193,673
Total distributions	<u>917,748</u>	<u>1,319,978</u>
Income paid on cancellation of shares	30,579	29,090
Income received on creation of shares	(5,852)	(8,933)
Net distributions for the year	<u>942,475</u>	<u>1,340,135</u>

Details of the distributions per share are set out on page 40.

Notes to the Financial Statements (continued)

For the year ended 30 September 2016

6. Accrued Expenses and other Creditors

	30 September 2016 £	30 September 2015 £
Due to Manager	69,177	77,322
Due to Custodian	2,055	1,968
Other Creditors	32,905	31,373
Total accrued expenses and other creditors	104,137	110,663

7. Net Gain/(Loss) on Financial Assets at Fair Value Through Profit or Loss

The net gain on investments during the year comprise:

	30 September 2016 £	30 September 2015 £
Proceeds from sales of investments during the year	47,539,562	131,733,494
Amortised cost of investments sold during the year	(44,944,915)	(129,040,974)
Gain realised on investments sold during the year	2,594,647	2,692,520
Net unrealised gain for the year	2,707,451	544,114
Net gain on investments	5,302,098	3,236,634

8. Other Income

	30 September 2016 £	30 September 2015 £
Bank interest	315	683
Unclaimed distributions	19,826	—
Total other income	20,141	683

Notes to the Financial Statements (continued)

For the year ended 30 September 2016

9. Total Operating Expenses

	Note	30 September 2016 £	30 September 2015 £
Payable to the Manager:			
Annual management fee	10	448,775	546,390
Registrar fees	10	75,762	75,858
Payable to the Custodian:			
Custodian fees	11	25,066	25,712
Safe custody fees	11	4,392	3,880
Other expenses:			
Administration expenses*		62,967	56,105
Dealing charges		1,490	4,352
Audit fees		11,000	11,000
Total operating expenses		629,452	723,297
Total Expenses Ratio**		1.20%	1.12%

*The Administration expenses includes £5,000 of Director fees (see note 10).

**The Total Expense Ratio, represents the management fee and total operating expenses less dealing charges, expressed as an annualised percentage of the average daily net asset values for the year ended 30 September.

Notes to the Financial Statements (continued)

For the year ended 30 September 2016

10. Related Party Transactions

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

	30 September 2016 Shares	30 September 2015 Shares
A Class	5,977	6,014
B Class	5,993	5,994
	11,970	12,008

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, Lloyds Investment Fund Managers Limited
- The Investment Manager, Aberdeen Asset Investments Limited
- Key management personnel

The fees received by the Manager are set out in Note 9. 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.

All investor share transactions in the Company are facilitated through the Manager, 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 14.

(a) Management and Registrar Fee

The Manager of the Company, Lloyds Investment Fund Managers Limited, is part of the Lloyds Bank Group of companies. The Manager is entitled to a daily fee equal to an annual rate of 0.85% of the net asset value of the Company calculated daily and paid monthly 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 amounts due at the year end are shown in Note 6.

(b) Key management personnel

The following Directors of the Company at 30 September 2016 are employees of Lloyds Banking Group: I.M.J Hardy, B.C.James, B. Lysiak and R.D.Willcox. T.J. Herbert is a consultant to Mourant Ozannes, who are the Jersey legal advisers to the Company and the Manager.

I.M.J. Hardy, B.C.James and R.D.Willcox are all Directors of the Manager, Lloyds Investment Fund Managers Limited.

(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 (2015: £5,000 per annum). The amount due at the end of the year is £1,250 (2015: £1,250).

Notes to the Financial Statements (continued)

For the year ended 30 September 2016

11. Custodian

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

The Custodian is entitled to an annual fee paid monthly, calculated on the following scale by reference to the net asset value of the Company calculated on a mid market basis:

- NAV up to £100million Annual Fee 0.04% (minimum fee £25,000)
- NAV over £100million and up to £150million Annual Fee £40,000
- NAV over £150million and up to £200million Annual Fee £50,000
- NAV over £200million and up to £250million Annual Fee £60,000
- NAV over £250million and up to £300million Annual Fee £67,000
- NAV over £300million and up to £350million Annual Fee £74,000
- NAV over £350million and up to £400million Annual Fee £80,000

Thereafter a further £5,000 for every additional £50million 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.

12. Controlling Party

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

13. Equalisation

The price of a participating 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 distribution after the issue of a share includes an amount of equalisation calculated by averaging the amounts received by way of equalisation during the year to which the distribution relates.

Notes to the Financial Statements (continued)

For the year ended 30 September 2016

14. Share Capital

	30 September 2016		30 September 2015	
	£		£	
Authorised Share Capital:				
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>
Issued Ordinary Share Capital:				
Management Shares:				
1,000 Management Shares		1,000		1,000
Nominal Shares:	Shares	£	Shares	£
Balance brought forward	174,929,993	1,749,299	162,995,643	1,629,955
Creations	8,949,973	89,500	14,384,550	143,846
Redemptions	(1,289,800)	(12,897)	(2,450,200)	(24,502)
Balance carried forward	<u>182,590,166</u>	<u>1,825,902</u>	<u>174,929,993</u>	<u>1,749,299</u>
Participating Shares:				
Balance brought forward	42,493,566	424,936	54,427,915	544,280
Creations	1,289,800	12,897	2,450,200	24,502
Redemptions	(8,949,973)	(89,500)	(14,384,550)	(143,846)
Balance carried forward	<u>34,833,393</u>	<u>348,333</u>	<u>42,493,565</u>	<u>424,936</u>
Participating Shares in issue:	Shares		Shares	
'A' Class Shares	21,068,903		26,264,075	
'B' Class Shares	13,764,490		16,229,490	
Balance carried forward	<u>34,833,393</u>		<u>42,493,565</u>	

Notes to the Financial Statements (continued)

For the year ended 30 September 2016

15. Share Premium

	30 September 2016	30 September 2015
	£	£
Balance brought forward	33,312,275	48,014,279
Premium on creations	1,658,522	3,090,130
Premium on redemptions	(11,991,316)	(17,792,134)
Balance carried forward	22,979,481	33,312,275

16. Capital Reserves

	Realised gains on investments	Unrealised movement on investments	Distributions unclaimed over 10 years	Total
	£	£	£	£
At 30 September 2015	27,738,501	2,524,524	—	30,263,025
Net movement in the year	2,594,647	2,707,451	19,826	5,321,924
At 30 September 2016	30,333,148	5,231,975	19,826	35,584,949

17. Net Assets Attributable to Holders of Participating Redeemable Preference Shares

		30 September 2016	30 September 2015
	Note	£	£
Share capital	14	348,333	424,936
Share premium	15	22,979,481	33,312,275
Capital reserves	16	35,584,949	30,263,025
Undistributed income		(10,995,867)	(10,368,298)
Net assets attributable to holders of participating redeemable preference shares		47,916,896	53,631,938

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 EIR method of accounting for investment income 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 30 September 2016 amounted to £2,500 (30 September 2015: £9,243).

Notes to the Financial Statements (continued)

For the year ended 30 September 2016

18. Taxation

The Company is liable to be charged at a tax rate of 0% under Schedule D of 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.

Jersey resident individuals should note that any income received from the Fund(s) will be paid gross and will be taxable under Schedule D Case III (D3) of the Income Tax (Jersey) Law 1961, as amended.

19. Financial Risk Management

Strategy in using financial instruments

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, counterparty 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. There were no such exposures as at 30 September 2016.

The Company's investment objective and policy are stated on page 3. To achieve these objectives the Company's assets and liabilities comprise financial instruments held in accordance with the Company's investment objectives and policy.

These 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 risk

The overall market position and therefore the risk exposure for the Company is 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 policy, 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 pages 16 and 17.

Notes to the Financial Statements (continued)

For the year ended 30 September 2016

19. Financial Risk Management (continued)

Market 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 following table summarises the impact of increases/(decreases) in the bond index, and market interest rates on the net asset value as at 30 September 2016. 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 has perfect positive correlation with the bond index and market interest rates.

Impact of Market Movements:

	Net asset value £	Gilts 5% movement in bond index £	Cash 1% movement in interest rates £
End of year			
30.09.16	47,916,896	2,386,992	1,977
30.09.15	53,631,938	2,689,433	448

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 objectives and policy. In accordance with the Company's policy, the 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 following table 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.

Interest rate profile of the Company's financial assets and liabilities

	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
End of year					
30.09.16	47,917	47,740	198	2,044	2,065
30.09.15	53,632	53,789	44	2,077	2,278

Notes to the Financial Statements (continued)

For the year ended 30 September 2016

19. Financial Risk Management (continued)

Interest rate risk (continued)

Weighted average rates of the Company's financial assets and liabilities

End of period / year	Currency	Weighted average coupon rate %	Weighted average effective interest rate %	Weighted average period for which rate is fixed years
30.09.16	Sterling	3.65	0.76	15.83
30.09.15	Sterling	3.91	1.61	15.01

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 would be provided for losses that have been incurred by the statement of financial position date, if any. As at 30 September 2016, no impairment provisions were required and there was no money overdue.

The Company only invests in sterling denominated government and other public securities which are all a minimum of AA+ credit rated.

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.

Certain transactions that the Company enters into expose it to the risk that the counterparty 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. Credit risk exposure is balanced by the regulatory obligation of the counter parties.

The risk to Shareholders is that the Company will not have sufficient cash to cover redemptions. To counter this risk each Company's cash is managed to meet its liabilities. Where investments cannot be realised in time to meet any redemptions of Participating 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.

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 participating 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. Details of Management Shares are disclosed in Notes 3 and 14.

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

Notes to the Financial Statements (continued)

For the year ended 30 September 2016

19. Financial Risk Management (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 mid price, these are updated each morning at 10am and represented in the Fund's daily share prices; 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. There has been no significant movements in the fair value of any holdings since the year end date.

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.

IFRS 13 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.

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 "Over the Counter" basis, and no uncovered positions are allowed.

Notes to the Financial Statements (continued)

For the year ended 30 September 2016

19. Financial Risk Management (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 Company, they are exchange traded. The Company 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 statement of financial position, 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.

Notes to the Financial Statements (continued)

For the year ended 30 September 2016

19. Financial Risk Management (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 for cash.

The Manager manages the Company's cash to meet its liabilities. Where investments cannot be realised in time to meet any redemptions of Participating 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 following table analyses the Company's financial liabilities into relevant maturity groups based on the remaining period at the statement of financial position date to the contractual maturity date. The carrying value of the liabilities approximates to fair value at the year end date.

	Less than 1 Month £	1-3 Months £	Total £
As at 30 September 2016			
Share Capital	49,743,798	—	49,743,798
Cancellation payable	2,901	—	2,901
Distribution payable	22,711	108,505	131,216
Accrued expenses and other creditors	71,232	32,905	104,137
Total financial liabilities	49,840,642	141,410	49,982,052
As at 30 September 2015			
Share Capital	55,382,237	—	55,382,237
Cancellation payable	224,075	—	224,075
Distribution payable	30,836	162,837	193,673
Accrued expenses and other creditors	79,290	31,373	110,663
Total financial liabilities	55,716,438	194,210	55,910,648

20. Events After The Year End Date

There has not arisen in the interval between the end of the financial year and the date of this report, any other item, transaction or event of a material nature likely in the opinion of the Directors, to affect significantly the operations of the Company, the results of those operations, or the state of affairs of the Company, in subsequent financial years.

Distribution Tables (unaudited)

For the year ended 30 September 2016

Class A Quarterly Shares

	Gross income	Equalisation payable	Distribution paid current year	Distribution paid prior year
1st Quarter				
Group 1	0.600	—	0.600	0.685
Group 2	0.305	0.295	0.600	0.685
2nd Quarter				
Group 1	0.600	—	0.600	0.660
Group 2	0.070	0.530	0.600	0.660
3rd Quarter				
Group 1	0.600	—	0.600	0.660
Group 2	0.070	0.530	0.600	0.660
4th Quarter				
Group 1	0.515	—	0.515	0.620
Group 2	0.122	0.393	0.515	0.620

1st Quarter

Group 1 : Shares purchased prior to 1 October 2015

Group 2 : Shares purchased between 1 October 2015 and 31 December 2015

2nd Quarter

Group 1 : Shares purchased prior to 1 January 2016

Group 2 : Shares purchased between 1 January 2016 and 31 March 2016

3rd Quarter

Group 1 : Shares purchased prior to 1 April 2016

Group 2 : Shares purchased between 1 April 2016 and 30 June 2016

4th Quarter

Group 1 : Shares purchased prior to 1 July 2016

Group 2 : Shares purchased between 1 July 2016 and 30 September 2016

Distribution Tables (unaudited) (continued)

For the year ended 30 September 2016

Class B Monthly Shares

	Gross income	Equalisation payable	Distribution paid current year	Distribution paid prior year
31 October 2015				
Group 1	0.200	—	0.200	0.235
Group 2	0.154	0.046	0.200	0.235
30 November 2015				
Group 1	0.200	—	0.200	0.225
Group 2	0.137	0.063	0.200	0.225
31 December 2015				
Group 1	0.200	—	0.200	0.225
Group 2	0.161	0.039	0.200	0.225
31 January 2016				
Group 1	0.200	—	0.200	0.220
Group 2	0.165	0.035	0.200	0.220
29 February 2016				
Group 1	0.200	—	0.200	0.220
Group 2	0.146	0.054	0.200	0.220
31 March 2016				
Group 1	0.200	—	0.200	0.220
Group 2	0.170	0.030	0.200	0.220
30 April 2016				
Group 1	0.200	—	0.200	0.220
Group 2	0.175	0.025	0.200	0.220
31 May 2016				
Group 1	0.200	—	0.200	0.220
Group 2	0.160	0.040	0.200	0.220
30 June 2016				
Group 1	0.200	—	0.200	0.220
Group 2	0.200	0.000	0.200	0.220
31 July 2016				
Group 1	0.175	—	0.175	0.220
Group 2	0.175	0.000	0.175	0.220
31 August 2016				
Group 1	0.175	—	0.175	0.210
Group 2	0.175	0.000	0.175	0.210
30 September 2016				
Group 1	0.165	—	0.165	0.190
Group 2	0.165	0.000	0.165	0.190

Distribution Tables (unaudited) (continued)

For the year ended 30 September 2016

31 October 2015

Group 1: Shares purchased prior to 1 October 2015

Group 2: Shares purchased between 1 October 2015 and 31 October 2015

30 November 2015

Group 1: Shares purchased prior to 1 November 2015

Group 2: Shares purchased between 1 November 2015 and 30 November 2015

31 December 2015

Group 1: Shares purchased prior to 1 December 2015

Group 2: Shares purchased between 1 December 2015 and 31 December 2015

31 January 2016

Group 1: Shares purchased prior to 1 January 2016

Group 2: Shares purchased between 1 January 2016 and 31 January 2016

29 February 2016

Group 1: Shares purchased prior to 1 February 2016

Group 2: Shares purchased between 1 February 2016 and 29 February 2016

31 March 2016

Group 1: Shares purchased prior to 1 March 2016

Group 2: Shares purchased between 1 March 2016 and 31 March 2016

30 April 2016

Group 1: Shares purchased prior to 1 April 2016

Group 2: Shares purchased between 1 April 2016 and 30 April 2016

31 May 2016

Group 1: Shares purchased prior to 1 May 2016

Group 2: Shares purchased between 1 May 2016 and 31 May 2016

30 June 2016

Group 1: Shares purchased prior to 1 June 2016

Group 2: Shares purchased between 1 June 2016 and 30 June 2016

31 July 2016

Group 1: Shares purchased prior to 1 July 2016

Group 2: Shares purchased between 1 July 2016 and 31 July 2016

31 August 2016

Group 1: Shares purchased prior to 1 August 2016

Group 2: Shares purchased between 1 August 2016 and 31 August 2016

30 September 2016

Group 1: Shares purchased prior to 1 September 2016

Group 2: Shares purchased between 1 September 2016 and 30 September 2016

Performance Records (unaudited)

For the year ended 30 September 2016

Share prices and dividends

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

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

Calendar Year / Period	Highest offer price	Lowest bid price	Dividends per Share	Per £1,000 invested at 31.12.05
	p	p	p	£
Class A Quarterly				
2006	122.50	110.30xd	4.300	37.29
2007	111.60	104.00xd	4.210	36.51
2008	120.20	105.30xd	4.075	35.34
2009	122.00	112.80xd	4.040	35.04
2010	123.70	113.20	3.900	33.82
2011	127.00	111.20	4.010	34.78
2012	128.10	121.50	3.560	30.88
2013	129.40	118.60	3.190	27.67
2014	129.70	118.00	3.045	26.41
2015	134.30	123.60	2.540	20.94
30.09.16	143.60xd	125.80xd	1.715	14.14
Class B Monthly				
2006	119.60xd	107.60xd	4.300	38.41
2007	108.10xd	101.40xd	4.210	37.61
2008	116.10	102.10xd	4.075	36.40
2009	117.80xd	109.50	4.040	36.09
2010	119.60	109.50xd	3.900	34.84
2011	132.00	115.10	4.010	35.82
2012	132.90	126.20	3.560	31.80
2013	125.00	113.90	3.190	28.50
2014	124.60	113.90	3.045	27.20
2015	129.30	119.10	2.540	21.58
30.09.16	138.10xd	121.20xd	1.715	14.57

Net Asset Value Per Share (unaudited)

For the year ended 30 September 2016

Year/period	Net Asset Value of Fund	Net Asset Value per Share	No. of Shares in issue
30.09.12	£83,482,464	130.76p	63,845,965
30.09.13	£73,445,261	121.93p	60,234,515
30.09.14 (Restated)	£66,052,302	121.36p	54,427,915
30.09.15	£53,631,938	126.21p	42,493,565
30.09.16	£47,916,896	137.56p	34,833,393

Notice Of Meeting

Notice is hereby given that the 39th Annual General Meeting of Lloyds Gilt Fund Limited will be held at 11-12 Esplanade, St. Helier, Jersey, on Tuesday, 7 March 2017 at 11.00 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 30 September 2016.

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 Timothy Joseph Herbert as a Director of the Company.

7. Resolution 5

To consider, and if deemed appropriate, re-elect Brian Charles James as a Director of the Company.

8. Resolution 6

To consider, and if deemed appropriate, re-elect Bronislaw Lysiak 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 agree their remuneration.

10. Resolution 8

To fix the remuneration of each of the Directors at a maximum of £5,000 per annum.

Notes:

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. To be valid, completed proxy forms must be deposited at the Company's principal place of business 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 Tuesday, 14 March 2017 at 11.00 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 Corporate Services (Jersey)Limited,
Secretary,
PO Box 160, 25 New Street, St. Helier,
Jersey JE4 8RG,
Channel Islands.

16 December 2016

Lloyds 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 39th Annual General Meeting of the Company to be held on Tuesday, 7 March 2017 at 11.00 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 30 September 2016
2. Re-election of Ross Davey Willcox as a Director of the Company
3. Re-election of Ian Mark Jeremie Hardy as a Director of the Company
4. Re-election of Timothy Joseph Herbert as a Director of the Company
5. Re-election of Brian Charles James as a Director of the Company
6. Re-election of Bronislaw Lysiak as a Director of the Company
7. Re-appoint PricewaterhouseCoopers CI LLP as Auditors and to authorise the Directors to agree 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 _____

For more information please go to [international.lloydsbank.com/
international-investments/funds](https://international.lloydsbank.com/international-investments/funds) or call us on 01534 845 555

