Law Debenture

Annual Report 2013

The Law Debenture Corporation p.l.c.

Contents

From its origins in 1889, Law Debenture has diversified to become a group with a unique range of activities in the financial and professional services sectors. The group divides into two distinct areas of business.

Investment trust

We are a global investment trust, listed on the London Stock Exchange.

Our portfolio of investments is managed by Henderson Global Investors Limited under a contract terminable by either side on six months' notice.

Our objective is to achieve long term capital growth in real terms and steadily increasing income. The aim is to achieve a higher rate of total return than the FTSE Actuaries All-Share Index through investing in a portfolio diversified both geographically and by industry.

Independent fiduciary services

We are a leading provider of independent fiduciary services. Our activities are corporate trusts, agency solutions, pension trusts, corporate services (including agent for service of process), whistle blowing services and governance services. We have offices in London, Sunderland, New York, Delaware, Hong Kong, the Channel Islands and the Cayman Islands.

Companies, agencies, organisations and individuals throughout the world rely upon Law Debenture to carry out its duties with the independence and professionalism upon which its reputation is built.

2 Financial summary and performance

Financial summary

	31 December 2013 pence	31 December 2012 pence
Share price	**529.00**	425.00
NAV per share after proposed final dividend	**472.87**	374.55
NAV per share after proposed final dividend with debt at fair value*	**467.87**	367.86
Revenue return per share		
– Investment trust	**9.31**	8.47
– Independent fiduciary services	**6.96**	6.67
Group revenue return per share	**16.27**	15.14
Capital return per share	**97.18**	50.24
Dividends per share	**15.00**	14.25

* See note 20 to the accounts on page 72.

	%
Ongoing charges[1]	**0.45**
Gearing[1]	**5**

Ongoing charges are based on the costs of the investment trust and include the Henderson management fee of 0.30% of NAV of the investment trust. There is no performance related element to the fee.

[1] Source AIC.

Performance

	2013 %	2012 %
Share price total return[1]	**28.3**	32.0
NAV total return[1]	**28.6**	19.7
FTSE Actuaries All-Share Index total return	**20.8**	12.3

[1] Source AIC.

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	**2013**
Net assets[1] (£m)	241.7	272.5	339.6	392.6	407.1	266.4	342.4	412.6	390.9	451.9	**569.1**
Revenue return (pence)	6.91	8.57	10.05	12.19	14.23	15.58	13.02	13.26	15.52	15.14	**16.27**
Capital return (pence)	37.31	25.85	54.67	40.94	9.37	(120.59)	62.77	58.22	(19.07)	50.24	**97.18**
Total (pence)	44.22	34.42	64.72	53.13	23.60	(105.01)	75.79	71.48	(3.55)	65.38	**113.45**
Revenue return (pence)											
Investment trust	4.51	5.06	5.73	7.07	8.60	10.23	7.33	7.07	8.27	8.47	**9.31**
Independent fiduciary services	2.40	3.51	4.32	5.12	5.63	5.35	5.69	6.19	7.25	6.67	**6.96**
	6.91	8.57	10.05	12.19	14.23	15.58	13.02	13.26	15.52	15.14	**16.27**
Dividends (pence)	6.90	7.55	9.05	10.50	12.00	12.20	12.20	12.70	13.50	14.25	**15.00**
NAV[1] (pence) (after proposed final dividend)	201.9	228.1	284.0	328.2	339.6	219.2	284.0	342.9	323.8	374.6	**472.9**
Share price[1] (pence)	221.75	232.5	288.75	349.0	354.5	223.5	284.5	356.6	333.5	425.0	**529.0**
Premium[1] (%)	9.8	1.9	1.7	6.3	4.4	2.0	0.2	4.0	3.0	13.5	**11.9**
Market capitalisation[1] (£m)	260.0	273.2	339.7	410.8	417.4	263.8	335.9	418.6	393.8	501.9	**625.0**

[1] At 31 December.

Chairman's statement

Performance

Our net asset value total return for the year to 31 December 2013 was 28.6%, compared to a total return of 20.8% for the FTSE Actuaries All-Share Index. Net revenue return per share was 16.27p, an increase of 7.5% over the previous year, as a result of a 9.9% increase in the investment trust and a 4.3% increase in independent fiduciary services.

Dividend

The board is recommending a final dividend of 10.50p per ordinary share (2012: 9.75p) which, together with the interim dividend of 4.5p (2012: 4.5p), gives a total dividend of 15.00p (2012: 14.25p).

The final dividend will be paid, subject to shareholder approval, on 17 April 2014 to holders on the register on the record date of 21 March 2014.

Our policy continues to be to seek growth in both capital and income. We attach considerable importance to the dividend, which we aim to increase over a period, if not every year, at a rate which is covered by earnings and which does not inhibit the flexibility of our investment strategy. Our basis for reporting earnings is more conservative than that of many investment trusts, in that all of our expenses, including interest costs, are charged fully to the revenue account.

Investment trust

Performance of the portfolio during the year was pleasing both in terms of revenue return and, in particular, capital return. Global equity markets forged ahead and the portfolio comfortably outperformed the comparator index. Although we remained wary of wider macroeconomic trends, not all of which are positive, we introduced gearing of 5% to enable the investment manager to take advantage of the opportunities he identified. A more detailed description of the portfolio performance is set out in the investment manager's review on page 16.

Independent fiduciary services

The businesses produced increased returns in 2013 as market conditions showed signs of improvement. We describe in our strategic report how the fiduciary services businesses fit in to our business model and in particular, how shareholders benefit from the returns that these businesses provide. A more detailed review of the independent fiduciary services businesses is set out on page 18.

Regulatory environment

This year's annual report looks rather different to previous years. Changes to the Companies Act, UK Corporate Governance Code and remuneration regulations are all reflected.

In particular, we publish for the first time a strategic report, a separate audit committee report and a remuneration policy. The aim of these changes, all driven by legislation, is to provide more clarity for shareholders, enable more comparability between companies in the sector and (in the remuneration area) to enhance disclosure and make clearer what the board can, and cannot, award by way of remuneration. Overall, we are required to ensure that the annual report and financial statements are fair, balanced and understandable, which the board believes is the case.

The Alternative Investment Fund Managers Directive became law in July 2013. This legislation was primarily intended to bring funds such as hedge funds and private equity funds within the regulatory perimeter. Unfortunately, it also captures investment trusts which, as a result, are now compelled to appoint an appropriately regulated Alternative Investment Fund Manager ("AIFM"). This is despite the general perception that investment trusts were already more than adequately regulated. The Corporation has elected to become its own AIFM, as it is permitted to do under the legislation, and is in the process of making an application for authorisation to the Financial Conduct Authority. There will be additional compliance costs involved in this – principally arising from the need to appoint a depositary – and this will result in a small increase in our Ongoing charges.

Board

John Kay who has been a director for the past nine years has decided that he will not offer himself for re-election at the forthcoming AGM. As one of the UK's leading economists, the board has benefited greatly from John's insight and wise counsel, which we shall miss. We are taking steps to recruit a new non-executive director and will make an announcement as soon as we have identified a suitable replacement.

The annual general meeting will be held at the Brewers' Hall, Aldermanbury Square, London EC2V 7HR on 9 April 2014 and I look forward to seeing as many as possible of you there.

Christopher Smith

Who we are

From its origins in 1889, Law Debenture has diversified to become a group with a unique range of activities in the financial and professional services sectors. The group divides into two distinct areas of business: we are a global investment trust listed on the London Stock Exchange; and we provide independent fiduciary services businesses ('IFS' or 'IFS businesses').

Investment trust – objectives, investment strategy, business model

Our **objective** for the investment trust is to achieve long term capital growth in real terms and steadily increasing income. The aim is to achieve a higher rate of total return than the FTSE Actuaries All-Share Index through investing in a portfolio diversified both geographically and by industry.

Law Debenture shares are intended for private investors in the UK ('retail investors'), professionally advised private clients and institutional investors. By investing in an investment trust, shareholders typically accept the risk of exposure to equities but hope that the pooled nature of an investment trust portfolio will give some protection from the radical share price movements that can sometimes affect individual equities.

Our **investment strategy** is as follows:

The Corporation carries on its business as a global investment trust.

Investments are selected on the basis of what appears most attractive in the conditions of the time. This approach means that there is no obligation to hold shares in any particular type of company, industry or geographical location. The IFS businesses do not form part of the investment portfolio and are outwith this strategy.

The Corporation's portfolio will typically contain between 70 and 150 listed investments. The portfolio is diversified both by industrial sector and geographic location of investments in order to spread investment risk.

Whilst performance is measured against local and UK indices, the composition of these indices does not influence the construction of the portfolio. As a consequence, it is expected that the Corporation's investment portfolio and performance will deviate from the comparator indices.

Because the Corporation's assets are invested internationally and without regard to the composition of indices, there are no restrictions on maximum or minimum stakes in particular regions or industry sectors. However, such stakes are monitored in detail by the board at each board meeting in order to ensure that sufficient diversification is maintained.

Liquidity and long-term borrowings are managed with the aim of improving returns to shareholders. The policy on gearing is to adopt a level of gearing that balances risk with the objective of increasing the return to shareholders. In pursuit of its investment objective, investments may be held in, inter alia, equity shares, collective investment products including OEICS, fixed interest securities, interests in limited liability partnerships, cash and liquid assets. Derivatives may be used but only with the prior authorisation of the board. Investment in such instruments for trading purposes is proscribed. It is permissible to hedge against currency movements on both capital and income account, subject again to prior authorisation of the board. Stock lending, trading in suspended shares and short positions are not permitted.

The Corporation's investment activities are subject to the following limitations and restrictions:

- No investment may be made which raises the aggregate value of the largest 20 holdings, excluding investments in OEICS and UK gilts, to more than 40% of the Corporation's portfolio, including cash. The value of a new acquisition in any one company may not exceed 5% of total portfolio value (including cash) at the time the investment is made, further additions shall not cause a single holding to exceed 5%, and board approval must be sought to retain a holding, should its value increase above the 5% limit.
- The Corporation applies a ceiling on effective gearing of 150%. While effective gearing will be employed in a typical range of 90% to 120%, the board retains the ability to reduce equity exposure to below 90% if deemed appropriate.
- The Corporation may not make investments in respect of which there is unlimited liability.
- Board approval must be sought for any proposed direct investments in certain jurisdictions.
- The Corporation has a policy not to invest more than 15% of gross assets in other UK listed investment companies.

Our **business model** is designed to give us competitive advantage in the investment trust sector. We aim to deliver the investment trust's objective by skilled implementation of the investment strategy, complemented by maintaining and operating our IFS businesses profitably and safely, while keeping them distinct from the portfolio. The operational independence of the IFS means that they can act flexibly and commercially. They provide a regular flow of dividend income to the Corporation. This helps the board to smooth out equity dividend peaks and troughs and is an important element in delivering the objective of steadily increasing income for shareholders, fully covered by current revenues. In turn, tax relief at the investment trust level arising from our debenture interest and excess costs, which would otherwise be unutilised, can be transferred to the IFS.

Fee structure and Ongoing charges

Our portfolio of investments is managed by James Henderson of Henderson Global Investors Limited ('Henderson') under a contract terminable by either side on six months' notice. On a fully discretionary basis, Henderson is responsible for implementing the Corporation's investment strategy and fees are charged at 0.30% of the value of the net assets of the group (excluding the net assets of the IFS), calculated on the basis adopted in the audited financial statements. Underlying management fees of 1% on the Corporation's holdings in Henderson Japanese and Pacific OEICs are fully rebated. This means that the Corporation continues to maintain one of the most competitive fee structures in the investment trust sector and this, combined with the continued very satisfactory performance of James Henderson as our investment manager has led the board to conclude that the continuing appointment of Henderson as the Corporation's investment manager is in the best interests of shareholders.

The agreement with Henderson does not cover custody or the preparation of data associated with investment performance, which are both outsourced, or record keeping, which is maintained by the Corporation.

Investment trusts are required to publish their Ongoing charges. This is the cost of operating the trust and includes the investment management fee, custody, investment performance data, accounting, company secretary and back office administration. Law Debenture's latest published level of Ongoing charges is one of the lowest in the marketplace at 0.45%. No performance fees are paid to the investment manager.

Capital structure – simple and mainstream

Law Debenture's capital structure is transparent. We have only one class of share – ordinary shares – and each share has the same rights as every other share.

The Corporation conducts its affairs so that its ordinary shares are capable of being recommended by independent financial advisors to ordinary retail investors in accordance with relevant FCA rules. Our ordinary shares are, we consider, mainstream investment products because they are shares in an investment trust. The Corporation intends to continue conducting its affairs for the foreseeable future so that the ordinary shares can continue to be categorised as mainstream.

Transparency

It is important for our shareholders to understand the nature of the underlying investments they are buying into when investing in Law Debenture shares. We publish our entire portfolio twice a year – in the annual report (see page 12) and half yearly report – with regular monthly updates on the composition of the top ten holdings in the portfolio.

Gearing

Investment trusts have the benefit of being able to 'gear' their portfolios according to market conditions. This means that they can raise debt (either short or long term) to generate funds for further investment – i.e. to increase the size of the portfolio – or they can sell assets from within the portfolio to reduce debt and even be 'negatively geared' – i.e. selling assets to hold cash so that less than 100% of the trust's assets are invested in equities.

During the year, the Corporation shifted from being 100% invested to a modest gearing of 105% as described in more detail in the investment manager's review on page 16.

Share price and net asset value ('NAV')

Investment trusts can trade at a discount (where the share price is lower than the combined value (NAV) of the underlying assets), or at a premium (where the share price trades at a higher level than the underlying NAV). Investment trust investors need to understand these concepts as well as examine the underlying portfolio and the way in which it is managed, to decide whether or not an investment trust share represents 'good value'. Law Debenture has often traded at a premium to NAV (and did so throughout 2013) because it has a trading subsidiary – its IFS, described in more detail below. The IFS is not included at fair value in the NAV but at cost, represented by its retained net assets, and is priced by the market into Law

Debenture's share price. It is important that investors understand this structure and that they take time to recognise the considerable benefits that investors in Law Debenture derive from our business model.

Principal risks and uncertainties – investment trust

The principal risks of the investment trust relate to investment activities generally and include market price risk, foreign currency risk, liquidity risk, interest rate risk, credit risk and country/region risk. These are explained in more detail in note 19 to the accounts.

The Corporation takes risk management very seriously and the corporate governance report sets out in some detail the control framework in place to manage the risks that the group faces.

Key performance indicators ('KPI')

The KPIs used to measure the progress and performance of the group are:

- net asset value total return per share (combining the capital and income returns of the group);
- the discount/premium in share price to NAV; and
- the cost of running the portfolio as a percentage of its value.

Since the objective of the investment trust is measurable solely in financial terms, the directors do not consider that it is appropriate to adopt non-financial KPIs.

Investment strategy – implementation

The way in which we implemented the investment strategy during 2013 is described in the investment manager's review at page 16.

Performance against KPIs is set out at pages 2, 3 and 9 to 15, which contain comprehensive tables, charts and data to explain performance both over the year under review and over the long term, up to twenty years.

Law Debenture's responsibilities as an institutional shareholder

The Corporation recognises that in delivering its objective to produce long term capital growth and a steadily increasing income, it must ensure that its investment strategy is delivered with due emphasis on the need to ensure that investee companies are acting in accordance with accepted standards of corporate governance. The Corporation has therefore adopted the following policy.

Law Debenture will normally support incumbent management and vote in favour of resolutions proposed by the boards of companies in which it has a shareholding, but will vote against management or withhold a vote where appropriate.

The board determines the Corporation's investment strategy but does not issue express instructions to the investment manager on transactions in particular shares. Where Law Debenture believes that incumbent management is failing in its duties, Law Debenture (or on its behalf, the Corporation's investment manager) may attempt to enter into dialogue with the company concerned in an attempt to alter the management's position.

Where this is not possible, or where incumbent management declines to alter its behaviour, Law Debenture will consider voting against resolutions proposed by the management. Further, if it is deemed necessary or desirable, the Corporation would consider acting collectively with other institutional investors to try and achieve a particular goal.

Henderson, on Law Debenture's behalf, monitors companies in which Law Debenture is invested, and from time to time may discuss matters of corporate governance with such companies. The Henderson corporate governance unit will notify Law Debenture's investment manager, who in turn will notify Law Debenture, should matters arise that might lead the Corporation to consider intervening, abstaining or voting against a particular proposal. During the year, the Corporation abstained or voted against one or more resolutions at the annual general meetings of 8 investee companies.

The Corporation will not hold shares in companies whose ethical and environmental practices are in its view likely to damage the performance of the business to the detriment of its shareholders.

A conflict of interest could potentially arise from the Corporation's investments in products operated by its investment manager, Henderson. The board is mindful of this and manages the potential conflict by careful monitoring of the performance of any such funds.

The Corporation does not believe that conflicts can arise between its duties as an institutional shareholder and the IFS work undertaken by the Corporation's subsidiaries. The investment manager has complete discretion as to portfolio decisions and as a matter of policy, has no access to 'non-public' knowledge about any of the activities of the IFS businesses.

The IFS businesses – part of our business model

Operating through wholly owned subsidiary companies, the principal subsidiaries being listed at note 13 to the accounts, we provide the following services: corporate trusts, agency services, pension trusts, corporate services (including agent for service of process), treasury services, whistleblowing services and governance services to client boards. The services are provided through offices in London, Sunderland, New York, Delaware, Hong Kong and the Channel Islands.

Group employees are employed by L.D.C. Trust Management Limited and Safecall Limited (in the UK) or a locally incorporated entity (in the overseas jurisdictions). As part of their duties, a small number of the employees provide services to the investment trust and their time is charged to the trust, forming a part of the Ongoing charges.

More details about the performance of the IFS in 2013 are given in the management review at page 18.

The **principal risks** of the IFS arise where transactions to which we provide a service come under stress – say by going into default, or where re-financings or other transaction amendments are required. Such risks may arise from the wider economic pressures on some sectors, borrowers and regions. To mitigate these risks, we work closely with our legal advisers and where appropriate, financial advisers both in the set up phase to ensure that we have as many protections as practicable and on a continuing basis.

The single **KPI** of the IFS is revenue return per share, which is reported within the financial summary and performance table and the ten year record at pages 2 and 3.

Environmental, employee related and social issues

Law Debenture considers that none of its trading activities has a negative environmental impact. We disclose our carbon emissions consumption as part of the directors' report.

Those emissions relate solely to the maintenance of our various offices around the world.

The group's employees are provided with modern, comfortable working environments that comply with all relevant safety regulations. Employee wellbeing is ensured through delivery of a range of benefits designed to promote good health including health insurance, medicals, etc. Independent confidential helpline facilities are provided to enable employees to deal with issues of concern to them, whether work related or domestic. As a result of these measures, and senior management's open style, staff turnover is extremely low, normally less than 10% per annum.

The group supports certain charities from time to time, particularly where employees have personally organised events, or take part in sponsored activities, that benefit charities related to them or their families.

Law Debenture has supported local social and community initiatives in London by participating in the Social Mobility Foundation (helping high achieving young people from low income families to gain work experience through an internship with us) and City Gateway (offering apprenticeship training for young people as part of their NVQ training). The group is unaware of any human rights issues that might arise from its activities, mindful though of the need to act responsibly as an institutional shareholder (as described above).

Breakdown of employees by sex

We are obliged to report that:

- one director of the group parent is female, representing 20% of the board;
- 33% of the senior managers of the group are female (senior manager being any individual with responsibility for planning, directing or controlling an activity of one of the subsidiary companies, excluding the managing director); and
- 49% of the group employees are female.

Future trends and factors

Law Debenture will continue to strive to deliver its business objectives for both the investment trust and the IFS.

The investment manager's review and the IFS management review respectively set out some views on future developments.

Performance and related data

Pages 2, 3 and 9 to 15, which contain performance and related data, form a part of this strategic report.

Law Debenture Corporate Services Limited
Company Secretary

27 February 2014

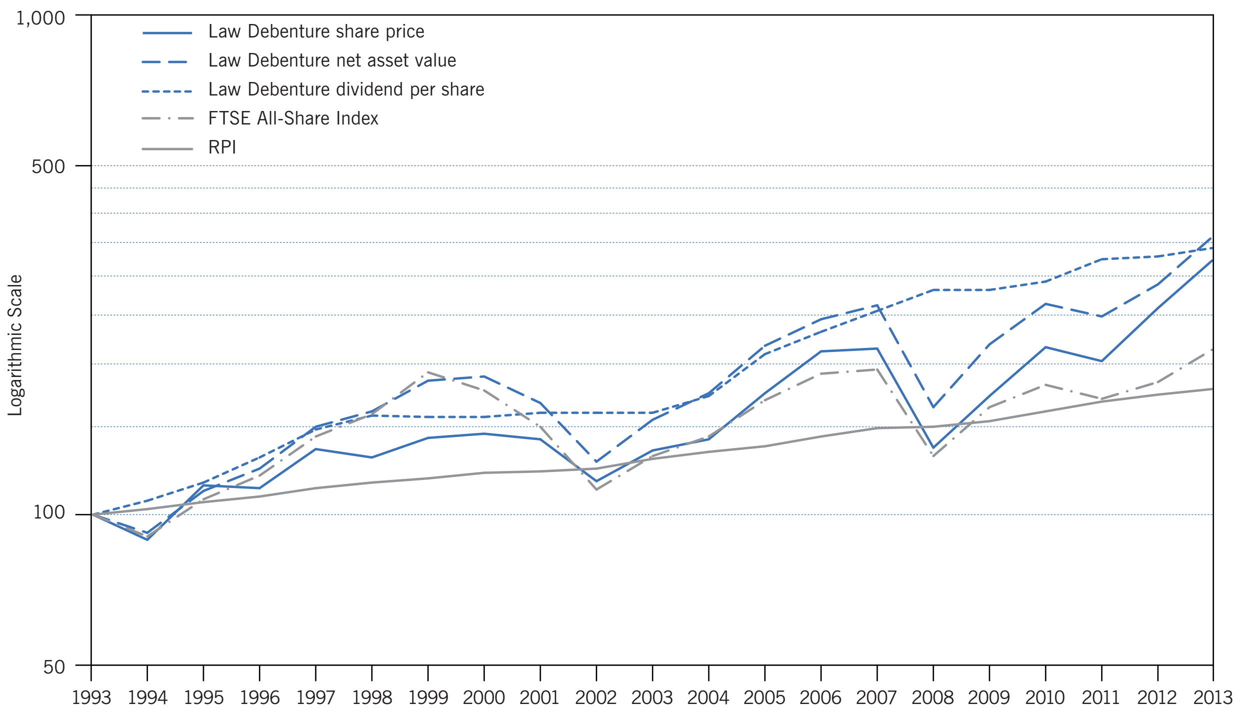
	5 years %	10 years %
NAV total return[1]	**156.6**	**231.9**
FTSE Actuaries All-Share Index total return[1]	**95.2**	**131.6**
Share price total return[1]	**188.1**	**241.5**
Change in retail price index[1]	**18.3**	**37.3**
Annual revenue earnings growth	**0.9**	**8.9**
Annual dividend growth	**4.2**	**8.1**
Annual RPI change	**3.4**	**3.2**

[1] Source: AIC.

The performance data contained above has been compiled in accordance with AIC recommendations.

Total returns assume the reinvestment of dividends.

20 year performance 9



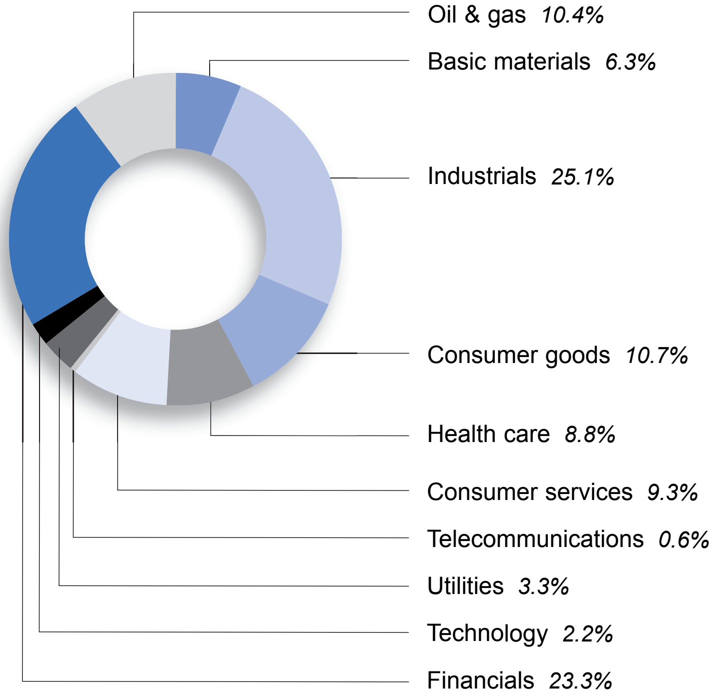
10 Classification of investments based on market values at 31 December 2013

	United Kingdom %	North America %	Europe %	Japan %	Other Pacific %	UK Gilts %
Oil & gas						
Oil & gas producers	6.83	–	0.26	–	–	–
Oil equipment & services	1.35	1.96	–	–	–	
	8.18	1.96	0.26	–	–	–
Basic materials						
Chemicals	2.09	–	0.44	–	–	–
Forestry & paper	0.70	–	–	–	–	
Mining	3.11	–	–	–	–	–
	5.90	–	0.44	–	–	–
Industrials						
Construction & materials	1.35	–	–	–	–	–
Aerospace & defence	6.49	0.68	–	–	–	
General industrials	1.68	–	–	–	–	–
Electronic & electrical equipment	2.93	0.90	0.41	–	–	–
Industrial engineering	3.07	2.29	–	–	–	
Industrial transportation	0.16	–	0.28	–	–	–
Support services	3.57	–	1.26	–	–	–
	19.25	3.87	1.95	–	–	–
Consumer goods						
Automobiles & parts	2.83	–		0.43	–	
Beverages	1.28	–	0.22	–	–	–
Food producers	1.65	–	0.59	–	–	–
Household goods & home construction	2.35	–	0.36	–	–	–
Tobacco	0.79	–	0.20	–	–	–
	8.90	–	1.37	0.43	–	–
Health care						
Health care equipment & services	0.68	0.84	0.92	–	–	–
Pharmaceuticals & biotechnology	5.11	0.47	0.81	–	–	–
	5.79	1.31	1.73	–	–	–
Consumer services						
Food & drug retailers	1.19	–	–	–	–	–
General retailers	1.81	–	0.17	–	–	–
Media	2.95	–	–	–	–	–
Travel & leisure	3.14	–	–	–	–	–
	9.09	–	0.17	–	–	–
Telecommunications						
Fixed line telecommunications	–	–	–	–	–	–
Mobile telecommunications	0.46	–	0.19	–	–	–
	0.46	–	0.19	–	–	–
Utilities						
Electricity	1.08	–	–	–	–	–
Gas water & multiutilities	2.21	–	–	–	–	–
	3.29	–	–	–	–	–
Financials						
Banks	2.81	–	–	–	–	–
Nonlife insurance	3.28	–	–	–	–	–
Life insurance / assurance	1.80	–	–	–	–	–
Real estate investment & services	0.83	–	–	–	–	–
Real estate investment trusts	1.18	–	–	–	–	–
Financial services	2.76	–	0.23	–	–	–
Equity investment instruments	2.39	–		2.42	5.58	–
	15.05	–	0.23	2.42	5.58	–
Technology						
Software & computer services	0.39	1.14	0.38	–	–	–
Technology hardware & equipment	0.27	–	–	–	–	–
	0.66	1.14	0.38	–	–	–
UK Gilts	–	–	–	–	–	–
Total 2013	**76.57**	**8.28**	**6.72**	**2.85**	**5.58**	**–**
Total 2012	68.90	6.55	7.96	2.75	6.65	7.19

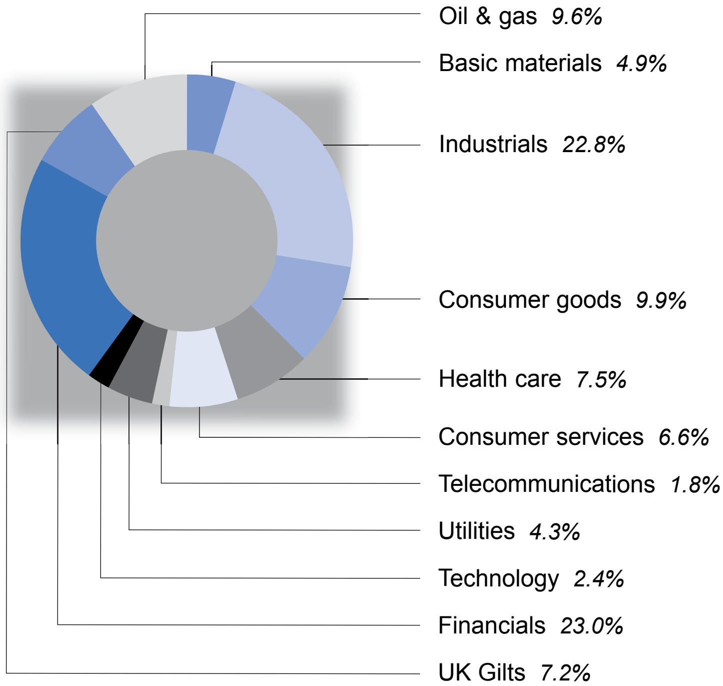
The above table excludes bank balances and short term deposits.

Total 2013 £000	2013 %	Total 2012 £000	2012 %
42,129	**7.09**	29,221	6.10
19,726	**3.31**	16,755	3.50
61,855	**10.40**	45,976	9.60
15,099	**2.53**	9,703	2.03
4,184	**0.70**	2,672	0.56
18,532	**3.11**	11,093	2.32
37,815	**6.34**	23,468	4.91
8,014	**1.35**	4,265	0.89
42,720	**7.17**	31,692	6.61
10,002	**1.68**	7,260	1.51
25,264	**4.24**	18,532	3.87
31,933	**5.36**	21,896	4.56
2,578	**0.44**	2,332	0.48
28,753	**4.83**	23,337	4.85
149,264	**25.07**	109,314	22.77
19,433	**3.26**	12,522	2.62
8,889	**1.50**	8,113	1.70
13,374	**2.24**	11,236	2.34
16,078	**2.71**	10,994	2.29
5,852	**0.99**	4,808	1.00
63,626	**10.70**	47,673	9.95
14,538	**2.44**	11,356	2.37
38,006	**6.39**	24,345	5.08
52,544	**8.83**	35,701	7.45
7,111	**1.19**	2,520	0.53
11,725	**1.98**	9,454	1.97
17,588	**2.95**	11,921	2.48
18,731	**3.14**	7,947	1.66
55,155	**9.26**	31,842	6.64
–	**–**	2,773	0.57
3,865	**0.65**	6,026	1.25
3,865	**0.65**	8,799	1.82
6,453	**1.08**	7,258	1.52
13,141	**2.21**	13,139	2.74
19,594	**3.29**	20,397	4.26
16,687	**2.81**	14,566	3.03
19,544	**3.28**	15,646	3.27
10,761	**1.80**	7,436	1.55
4,941	**0.83**	3,052	0.64
7,054	**1.18**	5,637	1.18
17,800	**2.99**	16,275	3.40
61,745	**10.39**	47,530	9.90
138,532	**23.28**	110,142	22.97
11,325	**1.91**	9,375	1.95
1,598	**0.27**	2,364	0.49
12,923	**2.18**	11,739	2.44
–	**–**	34,470	7.19
595,173	**100.00**		
		479,521	100.00

Portfolio by sector 2013



Portfolio by sector 2012



The number of investments increased from 127 at 31 December 2012 to 132 at 31 December 2013.

	£000	%
Oil & gas		
Oil & gas producers		
BP	15,862	2.67
Royal Dutch Shell	13,677	2.30
Indus Gas	4,105	0.69
Providence Resources	3,171	0.53
Premier Oil	2,352	0.40
Total (Fra)	1,537	0.26
Xcite Energy	1,425	0.24
	42,129	7.09
Oil equipment & services		
Cape	6,956	1.17
Gibson Energy (Can)	4,931	0.83
Schlumberger (USA)	4,352	0.73
National Oilwell Varco (USA)	2,401	0.40
AMEC	1,086	0.18
	19,726	3.31
Basic materials		
Chemicals		
Velocys	6,507	1.09
Croda	4,293	0.72
Elementis	1,661	0.28
Brenntag (Ger)	1,373	0.23
Linde (Ger)	1,265	0.21
	15,099	2.53
Forestry & paper		
Mondi	4,184	0.70
	4,184	0.70
Mining		
Rio Tinto	11,068	1.86
BHP Billiton	7,464	1.25
	18,532	3.11
Industrials		
Construction & materials		
Balfour Beatty	4,201	0.71
Accsys Technologies	2,703	0.45
Marshalls	1,110	0.19
	8,014	1.35
Aerospace & defence		
Senior	17,638	2.96
BAE Systems	7,821	1.31
Meggitt	6,858	1.15
Rolls Royce	6,365	1.07
Lockheed Martin (USA)	4,038	0.68
	42,720	7.17
General industrials		
Smith (DS)	10,002	1.68
	10,002	1.68
Electronic & electrical equipment		
Spectris	6,377	1.07
Morgan Advanced Materials	6,320	1.06
Applied Materials (USA)	5,337	0.90
TT Electronics	2,857	0.48
XP Power	1,908	0.32
Philips Electronics (Net)	1,378	0.23
Legrand (Fra)	1,087	0.18
	25,264	4.24

	£000	%
Industrial engineering		
Hill & Smith	7,733	1.30
Weir Group	6,396	1.07
Cummins (USA)	5,958	1.00
Deere (USA)	*5,462*	*0.92*
Caterpillar (USA)	2,193	0.37
Renold	2,164	0.36
IMI	1,525	0.26
Severfield-Rowen	502	0.08
	31,933	5.36
Industrial transportation		
AP Moller-Maersk (Den)	1,641	0.28
Wincanton	599	0.10
Goldenport	338	0.06
	2,578	0.44
Support services		
Interserve	10,030	1.69
Carillion	4,123	0.69
Babcock	3,380	0.57
Johnson Service	3,232	0.54
Deutsche Post (Ger)	2,773	0.47
SGS (Swi)	1,808	0.30
Sodexo (Fra)	1,496	0.25
Adecco (Swi)	1,453	0.24
Augean	458	0.08
	28,753	4.83
Consumer goods		
Automobiles & parts		
GKN	16,856	2.83
Toyota Motor (Jap)	2,577	0.43
	19,433	3.26
Beverages		
Diageo	7,596	1.28
Pernod-Ricard (Fra)	1,293	0.22
	8,889	1.50
Food producers		
Associated British Foods	5,501	0.92
Unilever	4,343	0.73
Nestlé (Swi)	3,530	0.59
	13,374	2.24
Household goods & home construction		
Bellway	7,065	1.19
Redrow	6,920	1.16
L'Oreal (Fra)	1,228	0.21
Essilor (Fra)	865	0.15
	16,078	2.71
Tobacco		
Imperial Tobacco	4,674	0.79
Swedish Match (Swe)	1,178	0.20
	5,852	0.99

Those shown in italics are new holdings in the six months since 30 June 2013.

	£000	%
Health care		
Health care equipment & services		
Becton Dickinson (USA)	5,002	0.84
Smith & Nephew	4,044	0.68
Fresenius (Ger)	3,816	0.64
Fresenius Medical Care (Ger)	1,676	0.28
	14,538	2.44
Pharmaceuticals & biotechnology		
GlaxoSmithKline	12,086	2.03
BTG	8,316	1.40
AstraZeneca	7,149	1.20
Shire	2,851	0.48
Pfizer (USA)	2,773	0.47
Novartis (Swi)	2,633	0.44
Roche (Swi)	2,198	0.37
	38,006	6.39
Consumer services		
Food & drug retailers		
Tesco	4,179	0.70
Clinigen	*2,932*	*0.49*
	7,111	1.19
General retailers		
Dunelm	7,650	1.29
Findel	2,173	0.37
Inditex (Spa)	1,028	0.17
Topps Tiles	874	0.15
	11,725	1.98
Media		
Reed Elsevier	6,739	1.13
British Sky Broadcasting	4,642	0.78
Pearson	3,688	0.62
Daily Mail & General Trust	2,519	0.42
	17,588	2.95
Travel & leisure		
Greene King	5,547	0.93
Carnival	5,002	0.84
International Consolidated Airlines	3,310	0.56
Marstons	2,940	0.49
Betfair	1,932	0.32
	18,731	3.14
Telecommunications		
Mobile telecommunications		
Inmarsat	2,742	0.46
Nokia (Fin)	*1,123*	*0.19*
	3,865	0.65
Utilities		
Electricity		
SSE	4,104	0.69
SSE 5.75% 05/02/14	2,349	0.39
	6,453	1.08

	£000	%
Gas water & multiutilities		
National Grid 6.125% 15/04/14	5,414	0.91
National Grid	4,807	0.81
Severn Trent	1,705	0.29
Centrica	1,215	0.20
	13,141	2.21
Financials		
Banks		
HSBC	11,590	1.95
Barclays	5,097	0.86
	16,687	2.81
Nonlife insurance		
Amlin	11,206	1.88
Hiscox	8,338	1.40
	19,544	3.28
Life insurance/assurance		
Prudential	4,017	0.67
Aviva	3,529	0.59
Chesnara	3,200	0.54
Permanent TSB (Ire)	15	–
	10,761	1.80
Real estate investments & services		
St Modwen Properties	4,941	0.83
	4,941	0.83
Real estate investment trusts		
Mucklow (A&J) Group	3,953	0.66
Land Securities	3,101	0.52
	7,054	1.18
Financial services		
International Personal Finance	5,952	1.00
IP Group	5,802	0.97
Provident Financial	4,455	0.75
Deutsche Börse (Ger)	1,313	0.22
	17,522	2.94
Equity investment instruments		
Henderson Japan Capital Growth	14,378	2.42
Henderson Asia Pacific Capital Growth	12,537	2.11
Baillie Gifford Pacific	11,041	1.86
First State Asia Pacific	9,609	1.61
Herald Investment Trust	5,823	0.98
Better Capital (2012)	*5,462*	*0.92*
Foresight Solar	*2,895*	*0.49*
	61,745	10.39
Technology		
Software & computer services		
Microsoft (USA)	6,776	1.14
Sage	2,303	0.39
Amadeus IT (Spa)	2,246	0.38
	11,325	1.91
Technology hardware & equipment		
Imagination Technologies	1,598	0.27
	1,598	0.27

14 Top 20 equity holdings by value

Rank	Company	2013 Value £000	2013 % of portfolio	2012 % of portfolio	2012 Rank
1	Senior	**17,638**	**2.96**	3.14	1
2	GKN	**16,856**	**2.83**	2.21	4
3	BP	**15,862**	**2.67**	2.35	2
4	Royal Dutch Shell	**13,677**	**2.30**	2.27	3
5	GlaxoSmithKline	**12,086**	**2.03**	2.09	5
6	HSBC	**11,590**	**1.95**	1.75	6
7	Amlin	**11,206**	**1.88**	1.74	7
8	Rio Tinto	**11,068**	**1.86**	1.65	8
9	Interserve	**10,030**	**1.69**	1.53	9
10	Smith (DS)	**10,002**	**1.68**	1.51	10
11	Hiscox	**8,338**	**1.40**	1.28	15
12	BTG	**8,316**	**1.40**	1.28	14
13	BAE Systems	**7,821**	**1.31**	1.26	17
14	Hill & Smith	**7,733**	**1.30**	1.48	11
15	Dunelm	**7,650**	**1.29**	1.22	18
16	Diageo	**7,596**	**1.28**	1.42	12
17	BHP Billiton	**7,464**	**1.25**	0.67	48
18	AstraZeneca	**7,149**	**1.20**	0.45	68
19	Bellway	**7,065**	**1.19**	0.97	29
20	Cape	**6,956**	**1.17**	0.99	25
			34.64		

The top 20 equity holdings by value at 31 December 2012 accounted for 33% of the investment portfolio.

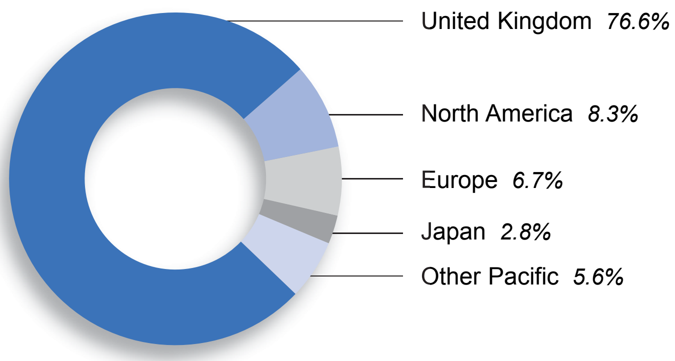
Other significant holdings by value

Rank	Company	2013 Value £000	2013 % of portfolio	2012 % of portfolio	2012 Rank
1	Henderson Japan Capital Growth*	**14,378**	**2.42**	2.34	4
2	Henderson Asia Pacific Capital Growth*	**12,537**	**2.11**	2.52	3
3	Baillie Gifford Pacific*	**11,041**	**1.86**	2.15	5
4	First State Asia Pacific*	**9,609**	**1.61**	1.98	6
5	Herald Investment Trust	**5,823**	**0.98**	0.91	8
6	Better Capital (2012)	**5,462**	**0.92**	–	–
7	National Grid 6.125% 15/04/14	**5,414**	**0.91**	1.18	7
8	Foresight Solar	**2,895**	**0.49**	–	–
9	SSE 5.75% 05/02/14	**2,349**	**0.39**	0.51	9
			11.69		

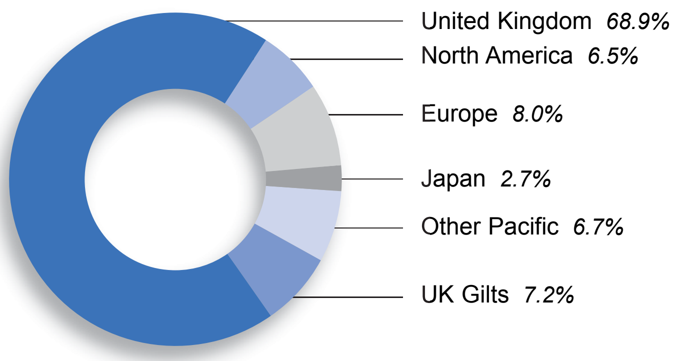
*Open ended investment companies.

	Valuation 31 December 2012 £000	Purchases £000	Costs of acquisition £000	Sales proceeds £000	Appreciation/ (depreciation) £000	**Valuation 31 December 2013 £000**
United Kingdom	330,297	69,862	(358)	(36,610)	92,621	**455,812**
North America	31,440	8,217	(11)	–	9,577	**49,223**
Europe	38,203	4,071	(5)	(10,340)	8,067	**39,996**
Japan	13,174	–	–	–	3,781	**16,955**
Other Pacific	31,937	–	–	–	1,250	**33,187**
UK Gilts	34,470	19,384	–	(53,272)	(582)	**–**
	479,521	101,534	(374)	(100,222)	114,714	**595,173**

Geographical distribution of portfolio 2013



Geographical distribution of portfolio 2012



Review

The global economy grew at a satisfactory rate in 2013. This was driven by a pick up in activity in the USA where the industrial sector was particularly strong. The growing importance of shale gas in reducing energy costs coupled with certain US companies bringing back some of their manufacturing activities from overseas resulted in a resurgent manufacturing sector. Equity markets benefited with the USA leading the way but emerging markets lagging.

The portfolio benefited from this strength in the US economy. The manufacturing sector is well represented through our direct holdings there and also through a number of our UK companies, which have a significant exposure to the US. The industrial exposure was responsible at a sector level for the outperformance of the portfolio.

Biggest rises by value

	Value added £’000
Senior	7,582
GKN	6,625
BTG	4,485
D S Smith	4,271

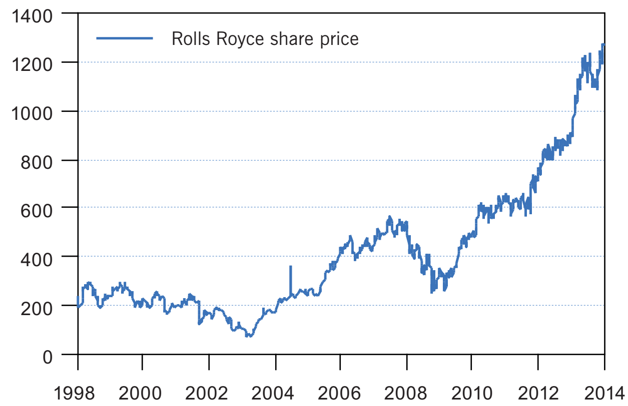
Biggest falls by value

	Value detracted £’000
Imagination Technology	2,057
Providence Resources	1,780
BHP	376
Indus Gas	359

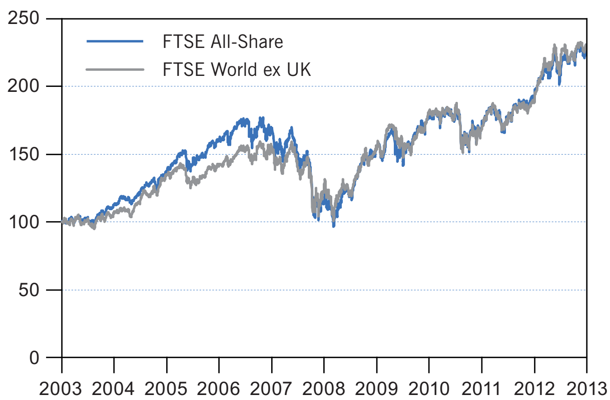
Investment approach

It is often claimed that it is geographical asset allocation rather than stock picking that is the major determinant of performance for an international fund. This is not our view. Close attention to stocks and buying good quality ones when the valuation is undemanding is the way to provide long term outperformance.

The macro economic assumption that lies behind the portfolio make up is that the global economy will be larger in ten years’ time than it is today. There will, for example, be more air miles flown and there will be more cars on the roads of the globe. We need to be invested in companies that through the excellence of their product or services benefit from this expansion. The UK stock market provides us with opportunities to invest in internationally competitive companies. For instance the aerospace sector is well represented in the portfolio. The success of Rolls Royce’s Trent engine means the company has a substantial order book. There has been a holding in the company for many years. It is a great success story of UK technology and manufacturing.



If there is no strong UK company in an area, we will buy an overseas company – for instance, Toyota is in the portfolio. We are not going overseas for diversity but rather because there is an opportunity to buy a type of company we cannot find in the UK, coupled with the belief it will make money for the portfolio. It is interesting to note that over the last ten years the UK index and the world index ex UK have returned the same amount.



The UK proportion of many investors’ portfolios has been substantially reduced in recent years. For most, this has not added any value. The UK market provides not only reasonable valuations but also good corporate governance, and decent dividend yields with over half the earnings the companies make coming from outside the UK economy. These are the reasons that although we are classified as a Global fund the bulk of the assets are in UK quoted companies. If we were not finding good investment opportunities in the UK we would not hesitate in increasing the overseas weighting.

Investment activity

During the year we were a net buyer of equities leaving the gearing at the year end at 105%. Portfolio turnover was relatively low. There was some selling in the larger holdings such as Senior for portfolio balance reasons. It remains a large holding because it is a cash generating strong company. The proceeds were redeployed in new holdings, which include oil exploration companies. This is a sector that has fallen out of favour but which now offers real value. The Providence Resource holding, for instance, has been increased.

Outlook

Valuations as measured by price/earnings ratios are higher now than they were a year ago as share price rises have outstripped profits growth. However, this is only one measure. Equities on dividend discount models continue to look cheap. The disciplines learnt by companies in the crisis of late 2008, coupled with growing sales, lead to margin growth. Levels of capital spending are being closely monitored with little speculative expansion going on. This means cash generation is very impressive. Corporate debt has fallen and many of the holdings in the portfolio now have net cash. This underpins good dividend growth and means special dividends will become more frequent. It positions companies well for any economic turbulence. This would argue for further upside for equities.

James Henderson
Henderson Global Investors Limited

Results

Independent fiduciary services profit before tax increased by 2.8% from £9.6million to £9.9million. Revenue return per share increased by 4.3% from 6.67p to 6.96p.

Independent fiduciary services businesses ("IFS")

Law Debenture is a leading provider of independent third party fiduciary services, including corporate trusts, agency services, pension trusts, corporate services (including agent for service of process), treasury services, whistleblowing services and governance services to client boards. The businesses are monitored and overseen by a board comprising the heads of the relevant business areas and two non-executive independent directors.

Review of 2013

The IFS performance was good in parts and satisfactory overall as most of the markets in which we operate showed signs of renewed activity. Previous years' uncertainties – caused by pressure on the banking sector and Eurozone difficulties – were less evident. Some sectors, such as service of process and corporate trusts were very active and Safecall, our whistleblowing service, had its best year. Market share remained satisfactory across all of the businesses and activity levels in pre-existing transactions, where we are able to generate additional fees for time spent, remained high. We also benefited from receipt of fees accumulated but uncollected over several years in a number of transactions where historical matters were finally resolved.

Some notable highlights of the year are set out below.

Corporate trusts

Corporate trusts had a good year as a result of increased activity in the bond market and particularly in the high yield bond sector. We were selected to act as trustee by a wide range of companies including Anglo American, Aviva, BT, GlaxoSmithKline, National Grid, Next, Pennon, The Housing Finance Corporation and Unilever.

The levels of security trustee work continued to increase and included a number of aircraft financings and transactions with both the European Investment Bank and the International Finance Corporation. Security trust appointments often have long maturities and so generate good long term income. Our recognised independence as an impartial third party was also instrumental in securing many escrow agent appointments. We remained busy on post-issuance work including restructurings and transaction amendments.

Pension trusts and governance services

The performance of our pension trusteeship service was maintained at a time when the environment for final salary pension schemes continued to be challenging. We were appointed to 10 new schemes with new clients including Penguin Books and the TSB Bank.

Andrew Parker and Gerry Degaute joined the team. Both are experienced pension trustees having been involved in the management of major company pension schemes.

Our move to offer sole trusteeship services, where we act as the sole trustee of defined benefit pension schemes, to deliver one-stop governance cost effectively, is starting to show positive results – with a number of appointments in this role.

Our governance and board effectiveness business completed its third year in a highly competitive market that is still developing. We continued to win assignments in the voluntary and public sector and expect new business from the listed sector in 2014. We have continued to develop our risk related tools and our corporate governance board evaluation tools are being used widely, including by pension fund trustee boards who engage us.

Corporate services

Our long established and highly regarded service of process business had another solid year with an increase in new appointments.

The corporate services business (provision of corporate directors, company secretary, accounting and administration of special purpose vehicles) saw some good gains, including taking on an appointment as company secretary of Herald Investment Trust. New securitisation deals were secured and we continued to develop other business lines in the company secretarial and corporate governance market.

Treasury and agency solutions

Towards the end of the year, we split these functions. Our treasury and banking operations team is now a part of the corporate trust function and continues to service our cash escrow, security trust and project finance business.

Our agency solutions team now sits within corporate services and continues to provide CDO and CLO administration, facility agency and other customised solutions including data verification and data room services.

Safecall

It was a very good year for our external whistleblowing service with a significant increase in the number of appointments. Technological enhancements meant that we were able to access new markets overseas, where recognition of the benefits of external whistleblowing arrangements is gaining traction. Notable appointments in 2013 included Adidas, Total, United Utilities, Subsea7 and Salford NHS Trust.

Overseas

United States

The US corporate trust business strengthened its management team in 2013 to better position the company in the U.S. successor trustee market. Since 2002 a US$50 million guarantee had been provided to the business by the group, to meet contractual requirements under certain trust indentures where it acts as trustee. With the advice of legal, tax and accounting advisers it was deemed necessary to replace the guarantee with a capital contribution of US$46.5 million, funded mainly by a US$ uncommitted facility. The repositioned company showed its promise during the year by successfully growing the separate trustee business and adding several high profile successor trustee appointments. The core U.S. bankruptcy trustee business continues to face challenges, but should improve in 2014.

The corporate services business, including Delaware Corporate Services, continued to generate good returns.

Hong Kong

General business levels remained quiet for the year, but the final quarter saw some recovery in Hong Kong and China. Employee share trust and escrow services continued to generate a constant source of revenue and the service of process team had a very good year, reflecting a significant increase in appointments on behalf of the US and UK offices as well as a moderate increase in local law appointments.

Channel Islands

Market conditions have been difficult and new business levels remained on the low side. Special efforts were made to extend the offshore profile of Law Debenture, where independence is key to the relationships between transacting parties, such as escrow arrangements.

Outlook

We expect that activity levels in markets where our IFS businesses operate will increase in 2014, reflecting the growing consensus that the economy may be through the worst impact of the recession. Opportunities to win new business should therefore increase too, albeit that the downward pressure on fees experienced during the recession, when too many players were chasing too few deals, may take some time to reverse. We will continue to keep under review the range of services that we offer and remain open to any prospect that might allow us safely to grow the IFS business, either by expansion into areas where there is a need for an established, trusted, independent third party, or through acquisition.

Caroline Banszky

The directors present their annual report and the audited financial statements for the year ended 31 December 2013. The Corporation retains its status as an investment trust and has been treated by HM Revenue & Customs and approved as such for the year ended 31 December 2012, the latest year for which financial statements have been submitted. Such approval for the year ended 2012 is subject to there being no subsequent enquiry under Corporation Tax Self Assessment. In the opinion of the directors, the Corporation has subsequently conducted its affairs so as to enable it to obtain Sections 1158-1159 approval under the Corporation Tax Act 2010. The Corporation, which (as far as the directors are aware) is not a close company, is registered as an investment company as defined in section 833 of the Companies Act 2006 and operates as such. The directors consider that the group operates as a going concern.

Following implementation of The Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013, the Corporation has published a strategic report at pages 5 to 8. We are still obliged to present a separate directors' report and this is set out below. Note also that the corporate governance report at pages 23 to 27 forms a part of the directors' report.

Essential contracts

In the view of the board, the only contract that is essential to the business of the group is the investment management agreement with Henderson Global Investors, details of which are set out in the strategic report.

Revenue, dividends and reserves

The revenue return attributable to shareholders for the year ended 31 December 2013 was 16.27p. The directors recommend a final dividend of 10.50p per share, which together with the interim dividend of 4.5p paid in September 2013, will produce a total of 15.00p (2012: 14.25p). The final dividend will be paid on 17 April 2014 to holders on the register on the record date of 21 March 2014. After deduction of the interim and final dividends of £17,659,000 (2012: £16,762,000), consolidated revenue reserves increased by £1,823,000 (2012: increase of £1,265,000).

Directors

The directors are listed on page 43 and held office throughout the year except for Mark Bridgeman who was appointed on 15 March. Douglas McDougall served as a director (and chairman) until 10 April.

All directors are required to stand for re-election every year. The list of candidates, which the board supports, is set out in the notice of annual general meeting, along with a statement in each case of why the candidate is supported.

Directors' conflicts of interests

The directors are under statutory duty to avoid conflicts of interest. The board has in place appropriate procedures to deal with conflicts and potential conflicts, including an annual review, and those procedures are operating effectively. Each director has declared all matters that might give rise to a potential conflict of interest and these have been considered and (where necessary) approved by the board.

Regulatory compliance

The Corporation is subject to continuing obligations applicable to premium listed companies, overseen by the UK Listing Authority.

Under the Alternative Investment Fund Managers Directive, which came into effect in 2013, the Corporation is required to appoint an 'Alternative Investment Fund Manager', which must be appropriately regulated by the FCA. The Corporation intends to be its own AIFM, as permitted by the Directive, and intends to apply to the FCA for the necessary regulatory permission.

Greenhouse gas emissions

The Group's carbon emissions arise solely from its consumption of energy in maintaining its offices. Using Defra/DECC conversion factors published in June 2013 via the Carbon Trust website, emissions for the year to 31 December 2013 were 403.19 tonnes of CO2e. This equates to 0.0127 tonnes of CO2e per £000 of IFS revenue.

Repurchase of shares

During the year, the Corporation did not repurchase any of its shares for cancellation. It intends to seek shareholder approval to renew its powers to repurchase shares for cancellation up to 14.99% of the Corporation's issued share capital, if circumstances are appropriate.

Substantial shareholdings and share information

As at 27 February 2014, there were no shareholders that had notified the Corporation of a beneficial interest in 3% or more of the issued share capital. Share information as required by section 992 of the Companies Act 2006 appears at page 81.

Shareholder relations

The Corporation encourages communication between the management and shareholders on matters of mutual interest. All shareholders are sent a copy of the annual report and the half yearly report, and the Corporation also provides this service to shareholders in nominee companies where the nominee has made appropriate arrangements. Shareholders wishing to receive reports and other communications electronically may do so by writing to the Corporation. In addition to periodic regulatory reports published via the London Stock Exchange, the Corporation publishes a monthly factsheet on its website about the investment portfolio performance.

Employee participation

Employees are informed of the financial aspects of the group's performance through periodic management meetings. Copies of the annual and half yearly reports are made available to all employees. The Corporation operates a SAYE scheme in which all UK full-time employees are eligible to participate after completing a minimum service requirement.

Options outstanding under the SAYE scheme at 31 December 2013 were:

Date of grant	Number of option holders	Shares under option	Exercise price
27 May 2009	32	159,956	211.50p
25 May 2010	10	11,844	314.88p
4 August 2011	15	25,444	357.51p
3 September 2012	7	10,535	398.50p
14 August 2013	11	15,010	499.50p

Investment manager – interests held

James Henderson did not have a beneficial interest at 31 December 2013 (2012: 50,000) although parties connected to him had an interest of 100,000 shares.

The Corporation holds no shares in members of the HHG Group, the parent company of Henderson. It has been notified that funds managed by members of the HHG Group held 104,515 shares in the Corporation at 31 December 2013.

Bribery Act

The Corporation maintains a 'zero tolerance' anti-bribery policy, which applies to the Corporation and all its subsidiaries. The policy is published on the Corporation's website.

Principal risks and uncertainties

These are set out in the strategic report on pages 7 and 8.

Statement of directors' responsibilities in relation to the financial statements

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company, for safeguarding the assets of the company, for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the preparation of a strategic report, a directors' report and directors' remuneration report which complies with the requirements of the Companies Acts.

The directors are responsible for preparing the annual report and the financial statements in accordance with the Companies Act 2006. The directors are also required to prepare financial statements for the group in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs) and Article 4 of the IAS Regulation. The directors have chosen to prepare financial statements for the Corporation in accordance with IFRSs.

International Accounting Standard 1 requires that financial statements present fairly for each financial year the Corporation's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the

International Accounting Standards Board's 'Framework for the preparation and presentation of financial statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRSs. A fair presentation also requires the directors to:

- consistently select and apply appropriate accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- prepare a strategic report, a directors' report and directors' remuneration report that complies with the Companies Act 2006, as amended.

Financial statements are published on the group's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the group's website is the responsibility of the directors and is subject to annual review by the board. The directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

Statement of information given to auditors

The directors have confirmed that so far as they are aware, there is no relevant audit information of which the Corporation's auditors are unaware, and that they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Corporation's auditors are aware of that information.

Directors' responsibility statement pursuant to DTR4

The directors confirm to the best of their knowledge:

The group financial statements have been prepared in accordance with IFRSs and Article 4 of the IAS Regulation and give a true and fair view of the assets, liabilities, financial position and profit or loss of the group.

The annual report includes a fair review of the development and performance of the business and the position of the group and parent company, together with a description of the principal risks and uncertainties that they face.

Auditors

A resolution to re-appoint BDO LLP as auditors to the Corporation will be proposed at the annual general meeting.

By order of the board

Law Debenture Corporate Services Limited
Secretary

Registered in England – No. 30397

The directors are required to report on how the Corporation has applied the main and supporting principles in the UK Corporate Governance Code (the 'Code'), and to confirm that it has complied with the Code's provisions or, where this has not been the case, to provide an explanation. This report relates to the Code as published in September 2012, a copy of which may be obtained by visiting www.frc.org.uk. The Corporation was a constituent of the FTSE 250 during the period of the review, so all of the provisions of the Code apply to it. However, the Code recognises that investment companies such as Law Debenture may have board structures which might affect the relevance of particular provisions of the Code. Where Law Debenture has departed from any provisions of the Code, this is explained below. This corporate governance statement forms a part of the directors' report.

The board – role, modus operandi and appraisal

The board includes a majority of non-executive directors. The names and biographies of the directors, all of whom save for Mark Bridgeman (appointed 15 March) served throughout the year, are on page 43 of the annual report. Douglas McDougall was a director and chairman of the Corporation until 10 April. He was succeeded as chairman by Christopher Smith.

The board is responsible for the overall strategy and management of the group, setting investment strategy and ensuring that the Corporation is operating in compliance with statutory and legal obligations. There is a formal schedule of matters specifically reserved for board decision, published on the Corporation's website (www.lawdeb.com under investment-trust/corporate-governance). Matters connected with strategy and management, structure and capital, financial reporting and control, investment trust portfolio, contracts, shareholder communication, board membership and other appointments, remuneration and corporate governance are reserved for the board. There is a separate schedule setting out the division of responsibility between the chairman and managing director.

The chairman takes personal responsibility for leadership of the board and ensures that directors receive accurate, timely and clear information. He reviews channels for provision of information with the company secretary at least annually.

The board operates as a collective decision making forum. Individual directors are required to scrutinise reports produced by the executive and are encouraged to debate issues in an open and constructive manner. If one or more directors cannot support a consensus decision, a vote will be taken and the views of a dissenting director recorded in the minutes.

Procedures are in place to enable independent professional advice to be taken by individual directors at the Corporation's expense. Appropriate insurance cover is in place in respect of legal action against the directors.

The board meets regularly throughout the year. The attendance records of the directors (both at meetings of the board and, where relevant, meetings of board committees) are set out in the table below. There was also a strategy day during the year attended by the directors.

	Board	Remuneration	Audit	Nominations
Number of meetings in the year	**8**	**5**	**3**	**1**
Meetings attended by:				
C.J. Banszky	8	–	–	–
M.G.O. Bridgeman*	7	3	2	–
J.A. Kay	8	4	3	1
R. Laing	8	5	3	1
D.C.P. McDougall*	2	2	1	1
C. Smith**	8	5	1	1

* D.C.P. McDougall until 10 April 2013; M.G.O. Bridgeman from 15 March 2013.

** C. Smith ceased to be a member of the audit committee after he became Corporation chairman on 10 April.

The board keeps under review the performance of the executive director and the chairman formally appraises all the directors each year and implements any training or education needs that might be identified. The non-executive directors meet once each year (without the presence of the chairman) to review the chairman's performance, the results of the review being discussed with the chairman by the senior independent director ('SID'). The board evaluates its own performance and that of its committees during the annual strategic away day and considers these matters again after each AGM in the light of comments received from shareholders and other interested parties.

In accordance with the Code requirements, during the year, the board commissioned an externally facilitated review. This was conducted by Professor Bob Garratt of Garratt Learning Services Limited, who has no other connection with the Corporation. The evaluation comprised of a questionnaire and one-to-one interviews with each director, plus the chief financial officer, company secretary and investment manager. Professor Garratt reported that the board was performing well and identified only one area for immediate action, namely that more attention should be given to the group's succession planning needs.

John Kay is the SID. The SID is available to shareholders who have concerns that cannot be addressed through the chairman, managing director or chief financial officer. Following the 2014 AGM, John Kay (who is not standing for re-election) will be replaced as SID by Robert Laing.

The board – independence

At least half of the board, excluding the chairman, must be independent non-executive directors ("NEDs"). The board has concluded that as at the date of this report, excluding the chairman, three of the four other directors are independent NEDs. In judging independence, the board takes into account whether or not a director is independent of management and any material business or other relationship that could affect or interfere with the exercise of objective judgement by the director, or his/her ability to act in the best interests of the Corporation and its subsidiaries.

The chairman, Christopher Smith, was independent at appointment and continued to be independent throughout the period in the view of the board.

The board is satisfied that Christopher Smith's other commitments do not interfere with the discharge of his responsibilities to Law Debenture, and that he makes sufficient time available to discharge his duties as chairman.

John Kay was independent at appointment in September 2004 and at first election in April 2005 and remains so in the opinion of the board, having had no previous connections with the Corporation or any of its subsidiaries. John Kay has indicated that he will not seek re-election and will accordingly stand down as a director after the AGM on 9 April 2014.

Robert Laing was independent at appointment in April 2012 and remains so, having had no current or previous connections with the Corporation or any of its subsidiaries.

Mark Bridgeman was independent at appointment on 15 March 2013 and the board is satisfied that he remains independent, having no current or previous connections with the Corporation or any of its subsidiaries.

The board – re-election and renewal

The nominations committee ensures that the board has in place arrangements for orderly and transparent appointments to the board. There are job descriptions in place for NEDs' roles, and the board has written terms and conditions of appointment for NEDs, which are available for inspection at the AGM. Particular care is taken to ensure that NEDs have sufficient time to commit to the duties expected of them and as necessary, diversity issues are considered. No new NED is appointed without first being interviewed by each existing NED.

All new directors undergo an induction process, involving presentations by the managing director and each business head and meetings with the investment manager.

All directors are submitted for annual re-election, subject to continued satisfactory performance, which is assessed as described above. There is no maximum number of terms that a director may serve. The Corporation has established a diversity policy, described in the nominations committee report overleaf.

Directors' remuneration

Details of the directors' remuneration appear in the remuneration report on page 40.

Board committees

The board has established a nominations committee, an audit committee and a remuneration committee, to which it has delegated certain responsibilities. Each committee has terms of reference, which are published on the Corporation's website (www.lawdeb.com/investment-trust/corporate-governance). Membership of the committees is kept under review, taking account of the Code's acknowledgement of the position of investment trusts. The board is deliberately kept small and the board believes this in the best interests of shareholders. The board is satisfied that its composition and size is sufficient to ensure that the requirements of the business can be met.

A majority of members of board committees are independent NEDs as assessed by the board and the committee memberships are fully compliant with Code stipulations at the year end. Prior to the AGM on 10 April 2013, the Corporation was non-compliant in that the chairman, Douglas McDougall, was a member of the audit committee and chairman of the remuneration committee.

A summary of each committee is set out below.

Nominations committee

Role
To keep under review the structure, size and composition of the board and make recommendations about adjustments that are deemed necessary, and to ensure effective succession planning in accordance with legal and corporate governance needs.

Key duties

- Identification and nomination for board approval of suitable candidates to fill vacancies;
- Succession planning (in particular of the chairman and managing director);
- Making recommendations about the re-appointment of non-executive directors; and
- Ensuring that the board and its committees are constituted to comply so far as practicable with the Code.

The committee reports as follows:

During the year, the committee concluded that, following the appointment of Mark Bridgeman and the succession of Christopher Smith as chairman of the Corporation (all fully described in last year's report), the composition of the board needed no further adjustment. As required by the Code, a diversity policy was established and can be viewed on the Corporation's website under investment-trust/corporate-governance. The policy states that while the board remains small (five directors), it will endeavour to have at least one director who is female. That objective is currently being met.

Members
D.C.P. McDougall (chairman, until 10 April)
J.A. Kay
R. Laing
C. Smith (chairman from 10 April)
M.G.O. Bridgeman (from 15 March)

Audit committee

Role
The reporting obligations of the audit committee have been extended in the September 2012 version of the Code. Following best practice guidelines published by the Financial Reporting Council ('FRC'), the audit committee's report is published this year as a separate section of the annual report and can be found at pages 28 to 30.

Remuneration committee

Role
To develop the Corporation's remuneration policy and oversee its implementation, monitoring the effectiveness of the policy as it relates to the group's executives.

Key duties

- Reviewing and agreeing the remuneration and benefits of the executive director and senior executives in the light, as relevant, of corporate performance against a range of measures;
- Development of total remuneration packages, taking account of factors set out in the Code, based in part on performance and subject to suitable performance measurements as set by the committee; and
- Making recommendations to the board for any changes to long term incentive arrangements.

Members
D.C.P. McDougall (chairman, until 10 April)
J.A. Kay
R. Laing (chairman, from 10 April)
C. Smith
M.G.O. Bridgeman (from 15 March)

The committee reports as follows. It met five times during the period. It made decisions on the remuneration and benefits of the executive director and senior staff and considered remuneration policy matters. The remuneration report at pages 31 to 42, which complies with the new obligations imposed by the Large and Medium-Sized Companies and Groups (Accounts and Reports) Regulations 2008 (the 'Regulations'), provides more detail on the Corporation's policies. No new long term incentive arrangements were introduced in the period. The committee considered in particular:

- the detailed requirements of the Regulations and developed the Corporation's policy, which shareholders are invited to approve at the forthcoming AGM;

- routine administrative matters connected with the Corporation's benefits structure;
- proposed changes in HMRC contribution limits for the SAYE and SIP schemes, approving in both cases the steps necessary to allow those new limits to be adopted. Both schemes are described in more detail in the remuneration report.

The board does not operate a management engagement committee, the duties of such a committee being undertaken directly by the board.

Accountability and audit, fair balanced and understandable reporting

The statement of directors' responsibilities in relation to the financial statements appears on pages 21 and 22. The independent auditors' report appears on pages 45 to 47. The directors confirm that the Corporation is a going concern as evidenced by the financial statements, which demonstrate a healthy position, taking into account all known and future anticipated liabilities, and the group's ability to meet those liabilities.

The audit committee has concluded and the board concurs, that the financial statements present a fair, balanced and understandable assessment of the financial position and prospects of the Corporation and the group. The financial statements are reviewed by the audit committee, then approved by the board and signed by the chairman and managing director. In the opinion of the board, the annual report, taken as a whole, is fair, balanced and understandable and provides the necessary information to assess the Corporation and group's performance, business model and strategy.

Internal controls

The following paragraphs describe the framework of internal controls in place to ensure that the Corporation complies with the FRC guidance (formerly known as 'the Turnbull guidance') which forms a part of the Code, and with the obligations of the UKLA's Disclosure and Transparency Rules which require a description of the main features of the internal control and risk management systems in relation to the financial reporting process. This section should be read in conjunction with the strategic report, from which shareholders will better understand the risks that our internal controls are in place to manage.

The board monitors the effectiveness of internal controls on a continuous basis and in a number of ways, both directly through main board general reviews and also by the more specific work carried out by the audit committee. The various mechanisms include:

- Board review of the group's matrix of key risks and controls managed by the chief risk officer, reporting to an executive risk committee;
- An internal audit function, which involves not only each business department (including overseas offices) being subject to audit on a regular basis, but also regular reviews of other business wide processes;
- Testing by the compliance officer of the Financial Conduct Authority ('FCA') regulated business systems and controls;
- Periodic reports to the board by the compliance officer about legal and regulatory changes, and the steps that the board must take to comply; and
- Review of reports by the external auditors on their annual audit work.

The internal audit programme and system of compliance checks have both been developed using a risk-based methodology and an evaluation of process controls.

The board considers that the above measures constitute continuing application of the FRC guidance and form an important management tool in the monitoring and control of the group's operational risks.

An important element of the overall controls remains a continuous review of the quality and effectiveness of internal financial controls of the group. During the year, the board has continued to require that the group maintains proper accounting records, so that it can rely on the financial information it receives to make appropriate business decisions and also that the group's assets are safeguarded. In the current economic climate, this includes having data that allows the board to consider country and currency exposure, the impact of austerity measures and potential impairment of assets (both financial and non-financial). Key elements of the systems of internal control continue to be:

- Regular qualitative self-assessment of the effectiveness of the individual controls maintained in the overall internal financial control framework;

- Preparation by management of a comprehensive and detailed budget, involving annual board approval and monthly comparison at board level of actual results with budgets and forecasts;
- Systematic reporting to the board of matters relating to litigation, insurance, pensions, taxation, accounting counterparty risk and cash management as well as legal, compliance and company secretarial issues;
- Review of internal audit reports by the appropriate fiduciary services company board and the audit committee;
- Review of the internal controls of those services, such as investment management, custody and registration, which have been delegated to third parties. This review was conducted during the initial contractual negotiations and on a regular basis, including annual discussions with the senior management and compliance staff of Henderson Global Investors Limited;
- Monitoring by the board of the investment management process, including the establishment and maintenance of investment guidelines, receiving a report from the investment manager at each board meeting, the review of all transactions with the investment manager and regular reconciliations of the records of the group with those of the global custodian and investment data services provider; and
- Receipt of frequent and detailed reports about the independent fiduciary services businesses, including the overseas subsidiaries.

The systems of internal financial control are designed to provide reasonable assurance against material mis-statement or loss.

By means of the procedures set out above, the directors have established a process for identifying, evaluating and monitoring the effectiveness of the internal control systems for the period. This process has been in place throughout 2013 and will be reviewed by the board on a regular basis.

Arrangements are in place by which staff of the group may, in confidence, raise concerns under the Public Interest Disclosure Act 1998 about possible improprieties in matters of financial reporting or other matters. If necessary, any member of staff with an honest and reasonable suspicion about possible impropriety may raise the matter directly with the chairman of the audit committee. In addition, the executive staff have access to an external whistle blowing service. Arrangements are in place for the proportionate and independent investigation of such matters and for appropriate follow up action.

Relations with shareholders and institutional shareholder responsibilities

The Corporation's compliance with these aspects of the Code is described separately within the directors' report.

Information about share capital

The information that the Corporation is required to disclose about its share capital can be found in the directors' report (significant holders) and AGM notice (total voting rights). There are no other disclosures that need to be made about share capital.

Annual general meeting ('AGM')

Details of the AGM for 2014 are set out at pages 78 to 82.

The board recognises the value of the AGM as an opportunity to communicate with shareholders and encourage their participation. Separate resolutions are put to the AGM on each substantially separate issue. Except where a poll has been called, the number of proxies lodged for each resolution, the balance for and against the resolution and the number of votes withheld is disclosed to the meeting. This information is published immediately after the AGM to the London Stock Exchange and on the Corporation's website. The notice of the AGM and related papers are sent to shareholders at least 21 working days before the meeting. Where requested by nominee holders, annual reports and related documentation are circulated to beneficial owners and the Corporation is happy for beneficial owners to attend the AGM and (where appropriate arrangements have been made with the nominee) to vote their shares in person.

Summary statement of compliance

The board has concluded that, as demonstrated by the disclosures made in the foregoing, the Corporation has complied since 10 April 2013 with all of the requirements of the UK Corporate Governance Code. Non-compliance from 1 January to 10 April related to the former chairman being a member of the audit committee and chairman of the remuneration committee. These matters were resolved on the appointment of the new chairman. Compliance is reported in respect of the entire Code.

Annual statement by the chairman of the audit committee

I am pleased to present the Corporation's audit committee report for the year ending 31 December 2013.

Following Christopher Smith's appointment as the Corporation's chairman at the AGM on 10 April, he stood down as a member (and chairman) of the committee and I became the chairman. I have experience of the finances of investment vehicles and have served on (and chaired) audit committees for a number of other organisations. I am therefore well qualified to chair your audit committee.

The committee was comprised at the year end of me and two other independent non-executive directors, Robert Laing and John Kay.

Role and duties

The main function of the audit committee is to assist the board in the management of the group's finances, financial reporting structure and internal controls. Our key duties are as follows:

- monitoring the independence and objectivity of the auditors, their performance and agreeing their remuneration;
- the appointment, reappointment and removal of external auditors;
- monitoring the integrity of the financial statements and the statutory audit process and in particular focussing on significant issues highlighted in the process;
- developing and implementing policy on the engagement (or not) of the external auditor for non-audit services;
- reviewing the annual and half yearly accounts before submission to the board, including particular focus on changes in accounting policy and providing an opinion to the board on whether the report and accounts are fair, balanced and understandable; and
- reviewing the effectiveness of systems of internal control and risk management, including monitoring the executive risk management function, the internal audit function and consideration of country and currency risks.

As part of my induction as committee chairman, I met with the audit partner (who is new to our audit this year) and his director and I met a number of times with the chief financial officer and company secretary to receive briefings on the mechanics of the external audit, main audit issues and other matters of current concern.

Principal activities of the committee

During the year, the committee's business included:

- consideration of the annual report and financial statements and of the half yearly report and statements;
- consideration of the Corporation's matrix of risks and controls and general oversight of the group's internal control systems and procedures;
- meetings with the external auditor to discuss the 2012 financial statements and, in the fourth quarter, to plan the 2013 audit. These meetings included discussions on fees and auditor independence;
- approval of internal audit programme;
- consideration of all internal audit reports;
- receipt of assurances about reconciliations, procedures in place to prevent fraud and anti-bribery and corruption; and
- review of new accounting standards and the possible impact on Law Debenture.

Shortly after the year end, the committee met with the external auditors to discuss the 2013 financial statements and the outcome of that discussion is set out below.

Risk management, internal control and internal audit

The internal controls adopted by the group are set out in the corporate governance report. The board as a whole is responsible for the effectiveness of internal control mechanisms but it is informed by more specific work carried out by the audit committee.

In particular, the committee continually reviews the adequacy and effectiveness of the group's risk management systems and processes. During the year, the committee approved the creation of a new post – chief risk officer – to further enhance the robustness of risk measurement and management. The chief risk officer reports through an executive risk committee, but in line with good practice in this area, his terms of reference give him the right to report directly to the audit committee chairman on any specific matter of concern.

The internal auditor presents his annual audit programme to the committee for approval each year and attends committee meetings, presenting all of his reports including management's actions in response to his findings and recommendations. The internal auditor has the right, should he wish, to meet separately with the audit committee to raise any matters of concern that may arise (although he did not need to do so during the year under report).

External auditors – assessing effectiveness

One of the most important functions of the committee is to monitor the independence and objectivity of the auditors, their performance and effectiveness. The committee achieves this by an annual formal meeting with the audit partner and director to plan that year's audit. Part of that process requires the auditor to give the committee written assessment of how the audit team identifies and manages the threats to its independence, along with the description of the safeguards that it has in place to avoid such threats. This vital part of the audit process also enables the committee to examine in detail the scope of the audit, ensuring that the auditor's objectives meets the committee's own expectations, along with key audit and accounting matters to be considered that year.

At the conclusion of each audit, the committee receives a presentation from the audit partner on the principal findings. This provides the opportunity for robust challenge, particularly in areas where management judgement has been required. The committee will also give the auditors an opportunity, without executive management present, to comment on the quality and standard of the executive's performance generally and during the audit. Similarly, the committee will seek the views of the executive on the effectiveness and performance of the audit team.

During 2014, the committee intends to obtain a report on the auditor's own quality control procedures so that it can be satisfied that the auditors continue to have the resource and technical backup necessary to continue delivering an effective audit of the Corporation and its subsidiaries.

Non-audit services

Non-audit services provided by the auditor are reviewed by the committee to ensure that independence is maintained. Non-audit fees are shown at note 3 to the accounts. The committee's policy is that non-audit work should be limited to those matters where the external auditor is most appropriately placed to carry out the work, unless there is a conflict of interest. Consequently, non-audit services have historically been low. In the year under review, however, total non-audit fees were £32,000, somewhat higher than in previous years. This was because, in considering group structure matters, including the uncommitted £30 million facility – described in our management review on page 19 and note 20 to the accounts – external accounting support to our executive accounting function was sought.

Audit tendering

BDO LLP were first appointed as the Corporation's auditors on 31 October 2008. In accordance with audit requirements, the senior statutory auditor was rotated during 2013 after signing off his fifth audit and a new audit partner has been responsible for the 2013 audit. After due consideration, the committee continues to be satisfied about the quality, performance and effectiveness of the audit by BDO LLP and accordingly, has recommended that they be reappointed at the forthcoming AGM.

The committee has no current plans to put the audit to tender, but is mindful of the Code provision that FTSE 350 companies should aim to tender their audit contract at least every ten years.

Significant financial issues relating to the 2013 accounts

The Code requires us to describe any significant issues considered in relation to the financial statements and how those issues were addressed.

The significant issues that arose during the course of the audit were as follows:

- management makes an estimate of a number of bad debt provisions for non-collection of fees as part of the risk management and control framework. It is a part of the auditor's function to test whether those impairments of receivable balances meet the relevant accounting standards. The committee has received reports from management describing the basis for assumptions used and has discussed these with the auditors to ensure that appropriate levels of bad debt provisions have been included; and
- the group operates a defined benefit pension scheme. The valuation of the scheme includes a number of assumptions related to the expected returns, future inflation rates and corporate bond yields, and longevity of members, all of which can impact the financial statements. The valuation has been completed with the assistance of a professional actuary and the assumptions have been agreed with the auditors.

Other issues that arose included: the risk that portfolio investments may not be beneficially owned or correctly valued; that revenues from the IFS businesses are properly recognised and at the appropriate points in time; and that the carrying values of goodwill in relation to acquisitions may be impaired. The committee has received assurance on these matters.

The committee is satisfied that the judgements made by management are reasonable and that appropriate disclosures have been included in the accounts. Taken in its entirety, the committee was able to conclude that the financial statements themselves and the annual report as a whole are fair, balanced and understandable and that conclusion was reported to the board.

Mark Bridgeman
Chairman, audit committee

Part 1 – Remuneration committee chairman's annual statement

Dear Shareholder

I am pleased to present the Corporation's remuneration report for the year ending 31 December 2013.

During the year, the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (the 'Regulations') came into force. The Regulations mean that we are required to set out a formal remuneration policy, which must be approved by shareholders and which will remain in place for three years. The remuneration committee must only operate in accordance with the policy, unless it first seeks shareholder approval to amend the policy. Our proposed policy is set out below. It reflects our philosophy, which is to balance the interests of shareholders with those of the independent fiduciary services businesses' staff. We believe that:

- remuneration packages should be competitive but not extravagant and should broadly be in line with average packages in the markets in which Law Debenture operates;
- there should be a clear link between total remuneration (including a profit related element) and performance; and
- there should be no reward for failure, but the executives should be rewarded for the performance of the independent fiduciary services businesses, which are central to Law Debenture's unique identity.

The proposed policy, which is a continuation of the way the committee has operated for some years now, provides flexibility to ensure that the Corporation can operate effectively in the next three years, reacting to circumstances as they may change, but within clearly defined parameters.

The Regulations also introduce prescriptions on the way that we must report on the implementation of the policy. The report set out below, some of which is audited (as indicated), complies with the Regulations, albeit that we are reporting on a period pre-dating the adoption of our formal policy.

The key points in our policy are that: the Managing Director and executive staff will be remunerated on a transparent basis; performance related elements will be measured against the independent fiduciary services businesses ('IFS'), not against the investment trust; and there will only be a small number of incentive schemes, none of which will be Long Term Incentive Plans in the conventional sense.

Our remuneration policy has been developed by the committee with input from a remuneration consultant (details below) and with input from the managing director and her senior staff. We have not sought to engage stakeholders more widely than this because as stated above, the policy is largely a continuation and codification of practices that have been in place for some years now. A summary of them has been included in our annual reports and no shareholder has ever raised concern about these.

The remuneration committee invites all shareholders to approve the policy set out in this report.

Robert Laing
Chairman, remuneration committee

Part 2 – Remuneration policy

The policy on which shareholders are invited to vote is as set out below. Assuming shareholder approval is received, it will become effective on 9 April 2014 and will be in place for three years. The policy is predicated on the assumption that there will be only one executive director of the Corporation (the 'Executive Director') in post at any given time. At the moment this is the Managing Director, Caroline Banszky. Should the board decide to increase the number of Executive Directors, other than for short periods to enable smooth succession, then the policy will be re-examined and if necessary, re-submitted to shareholders for approval. The policy applies to UK directors of the Corporation and senior staff employed in its subsidiaries and will be applied also to directors and senior staff of non-UK subsidiaries subject to local legal obligations.

A. Executive Directors and senior staff

The major components of Law Debenture's remuneration package for the Executive Directors and senior staff will be as set out in the table below.

Component	Commentary
Basic salary	Set at levels consistent with individual performance and market rates applicable to positions of similar complexity and responsibility as measured annually by an independent remuneration consultant, but ordinarily subject to a cap for the Executive Director of increasing no more than inflation or by that amount awarded to the rest of the workforce.
Benefits package	Consists of private medical insurance, life insurance cover, disability income plan, season ticket loan and professional subscriptions. The remuneration committee may award non-pensionable cash payments in lieu of one or more of these benefits. Such payments will be capped at the equivalent gross amount that it would have cost to provide the benefit being foregone. **Private medical insurance** – All staff including the Executive Director are entitled to receive private health scheme membership for themselves (family cover and any other extensions require contribution by the executive). **Life insurance cover** – Life insurance cover is provided to all members of the pension scheme and to those staff, including the Executive Director, who are not members of the pension scheme. The cover provides for a payment of up to 6 times salary in the event of death in service. **Disability Income Plan** – A standard benefit for all staff, including the Executive Director, whereby subject to the length of service conditions, 75% of salary continues to be paid after 26 weeks' absence through illness. **Season ticket loan** – Season ticket loans are available to all staff including the Executive Director. The loans are interest free, repayable from monthly salary.

Component	Commentary
Benefits package (continued)	**Professional subscriptions** – One professional subscription will be paid for an Executive Director (and all other members of UK staff) if it can be demonstrated that the professional membership is relevant to the Executive Director's role.
Pension arrangements	A funded contributory, HMRC approved, final salary occupational pension scheme. Benefits accrue at 1/80ths with a salary cap linked to increases in RPI which is set from 1 January each year for accrual purposes (the figure from 1 January 2014 will be £46,516 (2013: £45,074). Employees contribute 6.2% of salary with effect from 1 January 2014. Any employee earning more than the cap benefits from a cash sum paid to a separate money purchase scheme. A non-pensionable cash payment may be payable in the form of a pension allowance (for value up to 15% of basic salary) if an individual is not (or does not become) a member of the pension scheme. The pension allowance is adjusted to reflect the cost of employer's NI to the group. The remuneration committee reserves the right to close the scheme completely, or close it to new entrants, and/or to negotiate amendments to the scheme if it is deemed in the best interests of shareholders to do so.
Bonus arrangements	Employees are eligible for the following annual bonuses which are discretionary, not contractual, and subject to performance. **a) A general discretionary bonus** payable to all UK IFS employees other than the Executive Director. This general bonus, which will be between 5-15% of salary, is dependent on the IFS profits in a given year being at least 80% of the IFS profits measured against a rolling average of the three prior year's performance. **b) Individual performance related discretionary bonus** payable to middle and senior management (including the Executive Director) as a part of their overall remuneration package, a portion of which will be deferred. No discretionary bonuses are payable unless IFS profits in a given year are at least 80% of the IFS profits measured against a rolling average of the three prior year's performance. **c) One off performance related bonuses** may be paid to any employee not entitled to a discretionary performance related bonus to reflect outstanding performance. Again, the 80% trigger applies.

Component	Commentary
Bonus arrangements (continued)	**Calculation of amount available for distribution**

The Executive Director and staff eligible for the discretionary performance related bonus will receive awards based on the profits of the IFS in the year under review, with the total pool distributable being calculated by reference to performance against the rolling average of IFS profits for the last three reported years. All relevant figures will be subject to audit and disclosed in the annual report and financial statements. This calculation basis enables smoothing out of any exceptional items, as can happen with the nature of the IFS businesses. The formula for establishing how much profit will be distributable as bonuses is as follows:

Performance achieved (as percentage of three year rolling average)	Pool amount (percentage of IFS profit made in the year under review)
79.99 or lower	0
80 - 99.99	15 - 18.99
100 - 119.9	19 - 21.99
120 and above	22 - 25

Once the committee has established the total bonus pool for distribution, it will determine an award payable to the Executive Director taking into account the performance measures set out below. The first 11% of the total bonus pool will be available for this purpose. Other than for outstanding performance when an award up to 100% of basic salary may be made, it is expected that the Executive Director's bonus will normally be between 0 and 75% of basic salary. Should the 11% set aside prove to be insufficient to make an award up to 75% of basic salary, or should the committee decide that the Executive Director's performance has been outstanding and warrants a payment higher than 75% of salary, then the committee may resolve to draw such further amounts as necessary from the IFS profits to make that higher award. On the other hand, should the committee decide not to utilise the full amount set aside in this manner, then any surplus from the 11% set aside after the committee has finalised the sum payable to the Executive Director will be released back to the shareholders.

The remaining 89% of the bonus pool will be distributed firstly, to fund the general bonus and secondly, to those individuals entitled to receive a discretionary performance related bonus award.

For the purpose of this policy, 'profit' is deemed to be the reported amount of IFS profit before tax and bonus.

Component	Commentary
Bonus arrangements (continued)	The total bonus pool will be used to pay any employers' NI due on awards made.

Basis of distribution of individual discretionary awards – performance measures

Individual awards will be made to the Executive Director dependent on whether performance has been assessed as satisfactory, good, excellent, or outstanding.

Awards will be made in the following ranges:

Performance	Bonus (as % of basic salary)
Not adequate	0
Satisfactory	0-25
Good	25-50
Excellent	50-75
Outstanding	75-100

Where performance is deemed to be 'not adequate', no discretionary bonus is payable even if the IFS profits have been sufficient to generate a bonus pool.

Performance awards for senior staff will also be assessed on similar parameters; more junior staff who are entitled to a discretionary award will receive graduated percentages between 0 and 50% of basic salary.

Awards above 75% of basic salary will only be made in exceptional circumstances. 75% is thus the effective cap, but recognising that outstanding performance may warrant a higher award in some circumstances.

Performance is measured against certain KPIs:

- an individual's personal performance including performance against targets set annually (both financial and non-financial);
- revenue performance of an individual's department against budget and/or prior year (or for the Executive Director or employees in non-fee earning departments, the performance of the IFS as a whole);
- percentage change in profit of an individual's department over the year's and/or prior year budget (or for the Executive Director or employees in a non-fee earning department, the performance of the IFS profits as a whole); and
- delivery of costs against budget.

Component	Commentary
Bonus arrangements (continued)	In addition, for the Executive Director, the committee will take into account performance that is non-financial and not specific to a particular year or a particular strategic target (such as acquisition and disposal policy, exceptional events, etc) and will assess any factors relating to the performance of the investment trust portfolio that may be deemed relevant. It is not the intention to state publicly what the financial targets will be. Given that performance is in respect of the IFS businesses, financial targets are commercially sensitive and could, if published, compromise our competitiveness. This will be kept under review. **Deferred element** All UK recipients of a discretionary bonus will have between one third and one half of the bonus withheld for three years under the Deferred Share Bonus Plan. The remuneration committee will decide the percentage to be withheld on a case by case basis. Shares will be purchased in the open market up to the amount of an individual's bonus to be withheld. The shares will be held on trust for the withholding period, to be released to the individual on the third anniversary of grant or earlier if good leaver provisions apply. The individual must pay PAYE and NI before the shares are released, otherwise they are forfeited. Entitlement to deferred shares will be lost if the individual gives notice to resign, or is put on notice of termination for cause, before the award release date. Dividend rights and voting rights on shares held pending release will be waived. **Clawback and malus** The following rules apply: i) clawback – there is a requirement on the Executive Director to pay back an amount already received under the bonus arrangements if: a) the IFS profits turn out to have been overstated at the time a payment or share award was made; or b) it is later discovered that the Executive Director was in breach of contract at the time a payment or share award was made. Malus is the forfeit of all or part of a bonus/share award before it has vested and been paid. Any cash award determined but not yet paid, or any deferred shares awarded but not yet vested, may be reduced or taken away altogether if the circumstances described under 'clawback' above are discovered to be the case before vesting or payment.

Component	Commentary
Long term incentive plans	No long term incentive plans exist and the committee has no intention of introducing such a plan within the next three years.
Schemes available	Eligible staff are able to join a Save As You Earn Share Save Plan (SAYE) and/or a Share Incentive Plan (SIP). Both plans are HMRC approved. The committee intends to maintain these schemes and operate them in accordance with scheme rules and HMRC Regulations. Both schemes require employees to contribute their own money and participation is open to all UK employees. While offering employees some tax advantages, the Schemes have a negligible operating cost and are deemed to be a key part of the Corporation's ability to recruit and retain staff. Under the SAYE, the Executive Director and all UK members of staff may make monthly savings in aggregate up to HMRC limits (currently £250 per month, due to rise to £500 per month from 6 April 2014) direct from post-tax pay with a guaranteed tax free return after five years. On joining the scheme, savers are given an option to acquire shares in the Corporation at the end of the five year saving period, at a price fixed at the beginning of the saving period. This will be the market price of the shares on the invitation date or the latest published NAV, whichever is higher. At the end of the five year saving period, participants may choose to apply the amount saved to exercise the options over the shares notified at the outset of the saving period, or they may choose to relinquish their options in favour of receiving a cash repayment of all of their contribution plus a bonus as specified by HMRC (current HMRC rules do not permit a bonus). The SIP enables participants (all the UK employees) to sacrifice up to the HMRC limit (currently £4,500, due to rise to £5,400 from 6 April 2014) of their pre-tax cash bonus to buy the Corporation's shares at current market price. These are held by a trustee and released tax free after five years. Any earlier release is subject to PAYE and NI. Participants receive dividend and voting rights on shares held in the SIP during the five year trust period.

B. Non-executive directors

The components of Law Debenture's remuneration package for non-executive directors of the Corporation are set out in the table below.

Component	Commentary
Basic salary	The non-executive directors receive fees for their services as follows: NED fee £40,000 Chairman fee* £85,000 Non-executive director of other group company £5,000 Committee chair £5,000 Pension scheme chair £15,000 * Chairman is paid a single fee which includes any other group directorships and committee roles. The fees are reviewed by the board on advice from the Executive Director, who from time to time undertakes comparative studies using an independent remuneration consultant to ensure that the non-executive fee levels are consistent with the marketplace. Fees will only be increased in line with inflation unless the recommendation from the external consultant justifies consideration of a higher award. The Chairman is a non-executive director.
Benefits package	None.
Pension arrangements	None.
Bonus and other incentive arrangements	None.

Non-executive directors are appointed for an indefinite term, subject to annual re-election by the shareholders. Non-executive directors do not qualify for compensation payable on early termination of their roles.

C. Recruitment of new directors

Any new Executive Director recruited while this policy is in force will be remunerated in accordance with the policies set out in table 2A. In addition, the following rules will apply:

- no new Executive Director will receive a starting salary that exceeds the existing Executive Director's basic salary by more than 20%;
- no additional bonus or long term incentive arrangements will be established without prior shareholder approval;
- no 'golden hello' payments will be made;
- relocation packages will only be paid at the discretion of the remuneration committee; and
- the remuneration committee may agree to a payment of up to one third of the basic starting salary of a new Executive Director in lieu of any deferred bonus payments awarded and due to the executive from a former employer, but which are being sacrificed in order to join Law Debenture. As far as practicable, any such payments will be subject to the same deferment and withholding provisions that applied to the entitlement being sacrificed.

Any new non-executive directors will receive fees in accordance with table 2B.

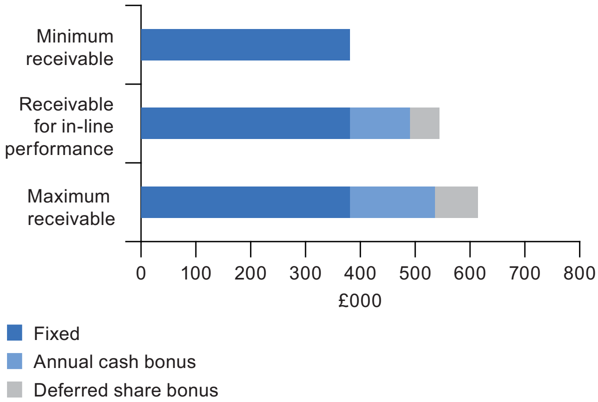
D. Compensation for loss of office

Executive Directors are appointed with a notice period of six months, with no contractual provisions for compensation payable on early termination (with notice) of the contract. Otherwise, there will be an entitlement to receive salary and benefits during the notice period, which may be paid 'in lieu' of all or part of any period of notice. There are no entitlements to payments of any sort in the event that for cause an Executive Director's employment is summarily terminated. In the event that an Executive Director is given notice of termination of employment within twelve months of any change in control of the Corporation, he/she will be given not less than twelve month's written notice and the same arrangements for receiving salary and benefits during this period will apply as described above.

Non-executive directors will not be entitled to compensation on termination of their directorship, no matter what the reason for termination.

E. Diagrammatic summary of fixed versus variable remuneration receivable – the Executive Director

The following chart demonstrates minimum, in-line and maximum amounts potentially receivable by the Executive Director.



F. Closing statements

In deriving the policy set out above, the remuneration committee has considered employment conditions generally as they apply to staff across the IFS businesses. The aim of the policy is to ensure that the Executive Director receives broadly the same elements of salary, bonus and benefits as the generality of staff, with awards as to quantum based on similar performance conditions and measurements. The exceptions for the Executive Director are: the remuneration committee may take account of the Executive Director's contribution to the investment trust strategy and performance, as well as the performance of the IFS businesses; the Executive Director (along with senior staff) may receive higher percentage bonus payments than more junior staff; and the Executive Director is not eligible for the general bonus.

Part 3 – Annual remuneration report

The following paragraphs are set out in the form prescribed by the Regulations. Certain elements of the report have been audited, as clearly indicated.

A. Total remuneration (audited)

	Total salary/fees £	Annual cash bonus £	Deferred share bonus received £	Benefits £	Pension related benefits £	**Total receivable for 2013** £	Total receivable for 2012 £
C.J. Banszky	310,600	149,280	106,734	8,187	62,120	**636,921**	636,923
C. Smith	78,647	–	–	–	–	**78,647**	63,000
D.C.P. McDougall*	18,390	–	–	–	–	**18,390**	65,500
M. Bridgeman**	35,528	–	–	–	–	**35,528**	–
J.A. Kay	53,083	–	–	–	–	**53,083**	49,250
R. Laing	48,000	–	–	–	–	**48,000**	33,000

* Director and Chairman until 10 April ** Director from 15 March

Notes
1. Mrs Banszky received a cash allowance in lieu of pension benefits, which is included in pension related benefits. The level of cash allowance was amended from 1 January 2014 in line with the new remuneration policy and an adjustment made to salary in compensation for the change. Mrs Banszky has a preserved defined pension benefit, which at the time she left the pension plan on 31 March 2006 was £7,333 per annum. This increases with inflation in line with the rules of the pension scheme. Mrs Banszky's normal retirement date under the plan is 24 July 2015.
2. Annual cash bonus is in respect of the year ended 31 December 2013. Deferred share bonus received is in respect of the shares received under the scheme on 4 March 2013 (see C. Deferred Share Plan).
3. Benefits in respect of Mrs Banszky were the cost of life insurance cover and the disability income plan together with a payment in lieu of private medical insurance.
4. A.C. Cates, who ceased as a director in 2012 received fees in that year of £13,990.
5. There are no long term incentive plans.

B. Save As You Earn Share Save Plan 2002 (audited)

	Interest as at 31 December 2012	Interest acquired in 2013	Exercise price	Market price at invitation date	**Interest as at 31 December 2013**	Earliest exercise	Latest exercise
C.J. Banszky	7,399	–	211.50p	247.25p	**7,399**	01.08.14	31.01.15

C. Deferred Share Plan (audited)

	Interest at 31 December 2012	**Interest (vested)/ acquired in 2013**	Purchase price	**Interest at 31 December 2013**	Date shares to be released
C.J. Banszky					
2010	22,865	**(22,865)**	285.37p	**–**	–
2011	24,739	**–**	351.67p	**24,739**	02.03.14
2012	18,884	**–**	395.17p	**18,884**	13.03.15
2013	–	**14,851**	478.43p	**14,851**	14.03.16

The shares were purchased in the open market and are held under trust by a Law Debenture subsidiary until the release date.

Mrs Banszky received her allocation of 22,865 deferred shares issued in 2010 on 4 March 2013 and sold 12,000 shares at a price of 462.80p to meet the tax liability payable on receipt of the shares. The price at vesting was 466.80p. The value of the shares at vesting is included in directors' remuneration and PAYE and NI was paid on that basis. The price of the shares at 31 December 2013 was 529.00p per share.

Mrs Banszky will receive deferred shares to the value of £74,640 in respect of 2013, which will be due to vest in 2017.

D. Miscellaneous disclosures

No payments were made to former directors during the year.

No payments were made to any director for loss of office.

Directors are strongly encouraged to hold shares throughout the term of their appointment, to align their own interests with those of the shareholders as a whole. Directors' shareholdings at 31 December 2013 were as follows:

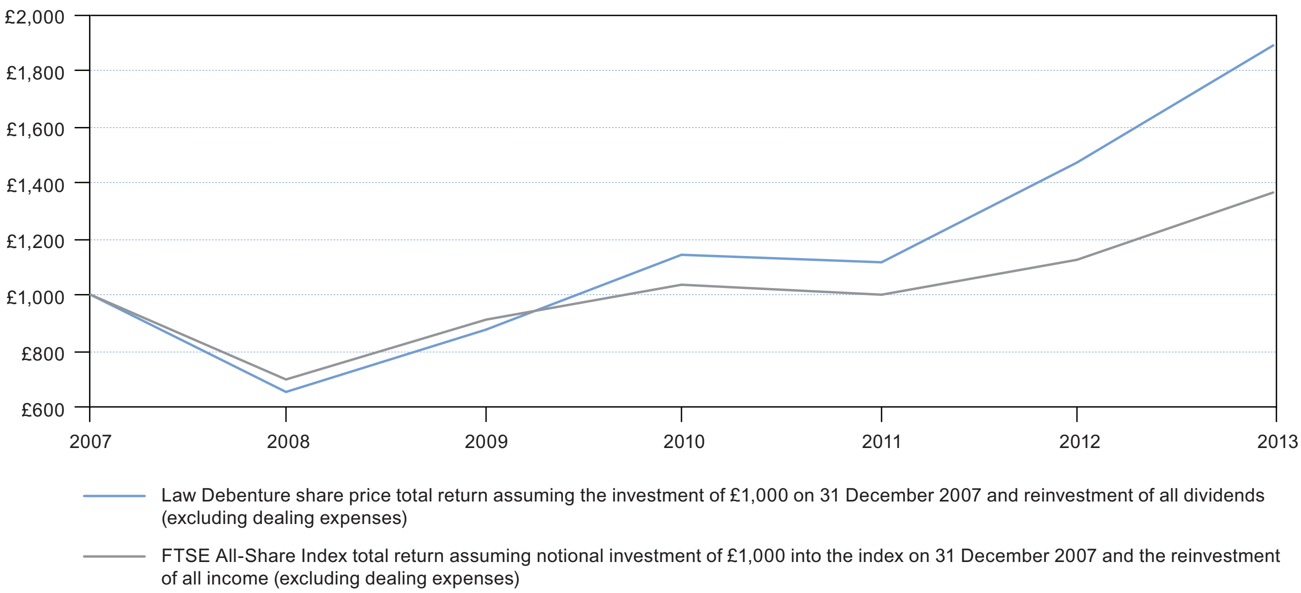
	Beneficial interests as at 31 December 2013	Beneficial interests as at 31 December 2012	**Shares receivable but not vested at 31 December 2013**
C.J. Banszky	**243,466**	241,631	**65,873***
J.A. Kay	**15,000**	15,000	**–**
R. Laing	**12,300**	12,300	**–**
D.C.P. McDougall	**n/a**	410,000	**–**
C. Smith	**55,000**	55,000	**–**
M. Bridgeman	**4,513**	n/a	**–**

* Comprises shares due under the Deferred Share Plan and Save As You Earn Share Save Plan.

E. Aggregate directors' remuneration (audited)

	2013 £	2012 £
Emoluments	**870,569**	861,663

F. Performance graph



Notes
1. The graph shows the total shareholder return of a nominal holding of £1,000 of Law Debenture's shares measured against the total shareholder return of a nominal holding of £1,000 invested in the FTSE All-Share Index over a six year period.
2. Dividends have been reinvested.
3. This chart will be extended in the years ahead until it shows a ten year range.
4. FTSE All-Share Index is chosen as the comparator in this table because that is the index against which, historically, the Corporation has reported the performance of the investment trust portfolio.

G. Executive Directors – diagrammatic summaries

The Regulations require us to publish the following tables relating to Executive Directors. For Law Debenture, the Managing Director is the only Executive Director.

i) Historical remuneration

The table below sets out the Executive Director's total remuneration over the same period as the performance graph above. The annual bonus pay-out percentage maximum has always effectively been 75% but with discretion to pay up to 100% in exceptional circumstances.

Year	Single figure of total remuneration	Annual bonus and deferred share bonus payout (against maximum %)
2013	**636,921**	**72.1%**
2012	636,923	70%
2011	602,676	75%
2010	588,482	90%
2009	528,443	67.5%
2008	510,780	70%

The maximum bonus payment was 100% each year. The bonus payment includes a one third deferred element (see table 3C).

ii) Percentage change in remuneration

The following table shows the percentage change in remuneration of the Executive Director compared to UK employees as a whole during the year.

	2013 Salary %	2013 Benefits %	2013 Bonus %	2012 Salary %	2012 Benefits %	2012 Bonus %
Executive Director	**2.0**	**6.9**	**5.1**	2.0	2.6	(4.8)
UK employees as a whole	**2.2**	**6.9**	**2.4**	2.9	2.6	(6.9)

1. The figure used to calculate the Executive Director's salary is 'total salary/fees' figure at table 3A.
2. The benefits and bonus are as set out in table 3A, which exclude pension benefits.

iii) Relative spend on salaries

The following table shows the total amount spent on remuneration (to all group employees, including the Executive Director) with a comparator to last year, along with total distributions to shareholders by way of dividend or (where applicable) share buy-back or other distributions.

Year	2013 £000	2012 £000
Total remuneration spend	**12,201**	11,682
Total distributed to shareholders	**17,659**	16,762

1. Total remuneration includes bonuses, employers' NI and pension costs and is the figure reported at note 3 of the accounts.
2. Amounts distributed to shareholders are the totals of the final and interim dividends in respect of that year. There were no other distributions. The 2013 figure assumes that shareholders approve the proposed dividend at the AGM on 9 April 2014.

iv) Statement of policy implementation in the current year

The remuneration committee is committed to implementing the remuneration policy set out at Part 2 above during the current financial year. Performance measures and weightings applicable to bonus calculations will be calculated in accordance with the policy at table 2A. The IFS profit before tax and bonus, used to calculate the 2013 bonus pool, was £12,055,000.

H. Consideration of matters relating to directors' remuneration

The board delegates all remuneration matters to the remuneration committee.

The members of the committee who served during the year are:

- DCP McDougall (chairman) – until 10 April 2013
- R Laing – chairman since 10 April 2013
- C Smith
- J Kay
- M Bridgeman – from 15 March 2013

During the year, the committee took advice from the following: the Executive Director (although not in respect of her own remuneration), the Chief Financial Officer and the Company Secretary; Lesley Pearson, an independent remuneration consultant who has no other connection to the Corporation and its subsidiaries; and Thrings Solicitors, which has no other connection with the Corporation or its subsidiaries, in respect of employment implications of certain IFS restructures.

I. Voting at general meetings

At the AGM on 10 April 2013, the resolution to receive and approve the directors' remuneration report for the year ended 31 December 2012 received the following votes: for – 99.75%; against – 0.25%. Votes withheld represented 0.58% of the total votes cast.

There were no other resolutions concerning remuneration.

Christopher Smith
Chairman, non-executive director

Appointed to the board on 1 March 2009. Former Partner, Cazenove & Co and Managing Director-Corporate Finance of JP Morgan Cazenove. Over 30 years' experience in corporate finance and equity capital markets. He is chairman of CG Asset Management and a director of Allchurches Trust Limited. He is chairman of the nominations committee, a member of the remuneration committee, chairman of L.D.C. Trust Management Limited and chairman of Law Debenture Trust Company of New York Inc.

Caroline Banszky
Managing director

Appointed to the board in January 2002. Former chief operating officer of SVB Holdings PLC (now called Novae plc), a Lloyd's listed integrated vehicle, and former finance director of N.M. Rothschild & Sons Limited.

John Kay CBE
Non-executive director

Appointed to the board in September 2004. Business economist, writer and broadcaster. Visiting Professor at the London School of Economics. Founded London Economics, Britain's largest independent economic consultancy. Director of Value and Income Trust plc and Scottish Mortgage Investment Trust plc. He is also an adviser to Nutmeg, an internet start-up, and to the Norwegian Sovereign Wealth Fund.

He writes a weekly column for the Financial Times. Member of the audit, remuneration and nominations committees and chairman of L.D. Pension Plan Trustee Limited.

Robert Laing
Non-executive director

Appointed to the board in April 2012. Admitted as a solicitor in England in 1977 and in Scotland in 1985. He worked for Slaughter and May from 1975 until 1983 when he joined Maclay Murray & Spens. He has been a partner in that firm (now Maclay Murray & Spens LLP) since 1985 and chairman since 1 June 2010. He is a non-executive director of The Independent Investment Trust plc. Chairman of the remuneration committee and a member of the audit and nominations committees and a non-executive director of L.D.C. Trust Management Limited.

Mark Bridgeman
Non-executive director

Appointed to the board in March 2013. He spent 19 years with Schroders plc as an analyst and then fund manager, rising to become Global Head of Research. He now manages a large rural estate and farming business in Northumberland. He is a non-executive director of JP Morgan Brazil Investment Trust plc, Blackrock Emerging Europe plc and North East Finance (Holdco) Limited. He is also on the boards of three charities. Chairman of the audit committee and a member of the remuneration and nominations committees.

Investment manager

James Henderson

Joined Henderson Global Investors in 1983 and has been an investment trust portfolio manager since 1990. He first became involved in the management of Law Debenture's portfolio in 1994 and took over lead responsibilty for management of the portfolio in June 2003. He also manages Lowland Investment Company plc, Henderson Opportunities Trust plc and Henderson UK Equity Income & Growth Fund.

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A member of

aic
The Association of
Investment Companies

We have audited the financial statements of The Law Debenture Corporation p.l.c. for the year ended 31 December 2013 which comprise the group statement of comprehensive income, the group and Corporation statement of financial position, the group and Corporation statement of changes in equity, the group and Corporation statement of cash flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the Corporation 's financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and the Corporation's affairs as at 31 December 2013 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Corporation financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied by the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

Our assessment of risks of material misstatement and an overview of the scope of our audit

We identified the following risks that we believe have had the greatest impact on our audit strategy and scope:

- Investments comprise the majority of the assets in the Statement of Financial Position. There is a risk that the group does not have beneficial ownership of the holdings and that the investments are not correctly valued in line with IAS39.

We have confirmed the existence of title to third party custodian confirmation, reviewed the latest available assurance report addressing the relevant controls in place at the custodian and have confirmed the valuation of the listed investments to a third party pricing provider.

- International Standards on Auditing (UK and Ireland) presume that a risk of material misstatement due to fraud in relation to revenue recognition is present in all entities. Revenue comprises dividends and interest receivable on the portfolio of investments held by the Investment Trust and fees receivable from the provision of fiduciary services.

We completed a review of the group's revenue recognition procedures to ensure that they are consistent with prior periods, with the accounting policies and IAS18. We reviewed and checked the calculation and validity of the accrued and deferred income recognised for dividends and interest receivable and fees receivable from the provision of fiduciary services. We also obtained a breakdown of accrued and deferred income and selected a sample to agree back to contracts to check the balance was in line with expectations.

- The group records impairments for bad debts arising in the ordinary course of business from fiduciary services activities. The recording of impairments of trade receivable balances is an accounting estimate in which judgement is exercised by management and where there is an inherent risk of management override. Management apply judgement in both determining whether there is objective evidence of impairment of receivables balances in line with IAS 39 and in estimating the carrying amounts.

We reviewed the impairments of receivable balances to understand their basis and whether they met the criteria for impairment under IAS 39. During this process we reviewed supporting documentation relating to the amount provided, reviewed the consistency of the basis for impairment compared to prior years, reviewed unimpaired receivables to consider completeness of impairments, considered the historical accuracy of management's judgements relating to impairment of receivables balances and discussed with management their judgements and assumptions in recording the impairments made, challenging and corroborating explanations where applicable.

- The group has recorded goodwill in respect of the acquisitions of Safecall Limited and Delaware Corporate Services Inc. IAS 36 requires that the cash generating units to which goodwill has been allocated should be tested for impairment annually. Impairment tests require the exercise of management judgement in making assumptions and selecting inputs that underlie the impairment test calculations.

We reviewed the impairment test undertaken by management and assessed compliance with the requirements of IAS 36. We also challenged and assessed the reasonableness of the assumptions and inputs in the impairment workings through discussions with management, the use of valuations experts as part of the audit team, recalculation of management workings using alternative inputs where appropriate, comparison to industry benchmarks, reviewing the historical accuracy of forecasting and agreement of information and explanations obtained to supporting documentation and historical information where applicable. The disclosures made in the financial statements were reviewed for compliance with IAS 36.

The audit committee's consideration of these risks is set out on page 29 and 30.

Purpose of this report

This report is made solely to the Corporation's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Corporation's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Corporation and the Corporation's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the statement of directors' responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Financial Reporting Council's (FRC's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the FRC's website at www.frc.org.uk/auditscopeukprivate.

Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements on our audit and on the financial statements. We define planning materiality as the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements. We also determine a level of performance materiality which we use to determine the extent of testing needed to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole.

We determined final materiality for the financial statements as a whole to be £11,903,000. In determining this, we based our assessment on a percentage of gross assets. On the basis of our risk assessment, together with our assessment of the group's control environment, our judgement is that performance materiality for the financial statements should be 75% of planning materiality, namely £8,928,000. Our objective in adopting this approach is to ensure that total detected and undetected audit differences do not exceed our final materiality of £11,903,000 for the financial statements as a whole.

International Standards on Auditing (UK and Ireland) also allow the auditor to set a lower materiality for particular classes of transaction, balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. In this context, we set a lower level of materiality to apply to those classes of transactions and balances which impact on the costs and the net revenue returns of the fiduciary services business. We determined materiality for these areas to be £478,000.

We agreed with the audit committee that we would report to the committee all audit differences in excess of £238,000, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006;
- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the information given in the corporate governance report set out on pages 23 to 27 of the annual report with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures is consistent with the financial statements.

Matters on which we are required to report by exception

Under the ISAs (UK and Ireland), we are required to report to you if, in our opinion, information in the annual report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Corporation acquired in the course of performing our audit; or
- is otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the directors' statement that they consider the annual report is fair, balanced and understandable and whether the annual report appropriately discloses those matters that we communicated to the audit committee which we consider should have been disclosed.

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements and the part of the directors' remuneration report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- a Corporate Governance Statement has not been prepared by the Corporation.

Under the Listing Rules we are required to review:

- the directors' statement, set out on page 20, in relation to going concern;
- the part of the corporate governance statement relating to the Corporation's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to shareholders by the board on directors' remuneration.

We have nothing to report in respect of these matters.

Daniel Taylor (senior statutory auditor)

For and on behalf of BDO LLP, statutory auditor
London
United Kingdom
27 February 2014

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Group income statement for the year ended 31 December

	Notes	Revenue £000 (2013)	Capital £000 (2013)	Total* £000 (2013)	Revenue £000 (2012)	Capital £000 (2012)	Total* £000 (2012)
UK dividends		**12,276**	**–**	**12,276**	11,431	–	11,431
UK special dividends		**990**	**–**	**990**	457	–	457
Overseas dividends		**1,918**	**–**	**1,918**	1,792	–	1,792
Overseas special dividends		**35**	**–**	**35**	51	–	51
Interest from securities		**566**	**–**	**566**	661	–	661
		15,785	**–**	**15,785**	14,392	–	14,392
Interest income	5	**61**	**–**	**61**	140	–	140
Independent fiduciary services fees		**31,819**	**–**	**31,819**	29,760	–	29,760
Other income		**183**	**–**	**183**	105	–	105
Total income		**47,848**	**–**	**47,848**	44,397	–	44,397
Net gain on investments held at fair value through profit or loss	2	**–**	**114,864**	**114,864**	–	59,259	59,259
Gross income and capital gains		**47,848**	**114,864**	**162,712**	44,397	59,259	103,656
Cost of sales		**(4,744)**	**–**	**(4,744)**	(3,761)	–	(3,761)
Administrative expenses	3	**(19,539)**	**(496)**	**(20,035)**	(18,638)	(193)	(18,831)
Operating profit		**23,565**	**114,368**	**137,933**	21,998	59,066	81,064
Finance costs							
Interest payable	5	**(2,736)**	**–**	**(2,736)**	(2,450)	–	(2,450)
Profit before taxation	6	**20,829**	**114,368**	**135,197**	19,548	59,066	78,614
Taxation	7	**(1,679)**	**–**	**(1,679)**	(1,753)	–	(1,753)
Profit for year	6	**19,150**	**114,368**	**133,518**	17,795	59,066	76,861
Return per ordinary share (pence)	9	**16.27**	**97.18**	**113.45**	15.14	50.24	65.38
Diluted return per ordinary share (pence)	9	**16.26**	**97.10**	**113.36**	15.13	50.21	65.34

*See note 1.

Statement of comprehensive income for the year ended 31 December

	Revenue £000 (2013)	Capital £000 (2013)	Total £000 (2013)	Revenue £000 (2012)	Capital £000 (2012)	Total £000 (2012)
Group						
Profit for the year	**19,150**	**114,368**	**133,518**	17,795	59,066	76,861
Foreign exchange on translation of foreign operations	**–**	**(121)**	**(121)**	–	(204)	(204)
Pension actuarial gains	**432**	**–**	**432**	336	–	336
Taxation on pension	**(100)**	**–**	**(100)**	(104)	–	(104)
Total comprehensive income for the year	**19,482**	**114,247**	**133,729**	18,027	58,862	76,889

	Notes	Group 2013 £000	Group 2012 £000	Corporation 2013 £000	Corporation 2012 £000
Assets					
Non current assets					
Goodwill	10	**2,167**	2,182	**–**	–
Property, plant and equipment	11	**207**	254	**–**	–
Other intangible assets	12	**223**	363	**–**	–
Investments held at fair value through profit or loss	13	**595,173**	479,521	**594,895**	479,256
Investments in subsidiary undertakings	13	**–**	–	**35,129**	50
Amounts due from subsidiary undertakings		**–**	–	**60,000**	60,000
Deferred tax assets	7	**775**	1,126	**–**	–
Total non current assets		**598,545**	483,446	**690,024**	539,306
Current assets					
Trade and other receivables	14	**6,787**	4,244	**179**	84
Other accrued income and prepaid expenses		**4,963**	5,980	**1,362**	1,914
Cash and cash equivalents	15	**49,688**	22,201	**9,325**	10,339
Total current assets		**61,438**	32,425	**10,866**	12,337
Total assets		**659,983**	515,871	**700,890**	551,643
Current liabilities					
Amounts owed to subsidiary undertakings		**–**	–	**58,670**	54,016
Trade and other payables	16	**12,071**	10,745	**153**	109
Short term borrowings	20	**26,793**	–	**26,793**	–
Corporation tax payable		**951**	1,005	**13**	192
Other taxation including social security		**655**	629	**411**	383
Deferred income		**4,059**	3,948	**11**	11
Total current liabilities		**44,529**	16,327	**86,051**	54,711
Non current liabilities and deferred income					
Long term borrowings	20	**39,445**	39,418	**–**	–
Retirement benefit obligations	23	**1,089**	2,227	**–**	–
Deferred income		**5,848**	6,035	**194**	204
Total non current liabilities		**46,382**	47,680	**194**	204
Total net assets		**569,072**	451,864	**614,645**	496,728
Equity					
Called up share capital	17	**5,908**	5,905	**5,908**	5,905
Share premium		**8,283**	8,122	**8,283**	8,122
Capital redemption		**8**	8	**8**	8
Own shares	17	**(1,695)**	(1,778)	**–**	–
Capital reserves	18	**519,702**	405,334	**582,487**	465,915
Retained earnings		**36,678**	33,964	**17,959**	16,778
Translation reserve		**188**	309	**–**	–
Total equity		**569,072**	451,864	**614,645**	496,728

Approved and authorised for issue by the board on 27 February 2014 and signed on its behalf by:

C. Smith Chairman
C.J. Banszky Managing director

Registered number 30397

	Share capital £000	Share premium £000
Group		
Equity at 1 January 2012	5,905	8,106
Profit	–	–
Foreign exchange	–	–
Actuarial gain on pension scheme (net of tax)	–	–
Total comprehensive income	–	–
Issue of shares	–	16
Dividend relating to 2011	–	–
Dividend relating to 2012	–	–
Movement in own shares	–	–
Transfer	–	–
Total equity at 31 December 2012	5,905	8,122
Equity at 1 January 2013	**5,905**	**8,122**
Profit	**–**	**–**
Foreign exchange	**–**	**–**
Actuarial gain on pension scheme (net of tax)	**–**	**–**
Total comprehensive income	**–**	**–**
Issue of shares	**3**	**161**
Dividend relating to 2012	**–**	**–**
Dividend relating to 2013	**–**	**–**
Movement in own shares	**–**	**–**
Total equity at 31 December 2013	**5,908**	**8,283**

	Share capital £000	Share premium £000
Corporation		
Equity at 1 January 2012	5,905	8,106
Total comprehensive income	–	–
Issue of shares	–	16
Dividend relating to 2011	–	–
Dividend relating to 2012	–	–
Total equity at 31 December 2012	5,905	8,122
Equity at 1 January 2013	**5,905**	**8,122**
Total comprehensive income	**–**	**–**
Issue of shares	**3**	**161**
Dividend relating to 2012	**–**	**–**
Dividend relating to 2013	**–**	**–**
Total equity at 31 December 2013	**5,908**	**8,283**

Capital reserves comprises realised and unrealised gains on investments held at fair value through profit or loss (see note 18).

Own shares £000	Capital redemption £000	Share based payments £000	Translation reserve £000	Capital reserves £000	Retained earnings £000	Total £000
(1,684)	8	201	513	346,268	31,609	390,926
–	–	–	–	59,066	17,795	76,861
–	–	–	(204)	–	–	(204)
–	–	–	–	–	232	232
–	–	–	(204)	59,066	18,027	76,889
–	–	–	–	–	–	16
–	–	–	–	–	(10,582)	(10,582)
–	–	–	–	–	(5,291)	(5,291)
(94)	–	–	–	–	–	(94)
–	–	(201)	–	–	201	–
(1,778)	8	–	309	405,334	33,964	451,864

(1,778)	**8**	**–**	**309**	**405,334**	**33,964**	**451,864**
–	**–**	**–**	**–**	**114,368**	**19,150**	**133,518**
–	**–**	**–**	**(121)**	**–**	**–**	**(121)**
–	**–**	**–**	**–**	**–**	**332**	**332**
–	**–**	**–**	**(121)**	**114,368**	**19,482**	**133,729**
–	**–**	**–**	**–**	**–**	**–**	**164**
–	**–**	**–**	**–**	**–**	**(11,471)**	**(11,471)**
–	**–**	**–**	**–**	**–**	**(5,297)**	**(5,297)**
83	**–**	**–**	**–**	**–**	**–**	**83**
(1,695)	**8**	**–**	**188**	**519,702**	**36,678**	**569,072**

Own shares £000	Capital redemption £000	Share based payments £000	Translation reserve £000	Capital reserves £000	Retained earnings £000	Total £000
–	8	–	–	406,849	16,224	437,092
–	–	–	–	59,066	16,427	75,493
–	–	–	–	–	–	16
–	–	–	–	–	(10,582)	(10,582)
–	–	–	–	–	(5,291)	(5,291)
–	8	–	–	465,915	16,778	496,728

–	**8**	**–**	**–**	**465,915**	**16,778**	**496,728**
–	**–**	**–**	**–**	**116,572**	**17,949**	**134,521**
–	**–**	**–**	**–**	**–**	**–**	**164**
–	**–**	**–**	**–**	**–**	**(11,471)**	**(11,471)**
–	**–**	**–**	**–**	**–**	**(5,297)**	**(5,297)**
–	**8**	**–**	**–**	**582,487**	**17,959**	**614,645**

Statements of cash flows for the year ended 31 December

	Group		Corporation	
	2013 £000	2012 £000	**2013 £000**	2012 £000
Operating activities				
Operating profit before interest payable and taxation	**137,933**	81,064	**137,346**	78,492
(Gains) on investments	**(114,368)**	(59,066)	**(116,572)**	(59,066)
Foreign exchange	**15**	39	**–**	–
Depreciation of property, plant and equipment	**154**	149	**–**	–
Amortisation of intangible assets	**199**	214	**–**	–
(Increase)/decrease in receivables	**(1,526)**	962	**457**	403
Increase/(decrease) in payables	**1,303**	(314)	**62**	(58)
Transfer to capital reserves	**150**	772	**150**	772
Normal pension contributions in excess of cost	**(706)**	(575)	**–**	–
Cash generated from operating activities	**23,154**	23,245	**21,443**	20,543
Taxation	**(1,482)**	(1,855)	**(362)**	(418)
Interest paid	**(2,736)**	(2,450)	**(2,642)**	(2,654)
Operating cash flow	**18,936**	18,940	**18,439**	17,471
Investing activities				
Acquisition of property, plant and equipment	**(109)**	(89)	**–**	–
Expenditure on intangible assets	**(57)**	(375)	**–**	–
Purchase of investments	**(101,534)**	(48,376)	**(101,521)**	(48,376)
Sale of investments	**100,222**	50,193	**100,222**	50,143
Acquisition of subsidiary undertaking	**–**	–	**(35,079)**	–
Cash flow from investing activities	**(1,478)**	1,353	**(36,378)**	1,767
Financing activities				
Subsidiary undertakings	**–**	–	**4,654**	(2,187)
Dividends paid	**(16,768)**	(15,873)	**(16,768)**	(15,873)
Proceeds of increase in share capital	**164**	16	**164**	16
Purchase of own shares	**83**	(94)	**–**	–
Net cash flow from financing activities	**(16,521)**	(15,951)	**(11,950)**	(18,044)
Net increase/(decrease) in cash and cash equivalents	**937**	4,342	**(29,889)**	1,194
Cash and cash equivalents at beginning of period	**22,201**	18,063	**10,339**	9,145
Foreign exchange (losses)/gains on cash and cash equivalents	**(243)**	(204)	**2,082**	–
Cash and cash equivalents at end of period	**22,895**	22,201	**(17,468)**	10,339
Cash and cash equivalents comprise				
Cash and cash equivalents	**49,688**	22,201	**9,325**	10,339
Short term borrowings	**(26,793)**	–	**(26,793)**	–
	22,895	22,201	**(17,468)**	10,339

1 | Summary of significant accounting policies

General information

The Law Debenture Corporation p.l.c. is a public company incorporated in the United Kingdom. The address of the registered office is given on page 44. The group's operations and its principal activities are as an investment trust and the provider of independent fiduciary services.

Basis of preparation

The financial statements of The Law Debenture Corporation p.l.c. and the group have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union.

Where presentational guidance set out in the Statement of Recommended Practice Financial Statements of Investment Trust Companies, January 2009 (SORP) is consistent with the requirements of IFRS, the directors have sought to prepare the financial statements on a basis compliant with the recommendations of the SORP.

Critical accounting estimates and judgements

The preparation of the financial statements necessarily requires the exercise of judgement both in application of accounting policies which are set out below and in the selection of assumptions used in the calculation of estimates. These estimates and judgements are reviewed on an ongoing basis and are continually evaluated based on historical experience and other factors. However, actual results may differ from these estimates. The most significantly affected component of the financial statements and associated critical judgements is as follows:

Defined benefit scheme

The calculation of the defecit of the defined benefit scheme is sensitive to the assumptions used. The assumptions used are given in note 23 to the financial statements.

The sensitivity to changes in assumptions and conditions which are significant to the calculation of the deficit have been considered and the following is an illustration of the potential impact.

	Increase/(decrease) in balance sheet liability at 31 December 2013 £ million
Discount rate +0.1%	**(0.7)**
Inflation assumptions +0.1%	**0.6**
Life expectancy at 65 +1 year	**1.1**
Equity market falls 5%	**1.2**

The directors take advice from an actuary when selecting assumptions.

New IFRSs, interpretations and amendments not yet effective

None of the new standards, interpretations or amendments, which are effective for the first time in these financial statements has had a material impact on the financial statements.

None of the new standards, interpretations or amendments, endorsed but not yet effective are expected to have a material impact on the group's future financial statements. In particular the changes relating to Investment Entities (IFRS 10, IFRS 12 and IAS 27) do not impact the Corporation as it is a non-investment entity under the definition and therefore will continue to produce consolidated financial statements.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of The Law Debenture Corporation p.l.c. and entities controlled by the Corporation (its subsidiaries) made up to the end of the financial period. Control is achieved where the Corporation has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

1 | Summary of significant accounting policies continued

The assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess consideration over the fair values of the identifiable net assets acquired is recognised as goodwill.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. The financial statements of subsidiaries are adjusted, where necessary, to ensure the accounting policies used are consistent with those adopted by the group.

Presentation of income statement and statement of comprehensive income
In order to better reflect the activities of an investment trust company and in accordance with the SORP, supplementary information which analyses the income statement and statement of comprehensive income between items of a revenue and capital nature has been presented. Additionally, the net revenue is the measure the directors believe appropriate in assessing the group's compliance with certain requirements set out in Sections 1158-1159 of the Corporation Tax Act 2010. As permitted by Section 408 of the Companies Act 2006, the Corporation has not presented its own income statement.

Segment reporting
Operating segments are components of an entity about which separate financial information is available that is evaluated regularly by the directors in deciding how to allocate resources and in assessing performance. The group comprises two operating segments; the investment trust and independent fiduciary services. This is consistent with internal reporting.

Foreign currencies
Transactions recorded in foreign currencies are translated into sterling at the exchange rate ruling on the date of the transaction.

Assets and liabilities denominated in foreign currencies at the reporting date are translated into sterling at the exchange rate ruling at that date. Gains and losses on translation are included in net profit or loss for the period, however exchange gains or losses on investments held at fair value through profit or loss are included as part of their fair value gain or loss.

The assets and liabilities of overseas subsidiaries are translated at exchange rates prevailing on the reporting date. Income and expenses of overseas subsidiaries are translated at the average exchange rates for the period. Exchange differences arising from the translation of net investment in foreign subsidiaries are recognised in the statement of comprehensive income and transferred to the group's translation reserve.

Property, plant and equipment
All property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the item. Depreciation is calculated using the straight-line method to allocate the cost over the assets' estimated useful lives as follows:

Leasehold improvements	over the remaining lease period
Office furniture and equipment	3-10 years

Intangible assets
Computer software
Computer software is capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives of between three and five years.

Goodwill
Goodwill arising on consolidation represents the excess of the cost of acquisition over the group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. Goodwill which is recognised as an asset is reviewed for impairment at least annually. Any impairment would be recognised in profit or loss and is not subsequently reversed.

1 | Summary of significant accounting policies continued

Impairment of assets

An impairment loss is recognised for the amount by which an asset's carrying amount exceeds its recoverable amount. Assets are reviewed on a regular basis and tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Financial instruments

Investments

Listed investments, which comprise the investment trust portfolio, have been designated as investments held at fair value through profit or loss. Purchases and sales of listed investments are recognised on trade date, the date on which the group commits to purchase or sell the investment. Investments are initially recognised at fair value and transaction costs are expensed as incurred. Gains and losses arising from listed investments, as assets at fair value through profit or loss, are included in the income statement in the period in which they arise.

The fair value of listed investments is based on quoted market prices at the reporting date. The quoted market price used is the bid price.

Gains and losses on investments and direct transaction costs are analysed within the income statement as capital. All other costs of the investment trust are treated as revenue items.

Trade receivables

Trade receivables do not carry any interest and are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts.

Trade payables

Trade payables are not interest bearing and are stated at their nominal value.

Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held with banks and other short term highly liquid investments with original maturities of three months or less.

Borrowings

Borrowings are recognised initially at fair value, which is generally the proceeds net of transaction costs incurred. The difference between the proceeds net of transaction costs and the redemption value is recognised in the income statement over the term of the borrowings using the effective interest method, so as to generate a constant rate of return on the amount outstanding.

Hedge accounting

The group has designated US dollar short term borrowings as a hedging instrument to hedge net investment in its US operations. The hedge was documented at the inception of the relationship and on an ongoing basis the group reviews and documents the effectiveness of the hedge.

The gain or loss on the hedging instrument (US dollar short term borrowings) relating to the effective portion of the hedge is recognised in other comprehensive income and accumulated in the translation reserve.

Share capital

Ordinary shares are classified as equity. The ordinary shares of the Corporation which have been purchased by the Employee Share Ownership Trust to provide share based payments to employees are valued at cost and deducted from equity.

1 | Summary of significant accounting policies continued

Taxation

Current tax is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense which are either never taxable or deductible or are taxable or deductible in other periods. The group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the year end date.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements.

Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each year end date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to recover the asset. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is expected to be settled or the asset is expected to be realised based on tax rates that have been enacted or substantively enacted at the year end date.

Revenue recognition

Dividend income

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

Interest income

Interest income is accrued on a time basis using the effective interest rate applicable.

Sales of services

Fees comprise the fair value of the sales of services net of value added tax and after eliminating sales within the group. Sales of services are recognised in the accounting period in which the services are rendered, provided that the outcome of the transaction can be estimated reliably. Where the outcome of a transaction can be estimated reliably, sales are assessed on the basis of the actual services provided as a proportion of the total services to be provided.

Where payments are received in advance for trusteeships which extend beyond the period end then the amount relating to future periods is deferred using an appropriate discount rate.

Employee benefits

Pension costs

The group operates a defined benefit pension plan. The cost of providing benefits under the plan is determined using the projected unit credit method, with independent actuarial calculations being carried out at each year end date. Actuarial gains and losses are recognised in full in the period in which they occur through other comprehensive income.

The liability recognised in the statement of financial position in respect of the defined benefit plan is the present value of the defined benefit obligation at the year end date less the fair value of the plan assets.

IAS 19 Employment benefits (revised) has been implemented in these financial statements with no material effect.

Profit share schemes

The group recognises provisions in respect of its profit share schemes when contractually obliged or when there is a past practice that has created a constructive obligation.

1 | Summary of significant accounting policies continued

Share based plans

The group has awarded share options to executives and the group makes equity based awards to executives.

Share-based payments are measured at fair value at the date of grant using an appropriate option valuation technique, which is expensed on a straight-line basis over the vesting period, based on the group's estimate of shares that will eventually vest.

Reserves

A description of each of the reserves follows:

Share premium

This reserve represents the difference between the issue price of shares and the nominal value of shares at the date of issue, net of related issue costs.

Capital redemption

This reserve was created on the cancellation and repayment of the Corporation's share capital.

Own shares

This represents the cost of shares purchased by the ESOT.

Capital reserves

The following are dealt with through this reserve:

• Gains and losses on realisation of investments; and

• Changes in fair value investments which are readily convertible to cash.

Retained earnings

Net revenue profits and losses of the Corporation and its subsidiaries and the fair value costs of share based payments which are revenue in nature are dealt with in this reserve.

Translation reserve

This reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries and the gains or losses on hedging instruments relating to the effective portion of the hedge related to net investment in foreign institutions.

Leases

Operating leases

Leases where the lessor retains substantially all the risks and rewards of ownership are classified as operating leases. Payments made under operating leases, net of incentives received from the lessor, are charged to the income statement on a straight-line basis over the period of the lease.

Dividend distribution

Dividends are recognised when they become legally payable. In the case of interim dividends to equity shareholders, this is when declared by the directors. In the case of final dividends, this is when approved.

2 | Total capital gains from investments

	2013 £000	2012 £000
Realised gains based on historical cost	**17,048**	19,484
Amounts recognised as unrealised in previous years	**(8,576)**	(15,138)
Realised gains based on carrying value at previous year end date	**8,472**	4,346
Unrealised gains on investments	**106,242**	54,141
	114,714	58,487
Transfers from revenue	**150**	772
	114,864	59,259

3 | Administrative expenses

	2013 £000	2012 £000
Administrative expenses include:		
Salaries and directors' fees	**10,289**	9,792
Social security costs	**1,135**	1,189
Other pension costs	**777**	701
	12,201	11,682
Investment management fee	**1,450**	1,208
Depreciation – property, plant and equipment	**154**	149
Amortisation – intangible assets	**199**	214
Operating leases – land and buildings	**1,303**	1,303
Foreign exchange	**16**	14
Auditors' remuneration	**172**	139

During the year, the group employed an average of 117 staff (2012: 115). All staff are engaged in the provision of independent fiduciary services. The Corporation has no employees.

Details of the terms of the investment management agreement are provided on page 6 of the strategic report.

Administrative expenses charged to capital are transaction costs and foreign exchange differences on the purchase of investments held at fair value through profit or loss.

A more detailed analysis of the auditors' remuneration on a worldwide basis is provided below:

	2013 £000	2012 £000
Audit services		
– fees payable to the Corporation's auditors for the audit of its financial statements*	**140**	127
– audit related regulatory	**5**	6
Tax services	**7**	6
Other assurance services	**20**	–
	172	139

* Including the Corporation £35,000 (2012: £35,000).

3 | Administrative expenses continued

These figures do not include fees receivable by the auditors for work undertaken by them in connection with the audits of special purpose vehicles administered by the group as part of its independent fiduciary services business.

A description of the work of the audit committee is set out in the audit committee report on pages 28 to 30 and includes an explanation of how auditor objectivity and independence is safeguarded when non-audit services are provided by the auditors.

4 | Remuneration of directors (key management personnel)

The remuneration of the directors, who are the key management personnel of the group comprises the following:

	2013 **£**	2012 £
Short term benefits including fees in respect of non-executive directors	**763,835**	734,541
Deferred share bonus scheme	**106,734**	127,122
	870,569	861,663

Details for each individual director are shown in the remuneration report on page 40.

5 | Interest

	2013 **£000**	2012 £000
Interest income		
Interest on bank deposits	**13**	24
Returns on money market funds	**48**	56
Interest on pension scheme (net)	**–**	60
	61	140
Interest payable		
Interest on pension scheme (net)	**84**	–
Short term borrowings	**202**	–
Interest on debenture stock	**2,450**	2,450
	2,736	2,450
Interest (net)	**(2,675)**	(2,310)

6 | Segmental analysis

	Investment trust		Independent fiduciary services		Total	
	31 December 2013 £000	31 December 2012 £000	**31 December 2013 £000**	31 December 2012 £000	**31 December 2013 £000**	31 December 2012 £000
Revenue						
Segment income	**15,785**	14,392	**31,819**	29,760	**47,604**	44,152
Other income	**71**	12	**112**	93	**183**	105
Cost of sales	**–**	–	**(4,744)**	(3,761)	**(4,744)**	(3,761)
Administration costs	**(2,412)**	(1,917)	**(17,127)**	(16,721)	**(19,539)**	(18,638)
	13,444	12,487	**10,060**	9,371	**23,504**	21,858
Interest (net)	**(2,481)**	(2,534)	**(194)**	224	**(2,675)**	(2,310)
Return, including profit on ordinary activities before taxation	**10,963**	9,953	**9,866**	9,595	**20,829**	19,548
Taxation	**–**	–	**(1,679)**	(1,753)	**(1,679)**	(1,753)
Return, including profit attributable to shareholders	**10,963**	9,953	**8,187**	7,842	**19,150**	17,795
Revenue return per ordinary share	**9.31**	8.47	**6.96**	6.67	**16.27**	15.14
Assets	**605,761**	491,643	**54,222**	24,228	**659,983**	515,871
Liabilities	**(53,320)**	(54,915)	**(37,591)**	(9,092)	**(90,911)**	(64,007)
Total net assets	**552,441**	436,728	**16,631**	15,136	**569,072**	451,864

The capital element of the income statement is wholly attributable to the investment trust. Details regarding the segments are included on page 1 – Group summary and in note 1 – Segment reporting.

	Investment trust		Independent fiduciary services		Total	
	31 December 2013 £000	31 December 2012 £000	**31 December 2013 £000**	31 December 2012 £000	**31 December 2013 £000**	31 December 2012 £000
Other information						
Capital expenditure	**–**	–	**166**	464	**166**	464
Depreciation/amortisation	**–**	–	**353**	363	**353**	363

7 | Taxation

	2013 £000	2012 £000
Taxation based on revenue for the year comprises:		
UK Corporation tax at 23.25% (2012: 24.5%)	**942**	1,199
Overseas tax on income for the year	**482**	374
Total current tax charge	**1,424**	1,573
Deferred tax	**255**	180
	1,679	1,753

Taxation

The charge for the year can be reconciled to the profit per the income statement as follows:

	2013 £000	2012 £000
Profit before taxation	**135,197**	78,614
Tax on ordinary activities at standard rate 23.25% (2012: 24.5%)	**31,433**	19,260
Effects of:		
Expenses not deductible for tax purposes	**49**	9
Higher rates of tax on overseas income	**100**	133
Non taxable capital (gains)	**(26,591)**	(14,471)
Tax credit on dividend income	**(3,441)**	(3,248)
Change in tax rate for deferred tax	**129**	70
	1,679	1,753

The group expects that a substantial portion of its future income will continue to be in the form of dividend receipts and capital gains and losses, which constitute non-taxable income. On this basis, the group tax charge is expected to remain significantly different to the standard UK rate.

Deferred tax

The following are the major deferred tax liabilities and assets recognised by the group and movements thereon during the current and prior reporting period.

Deferred tax assets

	Accelerated tax depreciation £000	Retirement benefit obligations £000	Other employee benefits £000	Total £000
At 1 January 2012	543	816	57	1,416
(Charge)/credit to income	55	(178)	(57)	(180)
(Charge) to other comprehensive income	–	(104)	–	(104)
Foreign exchange	(6)	–	–	(6)
At 1 January 2013	592	534	–	1,126
(Charge) to income	(49)	(206)	–	(255)
(Charge) to other comprehensive income	–	(100)	–	(100)
Foreign exchange	4	–	–	4
At 31 December 2013	**547**	**228**	**–**	**775**

8 | Dividends on ordinary shares

	2013 £000	2012 £000
Dividends on ordinary shares comprise the following:		
2013 Interim 4.5p (2012: 4.5p)	**5,297**	5,291
2012 Final 9.75p (2011: 9.0p)	**11,471**	10,582
Total for year	**16,768**	15,873
Proposed final dividend for the year ended 31 December 2013	**12,362**	

The proposed final dividend is subject to approval by shareholders at the annual general meeting and has not been included as a liability in these financial statements.

Set out below is the total dividend payable in respect of the financial year, which is the basis on which the requirements of Sections 1158-1159 of the Corporation Tax Act 2010 are considered.

	2013 £000	2012 £000
2013 Interim 4.5p (2012: 4.5p)	**5,297**	5,291
2013 Final 10.5p (2012: 9.75p)	**12,362**	11,471
	17,659	16,762

On this basis, The Law Debenture Corporation p.l.c. satisfies the requirements of Sections 1158-1159 of the Corporation Tax Act 2010, as an approved investment trust company.

Dividends have been waived in respect of the 421,662 shares owned by the Employee Share Ownership Trust (‘ESOT’) (see note 17).

9 | Earnings per share from continuing operations

Revenue return is based on profits attributable of £19,150,000 (2012: £17,795,000).

Capital return per share is based on capital gain for the year of £114,368,000 (2012: gain £59,066,000).

Total return per share is based on gain for the year of £133,518,000 (2012: gain £76,861,000).

The calculations of returns per share are based on 117,681,186 (2012: 117,568,771) shares, being the weighted average number of shares in issue during the year after adjusting for shares owned by the ESOT. In 2013 total, revenue and capital diluted returns per share were calculated using 117,783,767 shares (2012: 117,648,092 shares), being the diluted weighted average number of shares in issue assuming exercise of options at less than fair value. There were 6,538 (2012: 5,320) antidilutive shares.

10 | Goodwill

	2013 £000	2012 £000
Cost		
At 1 January	**2,182**	2,218
Foreign exchange	**(15)**	(36)
At 31 December	**2,167**	2,182

The goodwill is identifiable with separate operating companies (Safecall Limited: £1,419,000; and Delaware Corporate Services Inc.: £748,000). At 31 December 2013 the goodwill in relation to the operating companies was reviewed. The review assessed whether the carrying value of goodwill was supported by the net present value of future cash flows based on management forecasts for 2014, assessed annual growth for 5 years of 5%, which is based on current expectations and a discount rate of 8%. On this basis the goodwill is not considered to be impaired.

11 | Property, plant and equipment

Group

	2013			2012		
	Leasehold improvements £000	**Office furniture & equipment £000**	**Total £000**	Leasehold improvements £000	Office furniture & equipment £000	Total £000
Cost						
At 1 January	**777**	**1,408**	**2,185**	777	1,319	2,096
Additions at cost	**–**	**109**	**109**	–	89	89
At 31 December	**777**	**1,517**	**2,294**	777	1,408	2,185
Accumulated depreciation						
At 1 January	**745**	**1,186**	**1,931**	721	1,055	1,776
Foreign exchange	**–**	**2**	**2**	–	6	6
Charge	**10**	**144**	**154**	24	125	149
At 31 December	**755**	**1,332**	**2,087**	745	1,186	1,931
Net book value at 31 December	**22**	**185**	**207**	32	222	254

The Corporation holds no property, plant and equipment.

12 | Other intangible assets

Group

	Computer software 2013 £000	Computer software 2012 £000
Cost		
At 1 January	**1,391**	1,016
Additions at cost	**57**	375
At 31 December	**1,448**	1,391
Accumulated amortisation		
At 1 January	**1,028**	817
Foreign exchange	**(2)**	(3)
Charge	**199**	214
At 31 December	**1,225**	1,028
Net book value at 31 December	**223**	363

The Corporation holds no other intangible assets.

13 | Investments

Investments held at fair value through profit or loss

	2013			2012		
	Listed £000	**Unlisted £000**	**Total £000**	Listed £000	Unlisted £000	Total £000
Group						
Opening cost at 1 January	**353,263**	**265**	**353,528**	335,739	315	336,054
Gains at 1 January	**125,993**	**–**	**125,993**	86,990	–	86,990
Opening fair value at 1 January	**479,256**	**265**	**479,521**	422,729	315	423,044
Purchases at cost	**101,521**	**13**	**101,534**	48,376	–	48,376
Cost of acquisition	**(374)**	**–**	**(374)**	(193)	–	(193)
Sales – proceeds	**(100,222)**	**–**	**(100,222)**	(50,143)	(50)	(50,193)
– realised gains on sales	**17,048**	**–**	**17,048**	19,484	–	19,484
Gains in the income statement	**97,666**	**–**	**97,666**	39,003	–	39,003
Closing fair value at 31 December	**594,895**	**278**	**595,173**	479,256	265	479,521
Closing cost at 31 December	**371,236**	**278**	**371,514**	353,263	265	353,528
Gains	**223,659**	**–**	**223,659**	125,993	–	125,993
Closing fair value at 31 December	**594,895**	**278**	**595,173**	479,256	265	479,521

	2013			2012		
	Listed £000	**Unlisted £000**	**Total £000**	Listed £000	Unlisted £000	Total £000
Corporation						
Opening cost at 1 January	**358,361**	**–**	**358,361**	340,837	–	340,837
Gains at 1 January	**120,895**	**–**	**120,895**	81,892	–	81,892
Opening fair value at 1 January	**479,256**	**–**	**479,256**	422,729	–	422,729
Purchases at cost	**101,521**	**–**	**101,521**	48,376	–	48,376
Cost of acquisition	**(374)**	**–**	**(374)**	(193)	–	(193)
Sales – proceeds	**(100,222)**	**–**	**(100,222)**	(50,143)	–	(50,143)
– realised gains on sales	**17,048**	**–**	**17,048**	19,484	–	19,484
Gains in the income statement	**97,666**	**–**	**97,666**	39,003	–	39,003
Closing fair value at 31 December	**594,895**	**–**	**594,895**	479,256	–	479,256
Closing cost at 31 December	**376,334**	**–**	**376,334**	358,361	–	358,361
Gains	**218,561**	**–**	**218,561**	120,895	–	120,895
Closing fair value at 31 December	**594,895**	**–**	**594,895**	479,256	–	479,256

Listed investments are all traded on active markets and as defined by IFRS 7 are Level 1 financial instruments. As such they are valued at unadjusted quoted bid prices.

13 | Investments continued

Investments in subsidiary undertakings – Corporation

	2013 £000	2012 £000
Cost		
At 1 January	**50**	50
Addition	**35,079**	–
At 31 December	**35,129**	50

During the year the Corporation acquired Law Debenture Holdings Inc. and its subsidiaries from L.D.C. Trust Management Limited for £4,800,000, its market value. Following the acquisition, the Corporation introduced additional capital in Law Debenture Holdings Inc. of $46,500,000 (£30,279,000) in order to provide additional capital for its subsidiary Law Debenture Trust Company of New York. The consideration was settled in cash.

The Corporation, or a subsidiary thereof, owns all the issued share capital of the following principal subsidiaries. All subsidiaries are registered in England and Wales unless otherwise stated. All of the subsidiaries listed below are included in the consolidated financial statements. Other than Law Debenture Finance p.l.c., a group financing company, all subsidiaries are engaged in the provision of independent fiduciary services.

† Delaware Corporate Services Inc. (incorporated in Delaware)

† L.D.C. Trust Management Limited

† Law Debenture Corporate Services Limited

† Law Debenture Corporate Services Inc. (incorporated in New York)

Law Debenture Finance p.l.c.

† Law Debenture Governance Services Limited

Law Debenture Holdings Inc. (incorporated in New York)

† Law Debenture Trust (Asia) Limited (incorporated in Hong Kong)

† Law Debenture Trust Company of New York (incorporated in New York)

† Law Debenture Trustees Limited

† Law Debenture Agency Solutions Limited

† LDC (NCS) Limited

† The Law Debenture Corporation (Deutschland) Limited

† The Law Debenture Corporation (H.K.) Limited (incorporated in Hong Kong)

† The Law Debenture Intermediary Corporation p.l.c.

† The Law Debenture Pension Trust Corporation p.l.c.

† The Law Debenture Trust Corporation p.l.c.

† The Law Debenture Trust Corporation (Cayman) Limited (incorporated in the Cayman Islands)

† The Law Debenture Trust Corporation (Channel Islands) Limited (incorporated in Jersey)

† Safecall Limited

† Shares held by a subsidiary.

All the above mentioned subsidiaries operate in the United Kingdom with the exception of those subsidiaries incorporated overseas, which operate in their country of incorporation.

14 | Trade and other receivables

No allowance has been made during the year for the estimated irrecoverable amounts from the sale of services. Allowances are determined by reference to past experience.

15 | Cash and cash equivalents

These comprise cash held at bank by the group, short term bank deposits with an original maturity of three months or less and money market funds with immediate access. The carrying amount of these assets approximates to their fair value.

16 | Trade and other payables

Trade and other payables principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 30 days.

The directors consider that the carrying amount of trade and other payables approximates to their fair value.

17 | Called up share capital

	2013 £000	2012 £000
Allotted, issued and fully paid share capital		
Value		
As at 1 January	**5,905**	5,905
Issued in year	**3**	–
As at 31 December	**5,908**	5,905
Shares		
As at 1 January	**118,100,567**	118,094,577
Issued in year	**52,204**	5,990
As at 31 December	**118,152,771**	118,100,567

During the year to 31 December 2013, 52,204 shares were allotted under the SAYE Scheme for a total consideration of £164,378 which includes a premium of £161,768.

During the year, 15,910 options were granted under the Corporation's SAYE scheme. At 31 December 2013, options under the SAYE Scheme from 2013 to 2017 at prices ranging from 211.50p to 499.50p per share were outstanding in respect of 222,789 ordinary shares (2012: 270,498 ordinary shares). During 2013, 11,415 options lapsed or were cancelled (2012: 6,055) and 52,204 (2012: 15,730) were exercised.

Further details of options outstanding are given in the directors' report on page 21.

Own shares held

	2013 £000	2012 £000
Own shares held – cost	**1,695**	1,778

The own shares held represent the cost of 421,662 (2012: 518,195) ordinary shares of 5p each in the Corporation, acquired by the ESOT in the open market. The shares have been acquired to meet the requirements of the Deferred Share Plan. The dividends and voting rights relating to the shares have been waived. The market value of the shares at 31 December 2013 was £2,230,592 (2012: £2,202,329).

18 | Capital reserves

	2013			2012		
	Unrealised appreciation £000	**Realised reserves £000**	**Total £000**	Unrealised appreciation £000	Realised reserves £000	Total £000
Group						
At 1 January	**122,591**	**282,743**	**405,334**	83,009	263,259	346,268
Transfer on disposal of investments	**(8,576)**	**8,576**	**–**	(15,138)	15,138	–
Net gains on investments	**106,242**	**8,472**	**114,714**	54,141	4,346	58,487
Cost of acquisition	**(374)**	**–**	**(374)**	(193)	–	(193)
Foreign exchange	**(122)**	**–**	**(122)**	–	–	–
Transfers from revenue	**150**	**–**	**150**	772	–	772
At 31 December	**219,911**	**299,791**	**519,702**	122,591	282,743	405,334

	2013			2012		
	Unrealised appreciation £000	**Realised reserves £000**	**Total £000**	Unrealised appreciation £000	Realised reserves £000	Total £000
Corporation						
At 1 January	**117,855**	**348,060**	**465,915**	78,273	328,576	406,849
Transfer on disposal of investments	**(8,576)**	**8,576**	**–**	(15,138)	15,138	–
Net gains on investments	**106,242**	**8,472**	**114,714**	54,141	4,346	58,487
Cost of acquisition	**(374)**	**–**	**(374)**	(193)	–	(193)
Foreign exchange	**2,082**	**–**	**2,082**	–	–	–
Transfers to revenue	**150**	**–**	**150**	772	–	772
At 31 December	**217,379**	**365,108**	**582,487**	117,855	348,060	465,915

19 | Financial instruments

The group's investment objective is to achieve long term capital growth through investing in a diverse portfolio of investments spread both geographically and by sector. In pursuit of this objective, the group has the power to deploy the following financial instruments:

• Quoted equities and fixed interest securities

• Cash, short term investments and deposits, and working capital arising from the group's operations

• Debentures, term loans and bank overdrafts to allow the group to raise finance

• Derivative transactions to manage any of the risks arising from the use of the above instruments

It remains the group's policy that no trading in derivatives is undertaken. Information in respect of the investment portfolio is included on pages 10 to 15.

Capital management

The Corporation is not allowed to retain more than 15% of its income from shares and securities each year and has a policy to increase dividends. However revenue profits are calculated after all expenses. Distributions will not be made if they inhibit the investment strategy. The investment strategy of the Corporation is disclosed on page 5 and includes a ceiling on effective gearing of 150%, with a typical range of 90% to 120%.

19 | Financial instruments continued

The group and Corporation held the following categories of financial assets and liabilities at 31 December 2013.

Group	2013 £000	2012 £000
Assets		
Financial assets held at fair value through profit or loss (designated as such upon initial recognition):		
Equity investments	**587,410**	436,946
Debt investments	**7,763**	42,575
	595,173	479,521
Loans and receivables:		
Trade and other receivables	**6,787**	4,244
Cash and cash equivalents	**49,688**	22,201
	56,475	26,445
Total financial assets	**651,648**	505,966
Liabilities		
Financial liabilities measured at amortised cost:		
Loans and payables		
Trade and other payables	**12,071**	10,745
Short term borrowings	**26,793**	–
Long term borrowings	**39,445**	39,418
Total financial liabilities	**78,309**	50,163

Corporation	2013 £000	2012 £000
Assets		
Financial assets held at fair value through profit or loss (designated as such upon initial recognition):		
Equity investments	**587,132**	436,681
Debt investments	**7,763**	42,575
	594,895	479,256
Loans and receivables:		
Amounts due from subsidiary undertakings	**60,000**	60,000
Trade and other receivables	**179**	84
Cash and cash equivalents	**9,325**	10,339
	69,504	70,423
Total financial assets	**664,399**	549,679
Liabilities		
Financial liabilities measured at amortised cost:		
Loans and payables		
Amounts owed to subsidiary undertakings	**58,670**	54,016
Trade and other payables	**153**	109
Short term borrowings	**26,793**	–
Total financial liabilities	**85,616**	54,125

19 | Financial instruments continued

The principal risks facing the group in respect of its financial instruments remain unchanged from 2012 and are:

- **market price risk**, arising from uncertainty in the future value of financial instruments. The board maintains strategy guidelines whereby risk is spread over a range of investments, the number of holdings normally being between 70 and 150. In addition, the stock selections and transactions are actively monitored throughout the year by the investment manager, who reports to the board on a regular basis to review past performance and develop future strategy. The investment portfolio is exposed to market price fluctuation: if the valuation at 31 December 2013 fell or rose by 10%, the impact on the group's total profit or loss for the year would have been £59.5 million (2012: £48.0 million). Corresponding 10% changes in the valuation of the investment portfolio on the Corporation's total profit or loss for the year would have been the same.
- **foreign currency risk**, arising from movements in currency rates applicable to the group's investment in equities and fixed interest securities and the net assets of the group's overseas subsidiaries denominated in currencies other than sterling. The group's financial assets denominated in currencies other than sterling were:

	2013			2012		
Group	**Investments £m**	**Net monetary assets £m**	**Total currency exposure £m**	Investments £m	Net monetary assets £m	Total currency exposure £m
US Dollar	**44.3**	**4.9**	**49.2**	26.8	3.7	30.5
Canadian Dollar	**4.9**	**–**	**4.9**	4.7	–	4.7
Euro	**28.2**	**0.4**	**28.6**	24.1	0.3	24.4
Danish Krone	**1.6**	**–**	**1.6**	0.7	–	0.7
Swedish Krona	**1.2**	**–**	**1.2**	2.1	–	2.1
Swiss Franc	**11.6**	**–**	**11.6**	11.6	–	11.6
Hong Kong Dollar	**–**	**0.5**	**0.5**	–	0.6	0.6
Japanese Yen	**2.6**	**–**	**2.6**	1.9	–	1.9
	94.4	**5.8**	**100.2**	71.9	4.6	76.5

The group US dollar net monetary assets is the net investment in US operations of £31.7 million less the US dollar short term borrowings of £26.8 million, which represents the fair value of the borrowings at 31 December 2013. The short term borrowings were designated as a hedging investment to hedge the net investment in US operations at inception in July 2013. The hedge has been reviewed on an ongoing basis and it has been effective at all times since inception. The gain or loss on the hedging instrument is recognised in the translation reserve and set off against the gain or loss on the translation of the net investment in US operations, which it matches.

	2013			2012		
Corporation	**Investments £m**	**Net monetary assets £m**	**Total currency exposure £m**	Investments £m	Net monetary assets £m	Total currency exposure £m
US Dollar	**44.3**	**(26.8)**	**17.5**	26.8	0.2	27.0
Canadian Dollar	**4.9**	**–**	**4.9**	4.7	–	4.7
Euro	**28.2**	**0.2**	**28.4**	24.1	0.3	24.4
Danish Krone	**1.6**	**–**	**1.6**	0.7	–	0.7
Swedish Krona	**1.2**	**–**	**1.2**	2.1	–	2.1
Swiss Franc	**11.6**	**–**	**11.6**	11.6	–	11.6
Japanese Yen	**2.6**	**–**	**2.6**	1.9	–	1.9
	94.4	**(26.6)**	**67.8**	71.9	0.5	72.4

19 | Financial instruments continued

The holdings in the Henderson Japan Capital Growth, Henderson Pacific Capital Growth, Baillie Gifford Pacific and First State Asia Pacific OEICs are denominated in sterling but have underlying assets in foreign currencies equivalent to £47.6 million (2012: £43.2 million). Investments made in the UK and overseas have underlying assets and income streams in foreign currencies which cannot be determined and this has not been included in the sensitivity analysis. If the value of all other currencies at 31 December 2013 rose or fell by 10% against sterling, the impact on the group's total profit or loss for the year would have been £14.2 million (2012: £11.5 million). Corresponding 10% changes in currency values on the Corporation's total profit or loss for the year would have been the same. The calculations are based on the investment portfolio at the respective year end dates and are not representative of the year as a whole.

- **liquidity risk**, arising from any difficulty in realising assets or raising funds to meet commitments associated with any of the above financial instruments. To minimise this risk, the board's strategy guidelines only permit investment in equities and fixed interest securities quoted in major financial markets. In addition, cash balances and overdraft facilities are maintained commensurate with likely future settlements. The maturity of the group's existing borrowings is set out in note 20.
- **interest rate risk**, arising from movements in interest rates on borrowing, deposits and short term investments. The board reviews the mix of fixed and floating rate exposures and ensures that gearing levels are appropriate to the current and anticipated market environment. The group's interest rate profile at 31 December 2013 was:

	Group				Corporation	
	Sterling £m	HK Dollars £m	US Dollars £m	Euro £m	Sterling £m	Euro £m
Floating rate assets	**17.1**	**0.5**	**31.7**	**0.4**	**9.1**	**0.2**
Fixed rate assets						
Bonds						
SSE 5.75% 05/02/14	**2.3**				**2.3**	
National Grid 6.125% 15/04/14	**5.4**				**5.4**	
Total	**7.7**				**7.7**	

Weighted average fixed rate to maturity based on fair value 5.82%.

	Group	Corporation
	US Dollars £m	US Dollars £m
Floating rate liabilities		
Short term borrowings	**26.8**	**26.8**

Interest on the short term borrowings is 1.5% above HSBC's base rate (see note 20), the weighted average rate during the year was 1.61%.

	Group
	Sterling £m
Total	
Fixed rate liabilities*	**39.4**
Weighted average fixed rate	**6.125%**

*Fixed until 2034.

The group holds cash and cash equivalents on short term bank deposits and money market funds and has short term borrowings. Interest rates tend to vary with bank base rates. The investment portfolio is not directly exposed to interest rate risk.

19 | Financial instruments continued

If interest rates during the year were 1.0% higher the impact on the group's total profit or loss for the year would have been £173,000 credit (2012: £152,000 credit). It is assumed that interest rates are unlikely to fall below the current level.

The Corporation holds cash and cash equivalents on short term bank deposits and money market funds and has short term borrowings. Amounts due from subsidiary undertakings are for a term of five years and carry interest at a fixed rate. Amounts owed to subsidiary undertakings include £40 million at a fixed rate. Interest rates on cash and cash equivalents and amounts due to subsidiary undertakings at floating rates tend to vary with bank base rates. A 1.0% increase in interest rates would have affected the Corporation's profit or loss for the year by £27,000 charge (2012: £74,000 credit). The calculations are based on the balances at the respective year end dates and are not representative of the year as a whole.

- **credit risk**, arising from the failure of another party to perform according to the terms of their contract. The group minimises credit risk through policies which restrict deposits to highly rated financial institutions and restrict the maximum exposure to any individual financial institution. The group's maximum exposure to credit risk arising from financial assets is £56.5 million (2012: £26.4 million). The Corporation's maximum exposure to credit risk arising from financial assets is £69.5 million (2012: £70.4 million).

Trade and other receivables

Trade and other receivables not impaired but past due by the following:

	Group		Corporation	
	2013 £000	2012 £000	**2013 £000**	2012 £000
Between 31 and 60 days	**1,706**	623	**–**	–
Between 61 and 90 days	**149**	273	**–**	–
More than 91 days	**509**	560	**11**	23
Total	**2,364**	1,456	**11**	23

At 31 December 2013, trade and other receivables which were impaired and for which there was a bad debt provision totalled £347,000 (2012: £581,000) (Corporation: £14,000 (2012: £3,000)). All the impaired trade and other receivables were more than 91 days past due.

Trade and other payables

	Group		Corporation	
	2013 £000	2012 £000	**2013 £000**	2012 £000
Due in less than one month	**10,863**	10,237	**153**	109
Due in more than one month	**552**	508	**–**	–
	11,415	10,745	**153**	109

Fair value

The directors are of the opinion that the fair value of financial assets and liabilities of the group are not materially different to their carrying values, with the exception of the 6.125% guaranteed secured bonds 2034 (see note 20).

20 | Borrowings

	Group		Corporation	
	2013 £000	2012 £000	**2013 £000**	2012 £000
Short term borrowings				
Bank overdraft	**26,793**	–	**26,793**	–

The Corporation has an uncommitted overdraft facility of £30,000,000 provided by its custodian, HSBC which is secured by a floating charge which ranks *pari passu* with a charge given in respect of the debenture. At 31 December 2013, fair value is the same as book value.

The uncommitted facility has been drawn down in US dollars and interest was payable at 1.5% above HSBC's bank rate.

	Group		Corporation	
	2013 £000	2012 £000	**2013 £000**	2012 £000
Long term borrowings				
Long term borrowings are repayable as follows:				
In more than five years				
Secured				
6.125% guaranteed secured bonds 2034	**39,445**	39,418	**–**	–

The 6.125% bonds were issued by Law Debenture Finance p.l.c. and guaranteed by the Corporation. The £40 million nominal tranche, which produced proceeds of £39.1 million, is constituted by Trust Deed dated 12 October 1999 and the Corporation's guarantee is secured by a floating charge on the undertaking and assets of the Corporation. The stock is redeemable at its nominal amount on 12 October 2034. Interest is payable semi-annually in equal instalments on 12 April and 12 October in each year.

The 6.125% bonds are stated in the statement of financial position at book value. Restating them at a fair value of £45.3 million at 31 December 2013 (2012: £47.3 million) has the effect of decreasing the year end NAV by 5.00p (2012: 6.69p). The estimated fair value is based on the redemption yield of the reference gilt (UK Treasury 4.5% 2034) plus a margin derived from the spread of BBB UK corporate bond yields over UK gilt yields.

21 | Contingent liabilities

The group is from time to time party to legal proceedings and claims, which arise in the ordinary course of the independent fiduciary services business. The directors do not believe that the outcome of any of the above proceedings and claims, either individually or in aggregate, will have a material adverse effect upon the group's financial position.

The Corporation has provided a guarantee to a subsidiary undertaking in respect of the ongoing liabilities of the group defined benefit pension scheme (see note 23). The Corporation has provided surety for the lease of the group's main property which is held by a subsidiary undertaking. The annual rental is currently £907,000 and its full term ends in 2020.

22 | Lease commitments

At the year end date, the group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2013 £000	2012 £000
Less than one year	**1,323**	1,306
Two to five years	**4,380**	4,776
More than five years	**1,395**	2,302
	7,098	8,384

Lease payments represent rentals payable by the group for its office properties. The lease for the main property was negotiated for a term of 16 years and rentals are fixed for an average of five years.

23 | Pension commitments

For some employees, the group operates a funded pension plan providing benefits for its employees based on final pensionable emoluments. The assets of the plan are held in a separate trustee administered fund.

Under the defined benefit pension plan, each member's pension at retirement is related to their pensionable service and final pensionable emoluments. The weighted average duration of the expected benefit payments from the plan is around 18 years. The defined benefit scheme is operated from a trust, which has assets which are held separately from the group and trustees who ensure the plan's rules are strictly followed.

These figures were prepared by an independent qualified actuary in accordance with IAS19 (revised), and are based on membership data as at 31 December 2013. The funding target is for the plan to hold assets equal in value to the accrued benefits based on projected pensionable emoluments. If there is a shortfall against this target, then the group and the Trustee will agree deficit contributions to meet this deficit over a period.

There is a risk to the group that adverse experience could lead to a requirement for the group to make additional contributions to recover any deficit that arises.

Contributions are set based upon funding valuations carried out every three years; the next valuation is due to be carried out at 31 December 2014. The estimated amount of total employer contributions expected to be paid to the plan during 2014 is £1.1 million (2013 actual: £1.2 million).

Actuarial gains and losses are recognised immediately through other comprehensive income.

The major assumptions in the 31 December 2013 disclosure under IAS19 (revised) are shown below and are applied to membership data supplied at that date. This shows the net pension assets and liabilities.

	2013 %	2012 %	2011 %
Significant actuarial assumptions:			
Retail Price Inflation	**3.3**	3.1	3.2
Consumer Price Inflation	**2.5**	2.4	2.5
Discount rate	**4.6**	4.6	4.9
5% limited RPI pension increases in payment	**3.2**	3.0	3.1
General salary increases	**4.8**	4.7	4.7

23 | Pension commitments continued

	2013 Years	2012 Years
Life expectancy of male/female aged 65 in 2013	**23.7/25.8**	23.6/25.7
Life expectancy of male/female aged 65 in 2031	**25.5/27.4**	25.4/27.3

	2013 £000	2012 £000
The amounts recognised in profit or loss are as follows:		
Employer's part of current service cost	**365**	438
Interest cost/(income)	**84**	(60)
Total expense recognised in profit or loss	**449**	378

	2013		2012	
	Allocation %	**£000**	Allocation %	£000
The current allocation of plan assets is as follows:				
Equities	**65**	**25,811**	64	23,142
Bonds	**10**	**3,782**	10	3,609
Gilts	**23**	**9,254**	24	8,536
Pensioner annuities	**2**	**662**	2	688
Other	**–**	**122**	–	90
Total	**100**	**39,631**	100	36,065

	2013 £000	2012 £000
Reconciliation of present value of defined benefit obligation		
At 1 January	**38,292**	35,906
Employer's part of current service cost	**365**	438
Interest cost	**1,747**	1,750
Contributions by plan participants	**108**	74
Actuarial losses/(gains) due to:		
Experience on benefit obligations	**48**	(169)
Changes in financial assumptions	**1,123**	1,331
Changes in demographic assumptions	**142**	(158)
Benefits paid	**(1,105)**	(880)
At 31 December	**40,720**	38,292

	2013 £000	2012 £000
Reconciliation of fair value of plan assets		
At 1 January	**36,065**	32,768
Expected return on plan assets	**1,663**	1,810
Actuarial returns	**1,745**	1,340
Contributions by the employer	**1,155**	953
Contributions by plan participants	**108**	74
Benefits paid	**(1,105)**	(880)
At 31 December	**39,631**	36,065

23 | Pension commitments continued

	2013 £000	2012 £000
Movement in the net defined benefit obligations		
Deficit at 1 January	**2,227**	3,138
Expense charged to profit and loss	**449**	378
Amount reorganised outside of profit and loss	**(432)**	(336)
Employer contributions	**(1,155)**	(953)
At 31 December	**1,089**	2,227

	2013 £000	2012 £000	2011 £000	2010 £000	2009 £000
Plan assets and obligations					
Present value of defined benefit obligation	**40,720**	38,292	35,906	33,525	30,717
Fair value of plan assets	**(39,631)**	(36,065)	(32,768)	(32,649)	(28,789)
Deficit	**1,089**	2,227	3,138	876	1,928

24 | Related party transactions

Group

Transactions between the Corporation and its subsidiaries, which are related parties, have been eliminated on consolidation.

Corporation

The related party transactions between the Corporation and its wholly owned subsidiary undertakings are summarised as follows:

	2013 £000	2012 £000
Dividends from subsidiaries	**2,500**	1,950
Interest on intercompany balances charged by subsidiaries	**2,642**	2,654
Management charges from subsidiaries	**198**	198
Interest on intercompany balances charged to subsidiaries	**4,950**	4,950

The key management personnel are the directors of the Corporation, details of their compensation are included in note 4 to the accounts and in part 3 of the remuneration report on pages 40 to 42.

Investment trust status

The Corporation carries on business as an investment trust company as defined in Sections 1158-1159 of the Corporation Tax Act 2010. The directors will endeavour to conduct its affairs so as to enable it to maintain HMRC approval of the Corporation's status in this respect. So far as the directors are aware, the close company provisions of the Income and Corporation Taxes Act 1988 do not apply to the Corporation.

Capital gains tax

For shareholders who have purchased their shares through a share savings scheme on a monthly basis and who wish to apply HMRC's optional basis of valuing holdings as if they had all been purchased in July, guidance notes have been prepared by the AIC and are available from the company secretary on request.

Company share information

Information about the Corporation can be found on its web site **http://www.lawdeb.com**. The market price of its ordinary shares is also published daily in a number of newspapers.

Individual savings account ('ISA')

For investors seeking a tax efficient method of investing in the shares of the Corporation. The Plan Manager is National Westminster Bank Plc and can be contacted at:

National Westminster Bank Plc,
Client Investment Operations
Premier Place
2½ Devonshire Square
London EC2M 4BA

Tel No: **0845 601 5600**

References to services provided by members of the Royal Bank of Scotland Group have been approved by National Westminster Bank Plc, which is authorised and regulated by the FCA.

Registrars

Our registrars, Computershare Investor Services PLC, operate a dedicated telephone service for Law Debenture shareholders – **0870 707 1129**. Shareholders can use this number to access holding balances, dividend payment details, share price data, or to request that a form be sent to their registered address.

Share dealing

Computershare Investor Services PLC offers shareholders a share dealing service via the internet or by telephone, details of which are as follows:

Internet – **www.computershare.com/sharedealingcentre**

Telephone – **0870 703 0084**

Commission for the internet service is 1% with a minimum charge of £30 and 1% for the telephone service, plus £35.

The service is available only to those shareholders who hold their shares on the register (i.e. it is not available to those who hold their shares via a nominee).

Shareholders using the internet service will need their Shareholder Reference Number (SRN) and post code to complete their trade. The SRN can be found printed on your proxy card.

The share dealing service is controlled and operated by Computershare Investor Services PLC and the Corporation is not responsible or liable for anything arising from a shareholder's decision to use the service. The Corporation is not acting as an introducer for the share dealing service and receives no financial benefit, either from making shareholders aware of the service or from any share deals conducted by shareholders who use the service.

Dividend and interest payments

Ordinary shares:

Interim announced July	Paid September
Final announced February/March	Paid April
6.125% guaranteed secured notes	Paid April and October

Group results

First Quarter Interim Statement	Announced in April
Half year results	Announced in July
Third Quarter Interim Statement	Announced in October
Full year results	Announced in February/March
Report and accounts	Published in March
Annual general meeting	Held in London in April
Factsheets	Published monthly on the Corporation's website

Payment methods for dividends

Dividends and interest can be paid to shareholders by means of BACS. Mandate forms for this purpose are available on request from the Corporation's Registrars.

Notice of annual general meeting

NOTICE IS HEREBY GIVEN that the 124th annual general meeting of the Corporation will be held on 9 April 2014

Ordinary business

1. **To receive the report of the directors, the strategic report and the audited accounts for the year ended 31 December 2013.**
2. **To approve the Corporation's remuneration policy.**
3. **To receive and approve the directors' remuneration report for the year ended 31 December 2013.**
4. **To declare a final dividend of 10.5p per share in respect of the year ended 31 December 2013.**
5. **To re-elect Caroline Banszky as a director.**
6. **To re-elect Christopher Smith as a director.**
7. **To re-elect Robert Laing as a director.**
8. **To re-elect Mark Bridgeman as a director.**
9. **To re-appoint BDO LLP as auditors of the Corporation to hold office until the conclusion of the next general meeting at which accounts are laid and to authorise the directors to determine their remuneration.**
10. **General authority to allot shares**
    THAT:

    (a) the directors be generally and unconditionally authorised pursuant to and in accordance with section 551 of the Companies Act 2006 (the "Act") to exercise for the period ending on the date of the Corporation's next annual general meeting, all the powers of the Corporation to allot shares in the Corporation or to grant rights to subscribe for or to convert any security into shares in the Corporation up to an aggregate nominal amount (within the meaning of sections 551(3) and (6) of the Act) of £295,391;

    (b) the Corporation may during such period make offers or agreements which would or might require the making of allotments of equity securities or relevant securities as the case may be after the expiry of such period.

Special business

To consider and, if thought fit, to pass the following resolutions which will be proposed as special resolutions:

11. **Disapplication of statutory pre-emption rights**
    THAT:

    (a) in exercise of the authority given to the directors by resolution 10 above, the directors be empowered pursuant to section 570 of the Act to allot shares or grant rights to subscribe for or to convert any security into shares in the Corporation for the period ending on the date of the Corporation's next annual general meeting wholly for cash generally up to an aggregate nominal amount of £295,391 as if section 561 of the Act did not apply to such allotment, provided always that no more than 7.5% of the issued share capital shall be issued on a non pre-emptive basis within any three year period;

    (b) the Corporation may during such period make offers or agreements which would or might require the making of allotments of equity securities or relevant securities as the case may be after the expiry of such period.

12. General authority to buy back shares

THAT: the Corporation be and is generally and unconditionally authorised in accordance with sections 693 and 701 of the Act to make market purchases (within the meaning of section 693(4) of the Act) of any of its issued ordinary shares of 5p each in the capital of the Corporation, in such manner and upon such terms as the directors of the Corporation may from time to time determine, PROVIDED ALWAYS THAT:

(a) the maximum number hereby authorised to be purchased shall be limited to 17,711,659 shares, or if less, that number of shares which is equal to 14.99% of the Corporation's issued share capital as at the date of the passing of this resolution;

(b) the minimum price which may be paid for a share shall be 5p;

(c) the maximum price which may be paid for a share shall be an amount equal to 105% of the average of the middle market quotations (as derived from the London Stock Exchange Daily Official List) for the shares for the five business days immediately preceding the day on which the share is purchased;

(d) unless previously revoked, renewed or varied, the authority hereby conferred shall expire on the date of the Corporation's next annual general meeting provided that a contract of purchase may be made before such expiry which will or may be executed wholly or partly thereafter, and a purchase of Shares may be made in pursuance of any such contract.

13. Authority to convene a general meeting – notice

THAT: a general meeting of the Corporation, other than an annual general meeting, may be called on not less than 14 clear days' notice.

By order of the board

Law Debenture Corporate Services Limited
Secretary
27 February 2014

Registered office:
Fifth Floor
100 Wood Street
London EC2V 7EX
Registered No. 30397

1. A member who holds ordinary shares on the register of members and is entitled to attend and vote at this meeting is entitled to appoint one or more proxies to attend and, on a poll, to vote in his or her place (or in the case of a corporation, to appoint one or more corporate representatives who may exercise on its behalf all of its powers as a member). A proxy need not be a member of the Corporation. Proxy rights do not apply to nominated persons although the nominated person may have a right under an agreement with the registered member to appoint a proxy. In addition to instructing a proxy to vote for or against a resolution, the form enables shareholders to instruct a 'vote withheld' if preferred. A vote withheld is not a vote in law and will not be counted in the calculation of votes. It may be used, for example, to convey a message of dissatisfaction on a particular issue, where the strength of feeling is not so great as to oppose the resolution, but supporting it is not appropriate either.

2. Shareholders who hold shares on the register of members (as opposed to holding them in a nominee) will find enclosed a form of proxy for use at the meeting. To be valid, forms of proxy must be lodged electronically by accessing www.investorcentre.co.uk/eproxy or by post at the office of the Corporation's registrar, Computershare Investor Services PLC, Bristol BS99 6ZY. CREST members can register votes electronically by using the service provided by Euroclear. Proxies must be received not less than 48 hours before the time appointed for the holding of the meeting. This is also the voting record date by which a person must be entered on the register in order to have a right to attend and vote at the meeting. Lodgement of a form of proxy will not prevent a member from attending and voting in person.

3. The register of directors' interests will be available for inspection at the registered office of the Corporation during normal business hours and at the annual general meeting. No director has a service contract with the Corporation of more than one year's duration.

4. Subject to the dividend on the ordinary shares now recommended being approved at the annual general meeting, dividend payments will be made on 17 April 2014 to shareholders on the register on the record date on 21 March 2014.

5. **Resolution 2** is to approve the Corporation's remuneration policy. Under the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (the 'Regulations'), the Corporation is required to set out a formal remuneration policy which must be approved by shareholders and which will remain in place for three years. If adopted, the policy will be implemented immediately after the AGM and will be in force until the AGM in April 2017, unless amended in the meantime by subsequent shareholder vote. The Corporation's policy, which the board recommends for approval, is set out at pages 32 to 39 of the annual report.

6. **Resolution 3** is to receive and approve the directors' remuneration report for the year ended 31 December 2013. The remuneration report, which follows the format required by the Regulations, is set out at pages 40 to 42 of the annual report.

7. **Resolution 5:** Caroline Banszky offers herself for re-election. The board supports her re-election. She continues to be a very effective managing director, improving profitability of the independent fiduciary services business and thus enhancing shareholder value. Her biography is included on page 43 of the annual report.

8. **Resolution 6:** Christopher Smith offers himself for re-election. The board supports his re-election. He brings a wealth of corporate finance experience to the board along with a thorough knowledge of the investment trust sector and regulatory matters. He has demonstrated that he is a skilful and effective chairman. His biography is included on page 43 of the annual report.

9. **Resolution 7:** Robert Laing offers himself for re-election. The board supports his election. The board believes that its effectiveness is greatly enhanced by having a non-executive director with a legal background and experience of one or more of the fiduciary services sectors where Law Debenture operates. Robert Laing matches this requirement. He is an effective director and chairman of the remuneration committee. His biography is included on page 43 of the annual report.

10. **Resolution 8:** Mark Bridgeman offers himself for re-election. The board supports his election. The board believes that it is essential to appoint a non-executive director with fund management experience and Mark fulfils that need. He has established himself as an effective director and chairman of the audit committee. His biography is included on page 43 of the annual report.

11. **Resolution 9** is to re-appoint BDO LLP as the Corporation's auditors. BDO LLP were first appointed on 31 October 2008.

12. **Resolution 10** renews the authority given to directors at the last annual general meeting to allot unissued capital not exceeding 5,907,825 shares, being 5% of the issued share capital. This authority would be exercised only at times when it would be advantageous to the Corporation's shareholders to do so. Shares would not be issued under this authority at a price lower than market price or net asset value at the time of the issue. If approved, the authority will continue to operate until the next annual general meeting.

13. **Special resolution 11** is proposed because the directors consider that in order to allot shares in the circumstances described in resolution 10 it is in the best interests of the Corporation and its shareholders to allot a maximum of 5,907,825 shares other than on a pre-emptive basis. The board would not, however, issue more than 7.5% of the issued share capital on a non-pre-emptive basis within any three year period.

14. **Special resolution 12** renews the authority given to directors at the last annual general meeting to purchase ordinary shares in the market for cancellation. Such purchases at appropriate times and prices could be a suitable method of enhancing shareholder value and would be applied within guidelines set from time to time by the board. It should be noted that no such purchases would be undertaken if shares were trading at a premium to net asset value.

15. **Special resolution 13** seeks authority to convene a general meeting (but not the annual general meeting) by giving not less than 14 clear days' notice. While the directors have no current intention to call a general meeting in the year ahead, circumstances might arise when such a meeting might become necessary and the directors deem it in the best interest of shareholders that it be held as quickly as possible. Such circumstances might include, for example, a decision to make a significant amendment to the investment strategy (shareholder approval for such a change being a regulatory stipulation).

16. **Meeting notice requirements** – the Corporation is required under the Act to make a number of additional disclosures as follows. The Corporation's website – www.lawdeb.com/investment-trust/investor-information – contains a copy of this notice, which includes the current total voting rights, as set out below. Should the required number of members requisition the Corporation to publish any statement about the audit or related matters that the relevant members propose to raise at the AGM (in accordance with section 527 of the Act), this would be published at the Corporation's expense on the website and forwarded to the auditor. Similarly, any shareholder statements, resolutions and matters of business connected with the meeting received after publication of this notice will be published on the website subject to compliance by the submitting party with the Act. At the AGM, the Corporation will cause to be answered any question relating to the business being dealt with at the meeting put by a shareholder in attendance.

Total voting rights and share information

The Corporation has an issued share capital at 27 February 2014 of 118,156,501 ordinary shares with voting rights and no restrictions and no special rights with regard to control of the Corporation. There are no other classes of share capital and none of the Corporation's issued shares are held in treasury. Therefore the total number of voting rights in The Law Debenture Corporation p.l.c. is 118,156,501.

AGM Venue
Brewers' Hall
Aldermanbury Square
London EC2V 7HR

RAILWAY
Main line stations within one mile include:
Holborn Viaduct, Blackfriars, Cannon Street, London Bridge, Fenchurch Street, Farringdon and Liverpool Street.

Main line stations within two miles are:
Charing Cross, Waterloo, King's Cross, St Pancras and Euston.

UNDERGROUND
Moorgate (Circle, Metropolitan, Hammersmith & City, Thames Link)
Bank (Central, Northern, Waterloo & City)
Monument (Circle, District, Docklands)
St Paul's (Central)

BUSES
From Cheapside the 501 service connects London Bridge and Waterloo via Holborn, from Moorgate the 43 and 133 buses go to Liverpool Street, from London Wall the 172 goes to Blackfriars.

PARKING
There is limited meter parking in business hours near the hall. Underground parking is available beneath London Wall, entrance being by the corner of Coleman Street and on the North side of London Wall immediately before Bastion House. There is multi-storey parking in Aldersgate Street just North of the intersection with London Wall.

www.lawdeb.com

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