

The Law Debenture Corporation p.l.c. Annual Report 2016

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Corporate information

We are a global investment trust and a leading provider of independent fiduciary services

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 ('IFS')

We are a leading provider of independent fiduciary services. Our activities are corporate trusts, pension trusts, corporate services (including agent for service of process), whistle blowing services and governance services. We have offices in London, Sunderland, Dublin, 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.

Financial summary

	31 December 2016 pence	31 December 2015 pence
Share price	530.00	498.00
NAV per share at fair value ¹	598.48	524.54
Revenue return per share		
– Investment trust	10.88	11.01
– Independent fiduciary services	7.68	7.09
– Group charges ²	(2.60)	–
Group revenue return per share	15.96	18.10
Capital return/(loss) per share	89.30	(17.47)
Dividends per share	16.70	16.20
	%	%
Ongoing charges ³	0.45	0.46
Gearing ³	8	12

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 Calculated in accordance with AIC methodology based on NAV including fair value of IFS businesses and long term borrowings.

² For details see note 7 to the accounts.

³ Source AIC.

Performance

	1 year %	3 years %	5 years %	10 years %
NAV total return ¹	16.9	19.8	79.2	125.7
FTSE Actuaries All-Share Index total return ¹	16.8	19.3	61.8	71.8
Share price total return ¹	10.1	10.2	86.5	117.8
Change in Retail Price Index ¹	1.9	4.8	10.9	31.0
Investment trusts (Global) ¹ (NAV total return)	21.0	41.4	98.9	119.3
Investment trusts (All conventional companies) ¹ (NAV total return)	18.6	34.3	85.4	111.1

¹ Source: AIC.

Performance by year

	2016 %	2015 %	2014 %	2013 %	2012 %
Share price total return ²	10.1	(3.0)	3.1	28.3	32.0
NAV total return ³	16.9	(0.3)	2.8	29.4	15.6
FTSE Actuaries All-Share Index total return ²	16.8	1.0	1.2	20.8	12.3

² Source AIC.

³ Calculated in accordance with AIC methodology based on NAV including fair value of IFS businesses and long term borrowings.

10 year performance

[GRAPHIC REMOVED]

10 year record

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Net assets ¹ (£m)	392.6	407.1	266.4	342.4	412.6	390.9	451.9	569.1	574.2	557.3	662.3
Revenue return (pence)	12.19	14.23	15.58	13.02	13.26	15.52	15.14	16.27	16.95	18.10	15.96
Capital return (pence)	40.94	9.37	(120.59)	62.77	58.22	(19.07)	50.24	97.18	3.87	(17.47)	89.30
Total (pence)	53.13	23.60	(105.01)	75.79	71.48	(3.55)	65.38	113.45	20.82	0.63	105.26
Revenue return (pence)											
Investment trust	7.07	8.60	10.23	7.33	7.07	8.27	8.47	9.31	10.08	11.01	10.88
Independent fiduciary services	5.12	5.63	5.35	5.69	6.19	7.25	6.67	6.96	6.87	7.09	7.68
	12.19	14.23	15.58	13.02	13.26	15.52	15.14	16.27	16.95	18.10	18.56
Group charges ²	–	–	–	–	–	–	–	–	–	–	(2.60)
	12.19	14.23	15.58	13.02	13.26	15.52	15.14	16.27	16.95	18.10	15.96
Dividends (pence)	10.50	12.00	12.20	12.20	12.70	13.50	14.25	15.00	15.70	16.20	16.70
Share price ¹ (pence)	349.0	354.5	223.5	284.5	356.6	333.5	425.0	529.0	530.0	498.0	530.0
(Discount)/premium ¹ (%)	(8.5)	(14.7)	(20.7)	(15.7)	(10.5)	(13.4)	0.1	(2.4)	(2.3)	(5.1)	(11.4)
NAV ^{1,3} at fair value (pence)	381.6	415.6	282.0	337.5	398.5	385.1	424.7	541.8	542.3	524.5	598.5
Market capitalisation ¹ (£m)	410.8	417.4	263.8	335.9	418.6	393.8	501.9	625.0	627.1	589.3	627.2

¹ At 31 December.

² For details see note 7 to the accounts.

³ Calculated in accordance with AIC methodology based on NAV including fair value of IFS businesses and long term borrowings.

Note

The 10 year record has been restated (2006-2014) to reflect the fair value of the IFS businesses and the long term borrowings.

NAV – Fair value of independent fiduciary services businesses and long term borrowings

NAV per share

	31 December 2016 Pence	31 December 2015 Pence
NAV per share per financial statements	560.73	472.14
Fair value adjustment for independent fiduciary services	62.37	61.27
Debt fair value adjustment	(24.62)	(8.87)
NAV per share at fair value	598.48	524.54

Long term borrowings

The fair value of long term borrowings held by the group is disclosed in note 21 to the accounts. The methodology of fair valuing all long term borrowings is to benchmark the group debt against A rated UK corporate bond yields.

Background

Our consolidated financial statements are presented, in order to comply with International Financial Reporting Standards ('IFRS'), with the value of the investment portfolio expressed at fair value which is broadly a rational and unbiased estimate of the potential market value, taking into account acquisition/replacement/disposal costs.

Since 31 December 2015, we have published a fair value NAV that includes the fair value of the IFS businesses and long term borrowings.

The calculation of the IFS valuation and methodology used to derive it are included in the annual report at note 14. However, in accordance with financial reporting standards, the valuation itself is not reflected in the financial statements.

In determining a basis for the fair valuation of the IFS businesses the directors have taken external professional advice. However, it should be noted that fair valuation guidelines require that the IFS businesses are fair valued on a stand-alone basis and this does not reflect the full value to the group and its shareholders. In particular, the value of group tax relief from the investment trust to the IFS businesses, which significantly reduces the tax charge, is excluded from the fair value of IFS businesses. In 2016 this reduced the tax charge by £1,446,000, although this will not continue at this level in the future.

In order to assist investors, The Law Debenture Corporation p.l.c. (the 'Corporation') restated its historic NAV last year to include the fair value of the IFS businesses for the last ten years. This information is provided in the annual report within the 10 year record (page 4), performance (page 3) and 10 year performance (page 3).

Chairman's statement

Performance

Our net asset value total return for the year to 31 December 2016 was up 16.9%, compared to a total return of 16.8% for the FTSE Actuaries All-Share Index. Revenue return per share was 18.56p (excluding group charges of 2.60p as explained in note 7 to the accounts), an increase of 2.5% over the previous year, as a result of a 1.2% decrease in the investment trust and a 8.3% increase in independent fiduciary services.

Dividend

The board is recommending a final dividend of 11.5p per ordinary share (2015: 11.0p), which together with the interim dividend of 5.2p (2015: 5.2p) gives a total dividend of 16.7p (2015: 16.2p).

The final dividend will be paid, subject to shareholder approval, on 20 April 2017 to holders on the register on the record date of 17 March 2017.

The Corporation's policy continues to be to seek growth in both capital and income. We attach considerable importance to the dividend, which we aim to increase steadily 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. Notwithstanding this prudent approach to reporting, our dividend has been increased annually for at least 25 years save for three occasions (the ending of the dot.com boom and the aftermath of the 2007/2008 financial crisis) when it was maintained. We are proud of that record.

Investment trust

2016 was an extraordinary year in the markets. There was a sell-off in January and February, largely driven by concerns about events in China, but also reflecting some concerns about prospects for global growth generally and political uncertainty. Long term gilt yields declined to all-time lows creating conditions that many market observers had never seen before. Central bank interventions, including in China, stabilised markets so that, at the mid-year point, despite all the turbulence, our share price was more or less back to where it had been at the start of the year.

The second half of the year was heavily influenced by the UK electorate's decision on Brexit and the consequent (and significant) depreciation in sterling. Markets climbed towards record highs, led by a dramatic surge in share price performance from companies with large overseas earnings denominated in dollars. Performance was more sluggish from UK companies that are reliant on domestic, sterling denominated revenues.

James Henderson describes these matters in more detail in his report. Our performance relative to other global investment trusts has been relatively subdued, largely because of our comparative underweighting in dollar denominated companies.

The investment manager continues to focus on companies that are growing businesses over the long-term and he remains optimistic about the prospects for some sectors, such as manufacturing, that have been out of fashion recently. He intends to continue holding a relatively long list of stocks to provide diversification both by geography and sector and as a means of cushioning the negative effects of poor performance of any individual stock.

Looking forward, with the prospect for some inflation in the UK, it remains an extremely difficult market to call. The recent highs experienced by the FTSE indices suggest general confidence in equities, which mirrors Law Debenture's long-term belief. However, the highly changeable political landscape within Europe and the US will do nothing to lessen uncertainty.

Independent fiduciary services

The management review on page 23 sets out the performance of the IFS businesses in 2016, which was broadly unchanged.

Our new chief executive, Michael Adams, joined in August 2016, replacing Caroline Banszky who retired having successfully led the businesses since 2002. He has formulated a strategy to grow the IFS businesses and has made encouraging progress, including the opening of a Law Debenture office in Dublin in early 2017. Not only should this provide opportunities for growth, but in the medium to long-term, it will ensure that Law Debenture has an established capability in the EU post-Brexit.

Towards the end of the year, we completed the sale of substantially all of our US corporate trust business. While our US trust activities have always generated reasonable revenues, the associated regulatory cost of business in the US – where since 2013 we have had to maintain regulatory capital of US\$50m – has been unwelcome and the decision was reached that this capital could more usefully be employed elsewhere. Subject to wind-down and termination

of a small number of trusts that we have retained, it is anticipated that the regulatory capital requirement will be removed within two years. Meanwhile, our corporate services offering in the US has been retained and should continue to grow.

Pension arrangements

In 2016, the employer of the London based staff took the difficult decision, following appropriate consultation, to close the defined benefit pension scheme to future accruals, effective 31 December 2016. Affected employees will instead have contributions paid to a defined contribution scheme, which has been in place for some years, running parallel to the final salary scheme.

Over the last decade, the costs to employers of final salary schemes have grown significantly and most schemes, including Law Debenture's, have a funding deficit. A robust deficit reduction plan has been, and will continue to be, in place but the closure of the scheme to future accruals will at least cap the deficit and enable more certain financial planning going forward. This will bring some benefit for shareholders, although the board acknowledges that affected staff have lost a benefit that was highly valued.

Tax deductibility of corporate interest expense

A final decision was announced in January 2017 that, with effect from 1 April 2017, HMRC will cap the amount of UK tax relief that is available for distribution within a group to the higher of 30% of taxable earnings before interest and depreciation and £2 million net UK interest expense per year.

Law Debenture generates tax relief at the investment trust level arising from the long term debt interest and excess costs. The unutilised reliefs can be transferred to the IFS businesses, thus reducing their tax liabilities. The new rules limiting the amount of unutilised relief that can be passed down in this way will have an effect on the IFS businesses, increasing their tax charge in aggregate by c.£600,000 per annum (£450,000 in 2017), which reduces the profits available for distribution to the investment trust by that amount.

While this is unwelcome, it is not material to the success of the group as a whole and we will continue to obtain the benefit available from being able to pass down at least £2 million of interest relief, together with the administration costs of running the investment trust.

Outlook

The investment manager's review and management review refer to the year ahead. We seem to be entering a period where political developments, most notably those associated with the UK's decision to leave the EU, are likely to be more important to the economic environment than has been the case for some years. We expect that Law Debenture will adapt quickly to changes as they arise and, as we have done throughout the group's long history, to find ways to capitalise on opportunities that will enhance shareholder value.

Annual general meeting

The annual general meeting will be held at the Brewers Hall, Aldermanbury Square, London, EC2V 7HR on 11 April 2017 and I look forward to seeing as many as possible of you there.

Christopher Smith

Strategic report

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 volatility in share price movements that can sometimes affect individual equities.

Our **investment strategy** (which did not change in 2016) is as follows:

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

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.

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.

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 from time to time deviate from the comparator indices.

The Corporation's assets are invested internationally and without regard to the composition of indices. There are some guidelines, set by the board, on maximum or minimum

stakes in particular regions and all stakes are monitored in detail by the board at each board meeting in order to ensure that sufficient diversification is maintained.

	Minimum %	Maximum %
UK	55	80
North America	0	20
Continental Europe	0	10
Japan	0	10
Asia/Pacific	0	10
Other (including South America)	0	10

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 open ended investment companies ('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. No more than 15% of gross assets will be invested in other UK listed investment trusts. 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 collective investment vehicles that give exposure to the Japan, Asia/Pacific or emerging market regions, to more than 40% of the Corporation's portfolio, including gilts and 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 50%. While effective gearing will be employed in a typical range of 10% net cash to 20% gearing, the board retains the ability to reduce equity exposure so that net cash is above 10% if deemed appropriate.
- The Corporation may not make investments in respect of which there is unlimited liability.

Our **business model** is designed to position the Corporation to best 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, means that the investment manager doesn't have to be constrained by choosing stocks just for yield and is an important element in delivering the objective of steadily increasing income for shareholders, fully covered by current revenues. In turn, some of the 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 under delegation 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 0.75% on the Corporation's holdings in Henderson Japanese and Pacific OEICs were fully rebated although those holdings were sold in 2016. 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 good performance of Henderson over the years as our investment manager, has led the board to conclude that the continuing appointment of Henderson as the Corporation's investment manager

The Law Debenture Investment Trust Business Model

**The business model is tax efficient
and is designed to give an advantage over other investment trusts**

Total shareholder return



INVESTMENT PORTFOLIO

- Invests in diverse equity portfolio
- Varied geographically and by industry
- Earns capital returns and dividends
- Low ongoing charges of 0.45%

INDEPENDENT FIDUCIARY SERVICES

- Trusted, professional and third party
- Earns fees
- Cost base kept under control
- Its profits give a dividend stream which increases the ability of its parent, the investment trust, to pay dividends

remains in the best interests of shareholders. The board recognises that performance in recent times, for reasons explained elsewhere, has lagged compared with other investment trusts with a higher overseas weighting. Equity investment needs to be seen over the longer term, however, and here Henderson has delivered over many years.

The agreement with Henderson does not cover custody which is the responsibility of the depositary (see section on regulatory compliance in the directors' report, page 26). Nor does it cover the preparation of data associated with investment performance, or record keeping, both of which are 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, depositary and custody fees, 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

In order to assist shareholders in understanding 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 16) 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.

The Corporation has two debentures (long dated sterling denominated financing) details of which are at page 81. At 31 December 2016, our gearing was 8%.

The weighted average interest payable on the Corporation's structural borrowings is 4.589%.

There has been no change in the Corporation's gearing policy, with effective gearing typically employed in a range of 10% net cash to 20% gearing.

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".

Principal risks and uncertainties – investment trust

The principal risks to the Corporation's ability to continue operations as an investment trust relate to investment activities generally and include market price risk, foreign currency risk, liquidity risk, interest rate risk, credit risk, country/region risk and regulatory risk. The directors have carried out a robust assessment of these risks, which are explained in more detail below and in note 20 to the accounts.

Market risk could arise from sudden fluctuations in world stock markets. The portfolio deliberately contains a 'long list' of stocks and is diversified on a geographical and sector basis to spread risk. In extreme circumstances, as the Corporation's investments comprise almost entirely of ready realisable, quoted equities, these could be sold to meet funding requirements. The Corporation conducts stress tests each month, as part of its compliance programme, which gives the board a degree of comfort about the Corporation's ability to withstand any significant market shock.

Regulatory risk could arise from failure to comply with legal and regulatory obligations. This could result in suspension of the Corporation's stock exchange listing and/or regulatory sanction (including financial penalties). Breach of the Corporation Tax Act 2010 could lead to the Corporation being subject to tax on capital gains. The

executive team provides regular reports to the board and the audit committee on the monitoring programmes in place to mitigate these risks. As its own AIFM, the Corporation is able to monitor investment positions along with levels of forecast income and expenditure and the depositary carries out regular checks on the Corporation's investment activity and accounting as a separate check.

Operational risk could arise from failure of the Corporation's accounting systems, the systems of the investment manager, or those of the custodian, which might result in an inability to provide accurate reporting and monitoring or a misappropriation of assets. All relevant providers of these services have comprehensive business continuity plans which include robust plans for continued operation of the business in the event of a service disruption or major disruption. The audit committee considers detailed reports on the Corporation's risk profile and the internal controls in place to mitigate such risk, as well as receiving reports by other key third party providers.

Gearing risk could arise where the Corporation has borrowed money for investment purposes. If the value of portfolio investments falls, any borrowings will magnify the extent of this loss. All borrowings require the prior approval of the board and gearing levels are discussed by the board at every meeting. As stated in the investment strategy, there is a ceiling on effective gearing of 50%.

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

Viability statement

The Corporation is required to publish a longer-term statement about its viability as part of its compliance with the Code and the UKLA listing rules.

The directors believe that a forward looking period of three years is appropriate. The directors assess the Corporation's future prospects by keeping under close review its current and projected financial position, threats/risks to the delivery over the longer term of the investment strategy objectives and the group business model and a macroeconomic overview based on a reasonable time horizon. A three year time period also takes into account the nature of the markets in which the IFS businesses operate, where fluctuations in revenue can occur year-on-year for reasons beyond Law Debenture's control.

The directors confirm that they have a reasonable expectation that the Corporation will continue to implement its investment strategy and business model and to operate and be able to meet its liabilities as they fall due for the next

three financial years. There are no current plans to amend the investment policy, which has delivered good capital and dividend returns for shareholders over many years. The strategy for the IFS businesses remains to continue to grow them profitably and safely.

The directors' strategic report explains in detail their assessment and understanding of the principal risks facing the Corporation and there is a detailed description of the controls in place to manage those risks in the corporate governance report. The main qualification to this viability statement is that the investment manager is appointed on a fully discretionary basis, so while stocks are picked by the manager within the guidelines in the investment strategy, the board does not dictate what individual stocks are bought or sold. Portfolio over or under performance is only properly measurable over the medium and longer term. Short term fluctuations will not necessarily result in a change of strategy, but might in extreme circumstances pose a risk to viability.

This risk is accepted within the board's risk appetite.

This statement is in addition to, rather than any replacement of, the going concern basis of preparation statement on page 32.

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) and how this compares, over various time intervals, with relevant indices;
- 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. The financial measures adopted as KPIs are part of our financial reporting obligations and no Alternative Performance Measures as defined under ESMA guidelines have been adopted.

Investment strategy – implementation

The way in which we implemented the investment strategy during 2016 is described in the investment manager's review at page 20.

Performance against KPIs is set out at pages 2, 3, 4 and 14 to 19, which contain comprehensive tables, charts and data to explain performance both over the year under review and over the long term.

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 responsibility 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 23 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 have arisen from the Corporation's investments in products operated by its investment manager, Henderson. The board was mindful of this and managed the potential conflict by careful monitoring of the performance of any such funds, up until the point at which the investments were sold in 2016.

The Corporation does not believe that conflicts 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, all of which are listed at note 14 to the accounts, we provide the following services: corporate trusts, 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, Dublin, New York, Delaware, Hong Kong, the Channel Islands and the Cayman 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 2016 are given in the management review at page 23.

The **principal risks** to the business model from 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 directors, via detailed audit committee review, monitor these risks closely to ensure that the risks of the IFS businesses do not impact the investment portfolio.

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, 3 and 4.

Environmental, employee related, community 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.

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). 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 report that at the year end:

- no directors of the group parent are female (2015: 20%);
- 15% of the senior managers of the group are female (2015: 15%) (senior manager being any individual with responsibility for planning, directing or controlling an activity of one of the subsidiary companies, excluding the chief executive); and
- 44% (2015: 45%) 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 chairman's statement, the investment manager's review and the IFS management review respectively set out some views on future developments.

Brexit

The board will keep Brexit developments under review but currently believes that the UK's decision to leave the EU does not present a threat to the group's business model, the viability statement, or its ability to continue producing accounts on a going concern basis

Performance and related data

Pages 2, 3, 4 and 14 to 19, which contain performance and related data, form a part of this strategic report.



Law Debenture Corporate Services Limited
Company Secretary

28 February 2017

Classification of investments based on market values at 31 December 2016

	United Kingdom %	North America %	Europe %	Japan %	Other Pacific %	Other %
Oil & gas						
Oil & gas producers	7.16	–	0.25	–	–	–
Oil equipment & services	0.52	1.80	–	–	–	–
	7.68	1.80	0.25	–	–	–
Basic materials						
Chemicals	1.92	–	0.19	–	–	–
Forestry & paper	0.95	–	–	–	–	–
Mining	3.60	–	–	–	–	–
	6.47	–	0.19	–	–	–
Industrials						
Construction & materials	3.30	–	–	–	–	–
Aerospace & defence	5.27	1.16	–	–	–	0.66
General industrials	1.41	–	–	–	–	–
Electronic & electrical equipment	3.36	1.18	0.41	–	–	–
Industrial engineering	3.88	2.92	–	–	–	–
Industrial transportation	0.17	–	0.21	–	–	–
Support services	4.19	–	1.34	–	–	–
	21.58	5.26	1.96	–	–	0.66
Consumer goods						
Automobiles & parts	2.15	0.61	–	1.12	–	–
Beverages	–	–	0.24	–	–	–
Food producers	0.83	–	0.84	–	–	–
Household goods & home construction	0.67	–	0.28	–	–	–
Tobacco	0.76	–	0.22	–	–	–
	4.41	0.61	1.58	1.12	–	–
Health care						
Health care equipment & services	1.55	1.15	1.21	–	–	–
Pharmaceuticals & biotechnology	2.32	1.24	0.85	–	–	–
	3.87	2.39	2.06	–	–	–
Consumer services						
Food & drug retailers	–	–	–	–	–	–
General retailers	0.99	–	0.18	–	–	–
Media	3.53	–	0.23	–	–	–
Travel & leisure	2.08	–	0.53	–	–	–
	6.60	–	0.94	–	–	–
Telecommunications						
Mobile telecommunications	0.68	–	–	–	–	–
	0.68	–	–	–	–	–
Utilities						
Electricity	0.67	–	–	–	–	–
Gas water & multiutilities	1.15	–	–	–	–	–
	1.82	–	–	–	–	–
Financials						
Banks	3.97	–	–	–	–	–
Nonlife insurance	2.62	–	–	–	–	–
Life insurance / assurance	3.19	–	–	–	–	–
Real estate investment & services	0.81	–	–	–	–	–
Real estate investment trusts	1.31	–	–	–	–	–
Financial services	3.44	–	0.43	–	–	–
Equity investment instruments	2.30	–	–	0.95	5.05	1.30
	17.64	–	0.43	0.95	5.05	1.30
Technology						
Software & computer services	–	1.44	0.55	–	–	–
Technology hardware & equipment	–	0.71	–	–	–	–
	–	2.15	0.55	–	–	–
Total 2016	70.75	12.21	7.96	2.07	5.05	1.96
Total 2015	72.25	9.39	6.48	3.95	6.39	1.54

The above table excludes bank balances and short term deposits.

Total 2016 £000	2016 %	Total 2015 £000	2015 %
51,635	7.41	29,736	4.77
16,135	2.32	13,020	2.09
67,770	9.73	42,756	6.86
14,705	2.11	12,568	2.01
6,644	0.95	5,332	0.86
25,042	3.60	22,641	3.64
46,391	6.66	40,541	6.51
22,958	3.30	24,660	3.97
49,359	7.09	43,906	7.07
9,836	1.41	10,917	1.76
34,454	4.95	24,322	3.92
47,397	6.80	31,267	5.04
2,596	0.38	1,913	0.31
38,525	5.53	26,811	4.32
205,125	29.46	163,796	26.39
26,949	3.88	20,851	3.35
1,649	0.24	1,452	0.23
11,547	1.67	12,152	1.95
6,605	0.95	14,190	2.28
6,870	0.98	8,620	1.38
53,620	7.72	57,265	9.19
27,268	3.91	25,714	4.15
30,664	4.41	28,647	4.61
57,932	8.32	54,361	8.76
–	–	2,616	0.42
8,120	1.17	11,806	1.90
26,208	3.76	22,555	3.63
18,172	2.61	17,702	2.84
52,500	7.54	54,679	8.79
4,722	0.68	4,125	0.66
4,722	0.68	4,125	0.66
4,659	0.67	4,578	0.74
8,017	1.15	8,653	1.39
12,676	1.82	13,231	2.13
27,628	3.97	14,772	2.38
18,272	2.62	27,594	4.44
22,234	3.19	16,565	2.67
5,622	0.81	5,596	0.90
9,129	1.31	7,998	1.29
26,908	3.87	29,830	4.80
66,746	9.60	74,860	12.04
176,539	25.37	177,215	28.52
13,875	1.99	8,947	1.44
4,930	0.71	4,697	0.75
18,805	2.70	13,644	2.19
696,080	100.00		
		621,613	100.00

Portfolio by sector 2016

Oil & gas 9.7%
Basic materials 6.7%
Industrials 29.5%
Consumer goods 7.7%
Health care 8.3%
Consumer services 7.5%
Telecommunications 0.7%
Utilities 1.8%
Financials 25.4%
Technology 2.7%

Portfolio by sector 2015

Oil & gas 6.9%
Basic materials 6.5%
Industrials 26.4%
Consumer goods 9.2%
Health care 8.7%
Consumer services 8.8%
Telecommunications 0.7%
Utilities 2.1%
Financials 28.5%
Technology 2.2%

Investment portfolio valuation as at 31 December 2016

The number of investments was 137 at 31 December 2016 (2015: 136), including de-listed stocks.

	£000	%		£000	%
Oil & gas			Electronic & electrical equipment		
Oil & gas producers			Spectris	10,409	1.50
Royal Dutch Shell	25,883	3.72	Morgan Advanced Materials	8,556	1.23
BP	16,304	2.34	Applied Materials (USA)	8,226	1.18
Indus Gas	6,283	0.90	TT Electronics	2,324	0.33
Total (Fra)	1,750	0.25	XP Power	2,084	0.30
Premier Oil	925	0.13	Philips Electronics (Net)	1,537	0.22
Providence Resources	490	0.07	Legrand (Fra)	1,318	0.19
	51,635	7.41		34,454	4.95
Oil equipment & services			Industrial engineering		
Schlumberger (USA)	5,435	0.78	Hill & Smith	11,201	1.61
Gibson Energy (Can)	5,328	0.77	Cummins (USA)	6,968	1.00
Cape	3,650	0.52	Caterpillar (USA)	6,755	0.97
National Oilwell Varco (USA)	1,515	0.22	Deere (USA)	6,591	0.95
Now (USA)	207	0.03	Weir Group	5,655	0.81
	16,135	2.32	IMI	4,532	0.65
Basic materials			Renold	2,678	0.38
Chemicals			Ceres Power	2,400	0.34
Elementis	5,861	0.84	Severfield	617	0.09
Croda	5,387	0.77		47,397	6.80
Velocys	2,124	0.31	Industrial transportation		
Linde (Ger)	1,333	0.19	AP Moller-Maersk (Den)	1,427	0.21
	14,705	2.11	Wincanton	1,169	0.17
Forestry & paper				2,596	0.38
Mondi	6,644	0.95	Support services		
	6,644	0.95	Johnson Service	10,751	1.54
Mining			Interserve	9,091	1.31
Rio Tinto	16,559	2.38	Carillion	5,532	0.79
BHP Billiton	8,483	1.22	Deutsche Post (Ger)	3,346	0.48
	25,042	3.60	Babcock	3,292	0.47
Industrials			SGS (Swi)	2,144	0.31
Construction & materials			Adecco (Swi)	1,610	0.23
Marshalls	8,863	1.27	Sodexo (Fra)	1,396	0.20
Balfour Beatty	5,396	0.78	Elis (Fra)	803	0.12
Accsys Technologies	4,451	0.64	Augean	560	0.08
Ibstock	4,248	0.61		38,525	5.53
	22,958	3.30	Consumer goods		
Aerospace & defence			Automobiles & parts		
Senior	11,160	1.60	GKN	14,934	2.15
BAE Systems	10,602	1.52	Toyota Motor (Jap)	7,786	1.12
Rolls Royce	10,354	1.49	General Motors (USA)	4,229	0.61
Lockheed Martin (USA)	8,091	1.16		26,949	3.88
Meggitt	4,581	0.66	Beverages		
Embraer (Bra)	4,571	0.66	Pernod-Ricard (Fra)	1,649	0.24
	49,359	7.09		1,649	0.24
General industrials			Food producers		
Smith (DS)	9,836	1.41	Unilever	5,753	0.83
	9,836	1.41	Nestlé (Swi)	4,636	0.67
			Origin Enterprises (Ire)	1,158	0.17
				11,547	1.67
			Household goods & home construction		
			Watkin Jones	4,690	0.67
			L'Oreal (Fra)	1,915	0.28
				6,605	0.95

Those shown in italics are new holdings in the six months since 30 June 2016.

	£000	%
Tobacco		
Imperial Brands	5,305	0.76
Swedish Match (Swe)	1,565	0.22
	6,870	0.98
Health care		
Health care equipment & services		
Becton Dickinson (USA)	8,038	1.15
Fresenius (Ger)	5,767	0.83
Smith & Nephew	5,720	0.82
Spire Healthcare	5,065	0.73
Fresenius Medical Care (Ger)	2,678	0.38
	27,268	3.91
Pharmaceuticals & biotechnology		
GlaxoSmithKline	11,704	1.68
Johnson & Johnson (USA)	4,662	0.67
AstraZeneca	4,428	0.64
Pfizer (USA)	3,943	0.57
Novartis (Swi)	2,803	0.40
Roche (Swi)	2,133	0.31
Novo-Nordisk (Den)	991	0.14
	30,664	4.41
Consumer services		
General retailers		
Dunelm	5,206	0.75
Inditex (Spa)	1,228	0.18
Findel	1,032	0.15
Topps Tiles	654	0.09
	8,120	1.17
Media		
Relx	10,838	1.56
Sky	5,450	0.78
Pearson	4,295	0.62
Daily Mail & General Trust	4,002	0.57
Publicis Groupe (Fra)	1,623	0.23
	26,208	3.76
Travel & leisure		
International Consolidated Airlines	7,604	1.09
Carnival	4,121	0.59
Irish Continental (Ire)	3,663	0.53
Marstons	2,784	0.40
	18,172	2.61
Telecommunications		
Mobile telecommunications		
Inmarsat	2,724	0.39
Vodafone	1,998	0.29
	4,722	0.68
Utilities		
Electricity		
SSE	4,659	0.67
	4,659	0.67
Gas water & multiutilities		
National Grid	5,795	0.83
Severn Trent	2,222	0.32
	8,017	1.15

	£000	%
Financials		
Banks		
HSBC	17,309	2.49
Standard Chartered	5,871	0.84
Barclays	4,448	0.64
	27,628	3.97
Nonlife insurance		
Hiscox	9,542	1.37
RSA Insurance	8,730	1.25
	18,272	2.62
Life insurance/assurance		
Prudential	11,913	1.71
Aviva	3,811	0.55
Chesnara	3,717	0.53
Standard Life	2,784	0.40
Permanent TSB (Ire)	9	—
	22,234	3.19
Real estate investments & services		
St Modwen Properties	5,622	0.81
	5,622	0.81
Real estate investment trusts		
Mucklow (A&J) Group	3,487	0.50
Land Securities	3,425	0.49
<i>Pacific Industrial & Logistics</i>	2,217	0.32
	9,129	1.31
Financial services		
IP Group	9,733	1.40
Provident Financial	7,818	1.12
Oxford Sciences Innovation (unlisted)	3,676	0.53
International Personal Finance	2,498	0.36
Deutsche Börse (Ger)	1,738	0.25
Amundi (Fra)	1,163	0.17
	26,626	3.83
Equity investment instruments		
Baillie Gifford Pacific	14,449	2.08
Stewart Investors Asia Pacific	14,045	2.02
Templeton Emerging Markets		
Investment Trust	9,074	1.30
Herald Investment Trust	7,463	1.07
Scottish Oriental Smaller		
Company Trust	6,646	0.95
<i>Schroder Japan Growth Fund (Jap)</i>	6,580	0.95
<i>Syncona</i>	4,076	0.59
Foresight Solar	3,113	0.45
Better Capital (2012)	1,300	0.19
	66,746	9.60
Technology		
Software & computer services		
Microsoft (USA)	10,057	1.44
SAP (Ger)	2,009	0.29
Amadeus IT (Spa)	1,809	0.26
	13,875	1.99
Technology hardware & equipment		
Apple (USA)	4,686	0.67
Microchip Technology (USA)	244	0.04
	4,930	0.71

Top 20 equity holdings by value

Rank	Company	2016		2015	
		Value £000	% of portfolio	% of portfolio	Rank
1	Royal Dutch Shell	25,883	3.72	1.86	5
2	HSBC	17,309	2.49	2.03	3
3	Rio Tinto	16,559	2.38	1.67	9
4	BP	16,304	2.34	1.99	4
5	GKN	14,934	2.15	2.24	1
6	Prudential	11,913	1.71	1.32	17
7	GlaxoSmithKline	11,704	1.68	1.66	10
8	Hill & Smith	11,201	1.61	1.58	13
9	Senior	11,160	1.60	2.12	2
10	Relx	10,838	1.56	1.44	16
11	Johnson Service	10,751	1.54	1.21	23
12	BAE Systems	10,602	1.52	1.45	15
13	Spectris	10,409	1.50	1.01	30
14	Rolls Royce	10,354	1.49	1.30	18
15	Microsoft (USA)	10,057	1.44	1.20	24
16	Smith (DS)	9,836	1.41	1.76	8
17	IP Group	9,733	1.40	1.80	7
18	Hiscox	9,542	1.37	1.60	12
19	Interserve	9,091	1.31	0.84	41
20	Marshalls	8,863	1.27	1.63	11
		35.49			

The top 20 equity holdings by value at 31 December 2015 accounted for 33% of the investment portfolio.

Other significant holdings by value

Company	2016		2015
	Value £000	% of portfolio	% of portfolio
Baillie Gifford Pacific*	14,449	2.08	1.97
Stewart Investors Asia Pacific*	14,045	2.02	1.89
Templeton Emerging Markets Investment Trust	9,074	1.30	1.00
		5.40	

*Open ended investment companies.

Changes in geographical distribution

	Valuation 31 December 2015 £000	Purchases £000	Costs of acquisition £000	Sales proceeds £000	Appreciation £000	Valuation 31 December 2016 £000
United Kingdom	449,215	63,276	(263)	(76,995)	57,477	492,710
North America	58,484	9,319	(11)	(12,441)	29,624	84,975
Europe	40,086	7,975	(48)	(1,056)	8,287	55,244
Japan	24,569	5,731	(31)	(17,389)	1,486	14,366
Other Pacific	39,668	3,191	(17)	(14,367)	6,665	35,140
Other	9,591	2,002	(3)	–	2,055	13,645
	621,613	91,494	(373)	(122,248)	105,594	696,080

Geographical distribution of portfolio 2016 by value

United Kingdom 70.7%
North America 12.2%
Europe 8.0%
Japan 2.1%
Other Pacific 5.0%
Other 2.0%

Geographical distribution of portfolio 2015 by value

United Kingdom 72.2%
North America 9.4%
Europe 6.5%
Japan 4.0%
Other Pacific 6.4%
Other 1.5%

Investment manager's review

Review

Despite some large market swings, overall 2016 was a strong year for equity returns, particularly if those equities were held in a currency other than sterling or if the underlying business derives significant dollar denominated revenues. The fall in the pound came about as the result of the referendum in the UK. The decision to leave the EU led to a cut in interest rates and increased investor uncertainty over the outlook for the UK economy. This resulted in global investors selling sterling.

USD/GBP exchange rate
[GRAPHIC REMOVED]

The strength of equities was driven by the continued growth of the global economy. A notable feature was the recovery in raw material prices, with oil doubling from its low.

Brent oil price (\$/barrel)
[GRAPHIC REMOVED]

Source: Datastream as at 31 December 2016

Therefore, although the UK market made a good advance, it lagged other major markets in sterling terms.

[GRAPHIC REMOVED]

Source: Datastream as at 31 December 2016

Biggest rises by value

Four out of the five largest stock contributors to the portfolio came from the resources area:

	Value appreciation
1. Royal Dutch Shell	£8.6m
2. Anglo American	£7.1m
3. Rio Tinto	£6.2m
4. Applied Materials	£6.0m
5. Glencore	£5.9m

Biggest falls by value

The five largest stock detractors came from different sectors and their performance reflected specific issues and problems that each of them had to deal with rather than sectoral issues:

	Value depreciation
1. Cape	£2.2m
2. Senior	£2.0m
3. International Consolidated Airlines	£2.0m
4. Interserve	£1.9m
5. St Modwen Properties	£1.5m

Source: Datastream as at 31 December 2016

Portfolio activity and investment background

Overall, the performance of the portfolio was good and we outperformed the benchmark index and were in line with the average performance in the AIC Global sector. Nevertheless, relative to other funds in the Global sector, we were in the lower quartile for performance over the year. The main reason for that was our weighting in the UK, which we describe in more detail below.

In the latter part of 2015, we built up a position in the large miners **Anglo American**, **Glencore** and **Rio Tinto**. These shares were trading substantially below their asset values but we believed they had been oversold and that the strong management in the companies would quickly deal with the issues facing the sector to deliver a recovery. This proved to be an accurate call and 2016 saw a strong upturn in the fortunes of these companies. They took action including selling their poorer assets, closing underperforming mines, having capital raisings and initiating modest production cuts. As a result of these actions, coupled with continued global growth and economic stimulation measures taken by the Chinese authorities, raw material prices recovered from very low levels and share prices rose quite steeply. We benefited from this and during the summer months, decided to reduce the exposure, selling entirely the holdings in **Glencore** and **Anglo American**. Our purchases were well timed but the sales were not as the prices of raw material kept going up – for instance, coking coal prices doubled in a six week period – thus propelling the share prices substantially higher still in the fourth quarter of the year. The holdings in the sector were further reduced into this strength. The stimulus that contributed to rises in raw material prices may however be stirring inflationary pressures, so the authorities may have to intervene again in the future and weakening raw material prices may return. Therefore, we will continue reducing further into share price strength.

The US was the best performing region in 2016, delivering a total return in excess of 50%. Energy and manufacturing stocks performed well, particularly towards the end of the year when markets began to anticipate the upside that might materialise from Trump initiatives to reduce regulation and stimulate economic growth. This has led to some very high valuations and as a result, we have reduced **Applied Materials** and **Cummins** while building up a holding in **General Motors**.

During the year, we re-configured our exposures in Japan and the Far East. Exposures to Henderson Japanese and Far Eastern OEICs were sold and replaced with a new holding in **Schroder Japan Growth Investment Trust**, which was bought on a reasonable discount, and increases in our holdings in **Scottish Oriental Smaller Companies** and **Templeton Emerging Markets**, the latter having performed particularly strongly since being added to the portfolio in 2015. However, **Better Capital**, the investment company that is involved with corporate turnarounds, severely disappointed as some of the underlying holdings experienced continued poor operational results. The company responded to pressure and is now returning capital to its shareholders.

The rise of populism, illustrated by the Brexit vote in the UK and Donald Trump winning the US Presidential race, has suddenly thrust politics into the forefront of investors' thinking. After the Brexit vote, we reduced equity exposure in the UK, as uncertainty about the economic outlook became a greater concern. Share prices have recovered from the initial falls after the vote, but sterling's weakness has increased the prospect for inflation to rise during 2017. It is possible that inflation will rise faster than wages, which will put downward pressure on consumption – the consumer having been a significant factor in better than expected growth figures in the second half of 2016 – with the UK retail sector possibly suffering as a result. The portfolio has very little exposure to this sector. On the other hand, if wages rise faster than inflation, this might suggest that inflation is becoming more embedded in the economy. It may become necessary for interest rates to rise from current historic lows. While this would help savers, the adjustment to higher rates will be painful for consumers and consequently for some parts of the economy.

Although there are concerns about the UK, the case for equity investment remains strong. The board and the managers continue to believe in the long term benefit of investing in equities and of the investment trust structure. The UK market has a higher dividend yield than other major markets and around 70% of the profits of UK companies are derived from overseas. These profits in sterling terms have received a large boost from the fall in the pound, as have the dividends received from UK stocks that pay their dividends in Euros or US dollars. Higher dividend yield and higher dividend growth than other markets drives our belief that the portfolio should hold a substantial weighting in UK stocks, despite the concerns described above.

Dividend yield (%)

[GRAPHIC REMOVED]

Source: Datastream

Corporate governance

As an active manager, our preference is to engage with management and boards to resolve issues of concern rather than to vote against shareholder meeting proposals. In our experience this approach is more likely to be effective in influencing company behaviour. However, where we believe proposals are not in shareholder interests or where engagement proves unsuccessful, we will vote against. Proposals we voted against during 2016 included remuneration related proposals at **BP**, **Weir Group** and **Babcock International**. All three companies received very significant levels of shareholder opposition, and have subsequently made changes to their remuneration policies.

We also engaged with management and non-executives of companies on a wide range of other issues. Meetings of note (and key issues covered) included **GlaxoSmithKline** (management succession, remuneration and business ethics), **Carnival** (health & safety, reporting), **BHP Billiton** (health & safety, climate change), **HSBC** (succession planning, corporate culture, business conduct) and **Royal Dutch Shell** (remuneration, climate change).

Outlook

The portfolio is made up of companies that have management teams that will adapt their businesses to prevailing economic circumstances. Macroeconomic factors are not the fundamental determinant for stocks that we choose to hold but rather management quality and excellence of product. That said, increasing inflationary pressures, as well as concerns over real GDP growth, means that the equity valuations need to be reasonable. When they are relatively high, profits need to be taken and the money recycled into better value opportunities. The focus will remain on stocks and valuations. During periods of political and economic volatility, investment opportunities will emerge to buy stocks on long term attractive valuations.

James Henderson
Henderson Global Investors Limited

Management review

– independent fiduciary services

Introduction

This is my first management review since I joined Law Debenture, following the retirement of Caroline Banszky in August 2016.

Prior to joining, I spent much of my career in professional services. I was generally aware of the attributes and reputation of Law Debenture, but in the short time that I have been here, I have found out exactly how excellent our services – and our people – actually are, and also in what high regard they are held by our clients.

My mission is to ensure that we become more proactive as an organisation in promoting and capitalising on our capabilities. I recognise that there is fierce competition in most of the markets where we operate and that there is downward pressure on pricing, but we have a good story to tell and I want us to be more vocal in telling it than we have been historically.

I have begun to implement a strategy in conjunction with the business heads that will initially focus on growing each of our existing businesses organically. This will involve some level of refreshment and investment and inevitably, there will be a lead time before the new investments translate to bottom line growth. However, beyond the short term, I expect to deliver growth and improved profitability across all of our businesses.

As you will read below, already in 2017 we have extended our operations into Dublin and set up a brand new office, to both take advantage of the opportunities in Ireland and help mitigate any difficulties that may be encountered as the UK negotiates its exit from the European Union.

As well as organic growth, if an appropriate acquisition opportunity comes along – one that could significantly enhance shareholder value and expand the range or extent of our service offering to clients in a controlled way – it will be given very careful consideration in conjunction with the board.

Results

Independent fiduciary services profit before tax increased by 2.8% from £9.2 million to £9.5 million. Revenue return per share increased by 8.3% from 7.09p to 7.68p.

Law Debenture independent fiduciary services ('IFS')

Law Debenture is a leading provider of independent third party professional services, including corporate trusts (including trustee and escrow banking), pension trusts, corporate services, agent for service of process, whistleblowing services and governance services to client boards and pension funds. 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 2016

I was honoured and proud to be appointed Law Debenture's chief executive and am grateful to my predecessor, Caroline Banszky, both for the briefings she gave me during our handover and the care that she took of the business over her many years at the helm. Law Debenture enjoys an unparalleled reputation for quality, longevity, consistency and innovation in the markets where we operate and I aim to enhance that reputation and increase profitability, in turn enhancing shareholder value.

IFS profits in 2016 continued the trend of the three previous years in being broadly flat. While the turbulence in equity markets at the beginning of the year made little difference to our new business flow, the Brexit vote certainly did, at least for a short while. A number of projects and financings went on hold while counterparties paused as the vote approached, then took stock immediately afterwards to work out what Brexit might actually mean. Markets returned to normal activity levels quite quickly and although a small number of transactions were abandoned, most were reactivated shortly after the vote and went on to complete successfully. The last few months of the year were thus quite positive. Market share remained satisfactory across all business areas.

Corporate trusts, including trustee and escrow banking

Corporate trusts had a solid year overall in terms of revenues and new transaction volumes, continuing to operate successfully across a broad spectrum of activities. Some of the appointments we secured during the year are set out below.

We were appointed trustee of a new MTN Programme for National Grid Gas, as well as on further large debt issues by the Bank of England, BP and BT. Repeat issuance by existing clients including Affordable Housing (guaranteed by the UK Government), Northumbrian Water and Ladbroke's whilst, as a new development in funding, we were appointed on two large convertible bonds by Vodafone.

In the high yield bond market, levels of activity reflected the continuing retrenchment of bank credit for medium sized companies, with a number of such issues being placed with a single investor. The private placement market continues to grow in other areas also, with many UK companies now raising finance direct from one or just a few investors.

Islamic finance remained an active area for us and included appointments as delegate on further sukuk bonds by Islamic Development Bank, a sukuk programme for its affiliate ICD and a sukuk financing on behalf of the Government of Pakistan.

Security trustee appointments reflected a variety of underlying commercial objectives ranging from bank funding – including an acquisition by Italian chemicals group IGM RFE and a mix of long term bank, EIB and institutional funding for the development for a port in the UK – to project financings. We continue to work in this arena with International Finance Corporation (part of the World Bank) around the world and in 2016, acted as security trustee and facility agent on an African copper mine project, with IFC as a lender. We were also appointed as bond and security trustee for the proposed Hinkley Point nuclear power project in the UK.

Our recognised independence as an impartial third party continues to enable us also to secure many escrow agent appointments thereby serving to diversify our income base further.

In the last twelve months, our experienced trust management team has continued to deal with a steady stream of post-issuance work, including a number of debt restructurings, modification requests, corporate reorganisations and defaults. This work is a material source of income for the business.

Pension trusts and governance services

Our pension trusteeship service had a good year, benefitting from the greater focus in government and the media on the quality of governance for pension schemes in the UK. The requirement to understand the increasingly complex issues that confront lay trustees has resulted in a growing demand for our services, especially as chair of trustees.

We continued to grow and develop our team with four new directors joining the department – bringing new skills, experience and long term commitment to serving our clients.

Our sole trusteeship services, where we act as the sole trustee of final salary schemes and deliver one-stop governance cost effectively, continue to evolve and attract new clients. We have confirmed our position at the forefront of developing best practice for independent governance committees for providers of workplace personal pensions. We are finding increased demand for scheme secretarial and effective implementation oversight services, as appreciation grows of the positive impact of a close collaboration with the trustee chairman on project management and costs of delivery. We continue to develop our team in response to this demand.

Corporate services

The corporate services business (provision of corporate directors, company secretary, accounting and administration of special purpose vehicles, facility agency) performed adequately. The structured finance market is not as busy as we would prefer but in other markets, we won new customers through our company secretarial, facility agency, M&A and corporate governance offerings. Notable was the demand for our services from participants in the alternative energy and recycling markets.

Our long established and highly regarded service of process business had another solid year.

Safecall

Our external whistleblowing service had another successful year, with an encouraging number of new appointments. The demand for our services remains strong, both in the UK and across Europe, as more and more organisations recognise the value of an external whistleblowing service. The introduction of the modern slavery act was helpful, as organisations reviewed their policies to ensure that robust procedures (including a reliable external whistleblowing service) are in place for individuals to report wrongdoing, not only within their own company but within companies in the supply chain. Notable appointments during the year included Marks & Spencer, Boehringer Ingelheim, Computacenter and Keller.

Overseas

United States

When we opened an office in New York in 2002, we hoped to win primarily trustee work, involving both US and European elements. Instead, it became clear that the stronger market demand was for an independent trustee to take "successor" roles in bankruptcy (Chapter 11) situations. These roles required us to have significant capital of US\$50 million. Over time, the number of these roles has diminished and the opportunities to win conventional trust work have been more limited than we would prefer. The cost-benefit of the regulatory capital requirement became marginal. Simultaneously, we have built up other business, mainly in the corporate services and process agent sector and these business lines continue to deliver profits, but are not dependent on the retention of the capital commitment. Consequently, we decided to exit the trust business, while retaining our profitable other businesses. The US corporate trust business is now in run-off. In December, substantially all the business was transferred, with the majority of the staff being made redundant. In difficult circumstances, all the staff continued to behave in a professional manner and their contribution is very much appreciated. It is expected that the small number of trusts we have had to retain may take up to two years to unwind and a provision has been made for the expected net costs of this. Details are included in note 7 to the accounts.

Hong Kong

Hong Kong's trade and its financial sector have been affected adversely to a certain extent by Brexit because of the close economic relationship with the EU and the UK. Coupled with the continuing economic downturn in Hong Kong and an uncertain global outlook, levels of new business generally remained modest in 2016. More positively, recurring income from existing clients remained solid, and it is possible that the weakened confidence at present might increase demand for other of our independent third party services, such as escrows.

Channel Islands

There was continued transaction activity on existing appointments during 2016, which contributed to good returns. There were some transaction terminations, but these were offset by new appointments and further growth in the number of service of process appointments.

Republic of Ireland

I am pleased to announce that we have recently opened a new office in Dublin, from where we will provide a wide range of services including corporate trust and agency, corporate services and service of process. Dublin has long been a significant financial services sector and while it suffered badly in the aftermath of the financial crisis, it has begun to bounce back. I feel that the time is right to establish a presence there and we have recruited an experienced locally based managing director, Ronan Reilly, to establish and run the business, with additional local hires to follow.

Outlook

Competition in our market place is fierce and there seems to be a constant downward pressure on our fees. However, by focusing on our strengths – namely the quality of our service, our people, our reputation and our clients – and combining that with an increase in promoting our whole range of businesses, I feel that we can retain our existing business and win more than our current share of new business in these difficult times.

I expect in 2017 our core businesses to deliver similar returns to those seen in the recent past. It will be a year of consolidation and investment, ahead of growth in later years.

I would like to thank our staff around the world for their work during 2016 and I look forward to working with them in the years to come as we look to build up our businesses globally.

Michael Adams

Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2016. 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 2015, the latest year for which financial statements have been submitted. Such approval for the year ended 2015 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 approval under Sections 1158-1159 of 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.

The corporate governance report at pages 30 to 34 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 2016 was 15.96p. The directors recommend a final dividend of 11.5p per share, which together with the interim dividend of 5.2p paid in September 2016, will produce a total of 16.7p (2015: 16.2p). The final dividend will be paid on 20 April 2017 to holders on the register on the record date of 17 March 2017. After deduction of the interim and final dividends of £19,722,000 (2015: £19,123,000), consolidated revenue reserves decreased by £2,662,000 (2015: increase of £3,196,000).

Directors

The directors are listed on page 50 and held office throughout the year other than Michael Adams, who was appointed on 4 August.

All directors are required to stand for re-election every year (or election at the next AGM following appointment). 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 and all relevant disclosures have been made. Disclosure required by Listing Rule 9.8.4 is at note 18 on page 75.

The Alternative Investment Fund Managers Directive ('AIFMD') came into effect in 2014 and the Corporation was required to appoint an "Alternative Investment Fund Manager" ('AIFM'), which must be appropriately regulated by the FCA. The Corporation elected to be its own AIFM and has the necessary FCA regulatory permission.

The AIFM is required to provide portfolio management, risk management, administration, accounting and company secretarial services to the Corporation. All of these functions, barring portfolio management which continues to be delegated to Henderson, are undertaken by the Corporation. The Corporation has appointed National Westminster Bank plc as depositary under Article 36 of the AIFMD. A fee is payable for this service, being 0.0225% per annum of the calculated monthly NAV. As part of its duties, the depositary is responsible for custody of the Corporation's portfolio assets, but has appointed HSBC Bank plc (which was the Corporation's custodian for many years before the AIFMD) as sub-custodian.

AIFMs are obliged to publish certain information for investors and prospective investors and that information may be found either in this annual report or on the Corporation's website at www.lawdebenture.com/investment-trust/corporate-governance/the-aifmd.

The AIFMD requires us to report on 'leverage'. This is slightly different from gearing, leverage being any method of borrowing that increases the Corporation's exposure, including the borrowing of cash and the use of derivatives. It is expressed as a ratio between the Corporation's exposure and its NAV and must be calculated on a 'gross' and a 'commitment' method. Under the gross method, exposure represents the sum of the Corporation's positions

after the deduction of sterling cash balances, without taking into account any hedging and netting arrangements. Under the commitment method, exposure is calculated without the deduction of sterling cash balances and after certain hedging and netting positions are offset against each other. At 31 December 2016 the maximum amount of leverage under the gross and commitment methods was 1.50 and actual amounts were 1.10 and 1.20 respectively.

Foreign Account Tax Compliance Act ('FATCA')

FATCA is US tax legislation that requires non-US financial institutions to register with the United States Internal Revenue Service and make periodic reports about US taxpayers that hold substantial positions in the Corporation. The Corporation has registered as a Reporting Foreign Financial Institution and obtained a Global Intermediary Identification Number (GIIN = 8FM3UX.99999.SL.826).

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 2014 via the Carbon Trust website, emissions for the year to 31 December 2016 were 506.69 tonnes of CO₂e (2015: 506.05 tonnes of CO₂e). This equates to 0.0165 tonnes of CO₂e per £000 of IFS revenue (2015: 0.0165 tonnes of CO₂e).

Modern Slavery Act 2015

We are required to publish a 'slavery and human trafficking statement' to outline the steps the group has taken to ensure that slavery and human trafficking is not taking place within Law Debenture's supply chain.

Law Debenture is a service provider, rather than a manufacturer. Its supply chain comprises the steps taken to get our services to a customer.

While Law Debenture is committed to preventing slavery and human trafficking in its corporate activities, it believes that its supply chains are of low risk as suppliers, for the most part, are professional advisory firms. The executive have reviewed the supply chains across the group. Law Debenture's organisational structure is set out elsewhere in the annual report, including the countries in which it is established (see page 1). None of the activities listed is considered to be at high risk of slavery or human trafficking in its supply chains.

All of Law Debenture's employees have access to confidential whistleblowing arrangements which make it easy for them to make disclosures, without fear of retaliation, if an employee has any concerns about Law Debenture's supply chain. Law Debenture only uses suppliers – generally, this means legal advisers, financial advisers, accountants and other professional firms – of the highest repute and of appropriate regulatory status.

This statement has been approved by the board and is also published on Law Debenture's website.

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 2017, 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 89.

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.

Directors' report continued

Options outstanding under the SAYE scheme at 31 December 2016 were:

Date of grant	Number of option holders	Shares under option	Exercise price
3 September 2012	4	5,267	398.50p
14 August 2013	9	13,810	499.50p
27 August 2014	28	77,720	518.00p
19 August 2015	18	37,747	512.50p
23 August 2016	20	34,182	495.75p

The Corporation also operates a Share Incentive Plan, details of which are provided in the remuneration report.

Investment manager – interests held

James Henderson did not have a beneficial interest at 31 December 2016 (2015: nil) although parties connected to him had an interest of 100,000 shares (2015: 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 2016.

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.

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 directors 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; and
- 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

Corporate governance

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 2014, a copy of which may be obtained by visiting www.frc.org.uk. 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 served throughout the year, apart from Michael Adams who was appointed on 4 August, are on page 50 of the annual report.

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.lawdebenture.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 chief executive.

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	7	8	4	2
Meetings attended by:				
M. Adams*	3	–	–	–
C. Banzsky**	3	–	–	–
M. Bridgeman	7	8	4	2
R. Laing	7	8	4	2
C. Smith	7	8	–	2
T. Bond	7	8	3	2

* Appointed 4 August.

** Retired 31 August.

C. Banzsky did not attend one meeting where the only topic discussed was recruitment of her successor. T. Bond was unable to attend one meeting of the audit committee due to an urgent last minute issue that arose.

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.

Robert Laing is the SID. The SID is available to shareholders who have concerns that cannot be addressed through the chairman, chief executive or chief financial officer.

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.

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

Mark Bridgeman was independent at appointment in March 2014 and the board is satisfied that he remains so, having no current or previous connections with the Corporation or any of its subsidiaries.

Tim Bond was independent at appointment in April 2015 and the board is satisfied that he remains so, having no current or previous connections with the Corporation or any of its subsidiaries.

Michael Adams, as an executive director, is not independent.

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 chief executive 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.

Directors' remuneration

Details of the directors' remuneration appear in the remuneration report on page 46.

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.lawdebenture.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.

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 chief executive);
- 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.

Corporate governance continued

The committee reports as follows:

The committee engaged Odgers Berndtson (which has no other connection with the Corporation) to conduct the search for a new chief executive. Our diversity policy states that while the board remains small, it will endeavour to have at least one director who is female. That objective was met until the retirement of Caroline Banszky.

Members

C. Smith (Chairman)
T. Bond
M. Bridgeman
R. Laing

Audit committee

Following best practice guidelines published by the Financial Reporting Council ('FRC'), the audit committee's report is published as a separate section of the annual report and can be found at pages 35 and 36.

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;
- approving the remuneration policy required to be put to shareholders for approval every three years; and
- making recommendations to the board for any changes to long term incentive arrangements.

Members

R. Laing (Chairman)
T. Bond
M. Bridgeman
C. Smith

The committee reports as follows. It met eight times during the period. It made decisions on the remuneration and benefits of the executive director (both outgoing and incoming) and senior staff and considered remuneration policy matters. The remuneration report at pages 37 to 49, 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 remuneration level for the incoming chief executive;
- the amount of the total pool available for the profit sharing schemes;
- the level of awards to be made to senior executive staff and the terms to be applied to the awards;
- routine administrative matters connected with the Corporation's benefits structure;
- the remuneration policy to be put to shareholders at the 2017 AGM; and
- the format and content of 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 and going concern

The statement of directors' responsibilities in relation to the financial statements appears on page 28. The independent auditors' report appears on pages 52 to 55. 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. There are no material uncertainties that call into question the Corporation's ability to continue to be a going concern for at least 12 months from the date of approval of the financial statements.

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 chief executive. 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 position and 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 on Risk Management, Internal Control and Related Financial and Business Reporting", 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 section about the principal risks to the Corporation and group business model as it sets out how the directors manage or mitigate those risks.

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;
- testing by the compliance officer of the Corporation's AIFMD obligations;
- review of reports by the depositary and the sub-custodian;
- 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 risk 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 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, 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 depositary and sub-custodian; 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 misstatement or loss.

By means of the procedures set out above, the directors have established a robust process for identifying, evaluating and monitoring the effectiveness of the internal control systems for the period. This process has been in place throughout 2016 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 2017 are set out at pages 86 to 89.

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 with all of the requirements applicable to it of the UK Corporate Governance Code.

Audit committee report

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 2016.

The committee was comprised at the year end of Robert Laing, Tim Bond and me.

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 including negotiation of the engagement letter and supervision of the audit tender process;
- 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 duties as committee chairman, I met with the audit partner and I met a number of times with the chief financial officer and company secretary to discuss matters of significance.

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 including consideration of the final and interim dividends;
- consideration of the Corporation's matrix of risks and controls and general oversight of the group's internal control systems and procedures including in the context

of reports by the depositary and the Corporation's obligations as an AIFM;

- meetings with the external auditor to discuss the 2015 financial statements and, in the fourth quarter, to plan the 2016 audit. These meetings included discussions on fees, auditor independence, key risks and developments in accounting standards;
- review and approval of internal audit programme;
- consideration of all internal audit reports;
- receipt of reports about reconciliations, procedures in place to prevent fraud and anti-bribery and corruption;
- receipt of reports about breaches of controls and implementing any necessary corrective action; 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 2016 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, which includes the initiation and oversight of any investigations that may be necessary to address control weaknesses/breaches, as identified.

In particular, the committee continually reviews the adequacy and effectiveness of the group's risk management systems and processes. 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 me on any specific matter of concern.

The internal auditor, who reports to me as chairman of the audit committee, 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). I undertake an annual review of the internal auditor's effectiveness.

Audit committee report continued

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 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 meet 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. There were no matters of concern raised during the period under review.

During 2016, the committee obtained an independent report on the auditor's own quality control procedures and was 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.

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 2014. 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 expects to put the audit to tender during 2018. We have complied with the Competition and Markets Authority Audit Order. We do not believe it is in shareholders' interests to conduct frequent (at least every five years) tenders as this is an expensive and time consuming process. The exception to this would be if there were concerns about the auditor, which is not the case at the present.

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, total non-audit fees were £7,000. This related to the tax compliance of overseas subsidiaries.

Significant financial issues relating to the 2016 accounts

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

No new significant issues arose during the course of the audit. The accounting treatment adopted following the closure of the defined benefit pension scheme was examined in detail and found to be appropriate. As reported in previous years, an area of consideration continues to be consideration of bad debt provisions.

Management makes an estimate of a number of bad debt provisions for non-collection of fees and costs as part of the risk management and control framework. The committee has received reports from management describing the basis for assumptions used.

Other issues that arose included: the risk that portfolio investments may not be beneficially owned or correctly valued; and that revenue is appropriately recognised. The committee has received assurance on these matters from management.

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 provide the necessary information for shareholders to assess the Corporation and group's position and performance, business model and strategy. That conclusion was reported to the board.

Mark Bridgeman
Chairman, Audit committee

Remuneration report

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 2016.

At the AGM in April 2014, shareholders approved our formal remuneration policy, which has remained in force for three years. In accordance with statute, the policy must be put to shareholders for approval every three years and accordingly, a resolution is being put to shareholders at the 2017 AGM. See Part 2 of our report for the policy that we are proposing, which is substantially unchanged.

Our policy continues to balance the interests of shareholders with those of the independent fiduciary services businesses staff. We continue to 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 business model and unique identity.

Our annual remuneration report shows how we implemented the policy during 2016.

Our remuneration report – see Part 3 on page 46 – is audited (as indicated) to the extent required by the relevant Regulations. The key points in our policy are that: the chief executive and executive staff will be remunerated on a transparent basis; performance related elements will be measured against the independent fiduciary services businesses, 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.

We are aware that the UK Corporate Governance Code requires that performance measures and targets be transparent, stretching and rigorously applied, and aligned with long term company success. While we remain resistant to publication in advance of financial targets, as this is a matter we regard as commercially sensitive, our proposed updated policy will require us to report retrospectively on the performance targets that were set in any given year.

There has been no engagement from shareholders on remuneration matters during the year.

The committee played a full part in finalising the terms of appointment of the new chief executive during 2016, in accordance with our policy.

Our remuneration policy (see Part 2) and our report for the year ended 31 December 2016 (see Part 3) are both being presented to shareholders for approval at the forthcoming annual general meeting and the remuneration committee invites all shareholders to approve the resolutions.

Robert Laing

Chairman, Remuneration committee

Remuneration report continued

PART 2 – REMUNERATION POLICY

Shareholders first approved our remuneration policy at the 2014 AGM. It became effective on 9 April 2014 and has been in place for three years. As required by statute, the policy must be submitted for approval by shareholders every three years and accordingly, a resolution will be put to the AGM on 11 April 2017. Having considered and reviewed the policy, and with the benefit of external legal advice to ensure that it continues to comply with current legislation, the directors have concluded that the policy should be retained in substantially the same form as agreed by shareholders in 2014. 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 Chief Executive Officer, Michael Adams. 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.

The proposed policy is as set out below. Where changes are proposed against the 2014 policy, this is indicated in the first column.

A. Executive Director and senior staff

The major components of Law Debenture's remuneration package for the Executive Director and senior staff will be as set out in the table below (Table 2A).

Component	Commentary
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Basic salary	
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No change from 2014 policy.	
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	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 by no more than inflation or by that amount awarded to the rest of the workforce.
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Benefits package	
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No substantive change from 2014 policy but amendment made to the life insurance cover.	
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	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.
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	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).
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Following closure of the defined benefit pension scheme for future accruals, life cover is now 6 times salary for all staff – previously, it was “up to” 6 times.	
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	Life insurance cover – Life insurance cover is provided to all members of staff, including the Executive Director. The cover provides for a payment of 6 times salary in the event of death in service, subject to the HMRC notional salary cap (£150,600 from 1 January 2017).
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	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.
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Component

Commentary

Benefits package (continued)

Season ticket loan – Season ticket loans are available to all staff including the Executive Director. The loans are interest free, repayable from monthly salary.

Professional subscriptions – One professional subscription will be paid for the Executive Director (and all other members of UK staff) if it can be demonstrated that the professional membership is relevant to the role.

Pension arrangements

Substantive change from 2014 policy.

The funded contributory, HMRC approved, final salary occupational pension scheme was closed to new members and closed for future accruals for existing members as from 31 December 2016. Employer contributions of 12% of reference salary are, from 1 January 2017, made into the Law Debenture Flexible Retirement Plan ('FRP'), a defined contribution scheme operated by Standard Life. A one off salary increment was made to certain employees with effect from 1 January 2017 in consideration for the change in benefits. The Executive Director joined the FRP on appointment and accrued no benefits or rights under the now closed final salary scheme.

The remuneration committee reserves the right to negotiate amendments to the FRP if it is deemed in the best interests of shareholders to do so.

Bonus arrangements

Substantively the same as the 2014 policy, save for one minor modification at c) below – introduction of spot bonuses.

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 years' 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 years' 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. A sum totalling £30,000 will be held back from the bonus pool and used to pay "spot bonuses" where an employee in this category performs particularly well on a specific project during the year. Any undistributed spot bonus amount at each year end will be credited to shareholders' funds.

Remuneration report continued

Component

Bonus arrangements (continued)

Commentary

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 credited to shareholders' funds.

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 or spot bonus award.

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

The total bonus pool will be used to pay any employers' NI due on awards made.

Component

Commentary

Bonus arrangements (continued)

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.

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.

Component

Commentary

Bonus arrangements (continued)

We are proposing a new feature of the policy relating to reporting of performance targets.

It is not the intention to state publicly and in advance 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. However, commencing in the annual report for the year ending 31 December 2017, the remuneration report will set out, without breaching commercial sensitivity, the targets that were set for the Executive Director for the year under review and his performance against those targets.

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 normally be lost if the individual gives notice to resign, or is put on notice of termination for cause, before the award release date, unless the committee exercises its discretion, which it is entitled to do under the rules. 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.
- ii) 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

Bonus arrangements (continued)

Long term incentive plans

No change from 2014 policy.

No long term incentive plans exist and the committee does not intend to introduce such a plan whilst this policy remains in place.

Schemes available

No change from 2014 policy.

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 £500 per month) 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 £5,400) 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.

Remuneration report continued

B. Non-executive directors

(No changes proposed)

The components of Law Debenture's remuneration package for non-executive directors of the Corporation are set out in the table below (Table 2B). Fee levels stated below reflect the amount payable at the time the 2017 policy will be considered by shareholders.

Component	Commentary										
Basic salary	The non-executive directors receive fees for their services as follows: <table><tr><td>NED fee</td><td>£41,250</td></tr><tr><td>Chairman's fee*</td><td>£80,000</td></tr><tr><td>Non-executive director of other group company</td><td>£5,600</td></tr><tr><td>Committee chair</td><td>£5,150</td></tr><tr><td>Pension scheme chair**</td><td>£15,500</td></tr></table> * The Chairman is paid a single fee which includes any other group directorships and committee roles. Actual fee paid may be lower if other roles decrease. ** If undertaken by a non-executive director. 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.	NED fee	£41,250	Chairman's fee*	£80,000	Non-executive director of other group company	£5,600	Committee chair	£5,150	Pension scheme chair**	£15,500
NED fee	£41,250										
Chairman's fee*	£80,000										
Non-executive director of other group company	£5,600										
Committee chair	£5,150										
Pension scheme chair**	£15,500										
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

(No changes proposed)

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

(No changes proposed)

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 (appointed in 2016).

[GRAPHIC REMOVED]

	Fixed	Annual cash bonus	Deferred share bonus
Minimum receivable	320	0	0
Receivable for in-line performance	320	92	46
Maximum receivable	320	117	158

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 along with legislative and governance changes since the policy was last approved in 2014. The aim of the policy remains 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.

Remuneration report continued

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 and deferred cash bonus £	Deferred share bonus received £	Benefits £	Pension related benefits £	Total receivable £
Executives – 2016						
M. Adams*	112,821	49,000	–	1,788	16,923	180,532
C. Banszky**	332,902	87,625	292,427	4,807	40,055	757,816
	445,723	136,625	292,427	6,595	56,978	938,348
Executive – 2015						
C. Banszky**	350,000	175,250	97,914	7,543	45,266	677,473

* Director from 4 August. Mr Adams is a member of the flexible retirement plan to which the group made contributions.

** Retired 31 August, paid until contractual leaving date 31 October, including pay in respect of untaken holiday.

Notes

- Mrs Banszky received a cash allowance in lieu of pension benefits, which is included in pension related benefits. 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 was 24 July 2015.
- Annual cash bonuses are in respect of the years ended 31 December 2016 and 31 December 2015. Deferred share bonus received is in respect of the shares received under the scheme during the year (see C. Deferred Share Plan).
- The annual salary of Mr Adams at appointment was £275,000 (Mrs Banszky from 1 January 2016 – £364,135). Mr Adams was awarded an annual cash bonus of £49,000 and a deferred share bonus of £24,500. The balance of the maximum amount of the bonus pool available to make an award to the Executive Director of £160,000 has been released to shareholders' funds.
- Benefits were the cost of life insurance cover and the disability income plan together with a payment in lieu of private medical insurance.
- There are no long term incentive plans.

	Total fees receivable for 2016 £	Total fees receivable for 2015 £
Non-executives		
C. Smith	78,833	73,000
M. Bridgeman	46,167	45,000
R. Laing	51,667	50,000
T. Bond***	41,042	28,667
	217,709	196,667

*** Director from 14 April 2015

B. Save As You Earn Share Save Plan 2012 (audited)

	Interest as at 31 December 2015	Interest acquired/ (lapsed) in 2016	Exercise price	Market price at invitation date	Interest as at 31 December 2016	Earliest exercise	Latest exercise
M. Adams	–	6,051	495.75p	495.75p	6,051	01.10.21	01.04.22
C. Banszky	5,849	(5,849)	518.00p	512.00p	–	–	–

C. Deferred Share Plan (audited)

		Interest at 31 December 2015	Interest acquired in 2016	Interest (vested) in in 2016	Purchase price	Interest at 31 December 2016	Date shares released*
C. Banszky	2013	14,851	–	(14,851)	478.43p	–	14.03.16
	2014	13,813	–	(13,813)	540.36p	–	31.08.16
	2015	12,948	–	(12,948)	540.36p	–	31.08.16
	2016	–	18,370	(18,370)	477.01p	–	31.08.16

* The shares were purchased in the open market and are held under trust by a Law Debenture subsidiary until the release date. Under the rules of the plan, deferred shares issued prior to retirement vested on the date of retirement.

The value of the shares at vesting is included in directors' remuneration (Table 3A above) and PAYE and NI was paid on that basis, calculated at the closing market price on the day before vesting, as follows:

	2016 £	2015 £
13 March 2015, 18,884 shares at 518.50p	–	97,914
14 March 2016, 14,851 shares at 480.00p	71,285	–
31 August 2016, 45,131 shares at 490.00p	221,142	–
	292,427	97,914

D. Miscellaneous disclosures (audited)

No payments were made to former directors during the year.

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

Directors are 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 2016 (and at the date of this report, unless otherwise indicated) were as follows:

	Beneficial interests as at 31 December 2016	Beneficial interests as at 31 December 2015	Shares receivable but not vested at 31 December 2016
M. Adams*	145	n/a	–
C. Banszky**	n/a	274,027	–
T. Bond	–	–	–
M. Bridgeman***	4,513	4,513	–
R. Laing	12,300	12,300	–
C. Smith	55,000	55,000	–

* Appointed 4 August, 55 more shares purchased after the period end.

** Retired 31 August.

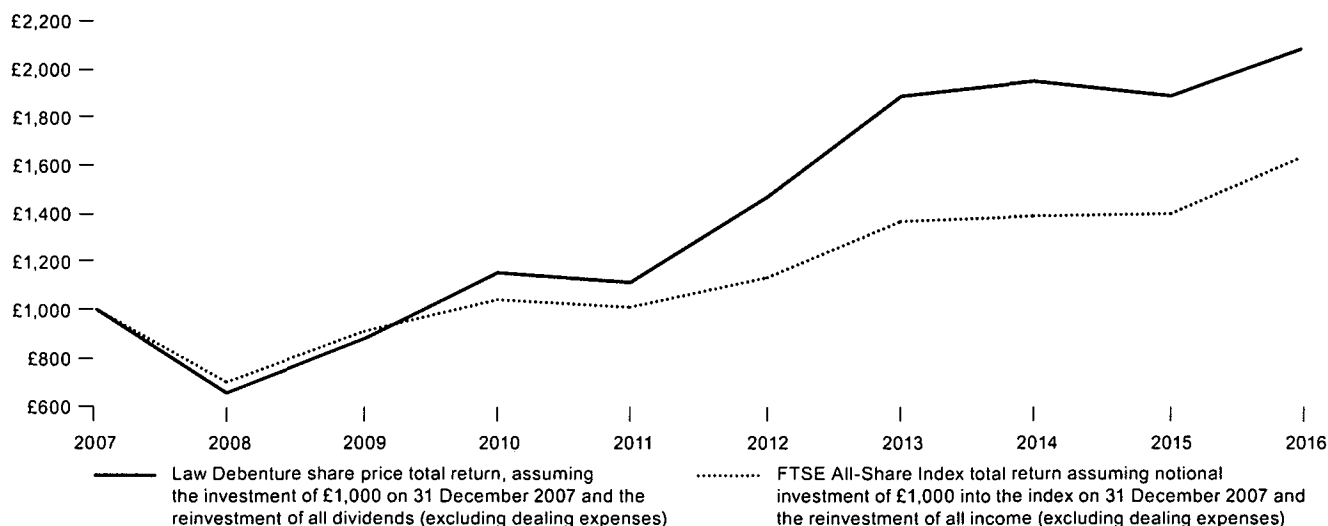
*** Interests of connected persons in addition to his beneficial holding – 1,120 shares.

E. Aggregate directors' remuneration (audited)

	2016 £	2015 £
Emoluments	1,156,057	874,140

Remuneration report continued

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 nine 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/chief executive is the only Executive Director.

The annual bonus pay-out percentage maximum has always effectively been 75% but with discretion to pay up to 100% in exceptional circumstances.

The maximum bonus payment was 100% each year. The bonus payment includes the deferred element (see Table 2A).

i) Historical remuneration

The table below sets out the Executive Director's total remuneration over the same period as the performance graph above.

Year	Single figure of total remuneration £	Annual bonus and deferred bonus award (against maximum %)
2016 – M. Adams*	180,532	65.1%
2016 – C. Banzsky**	757,816	0%
2015	677,473	100.0%
2014	690,725	62.0%
2013	636,921	72.1%
2012	636,923	70.0%
2011	602,676	75.0%
2010	588,482	90.0%
2009	528,443	67.5%
2008	510,780	70.0%

* The annual bonus and deferred share award for Mr Adams in respect of 2016 is based upon his salary paid since appointment.

** The deferred cash bonus and deferred share bonus to Mrs Banzsky were awarded in prior years.

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.

	Salary %	Benefits %	2016 Bonus %	Salary %	Benefits %	2015 Bonus %
Executive Director	3.8	(4.4)	(100.0)	3.3	(14.8)	66.5
UK employees as a whole	3.8	14.3	6.2	3.7	10.2	(3.7)

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.
3. The information for the Executive Director solely relates to Mrs Banzsky, who received no bonus award in relation to 2016.

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	2016 £000	2015 £000
Total remuneration spend	12,717	12,426
Total distributed to shareholders	19,722	19,123

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 2016 figure assumes that shareholders approve the proposed dividend at the AGM on 11 April 2017.

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 2016 bonus pool, was £11,712,000 (2015: £11,405,000).

H. Consideration of matters relating to directors' remuneration

The board delegates all remuneration matters to the remuneration committee save for NED fees, which are considered by the board on advice from the managing director.

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

R. Laing – Chairman
T. Bond
M. Bridgeman
C. Smith

During the year, the committee took advice from the following: the Executive Director (although not in respect of her/his 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; Linklaters LLP which has no other connection with the Corporation, in respect of operation of our schemes and the remuneration policy; and Odgers Berndtson, which has no other connection with the Corporation or its subsidiaries, in respect of recruitment of a new chief executive.

I. Voting at general meetings

At the AGM on 12 April 2016, the directors' remuneration report for the year ended 31 December 2015 received the following votes: for 89.63%; against 10.37%; votes withheld represented 6.21% of the total votes cast. There were no other resolutions concerning remuneration. When the policy was last approved by shareholders in 2014, votes cast were: for 99.75%; against 0.25%; votes withheld represented 0.18% of the total votes cast.

The board

Christopher Smith

Chairman, non-executive director

Appointed to the board in 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 deputy chairman of Allchurches Trust Limited and a non-executive director of DockOn AG. He is chairman of the nominations committee, a member of the remuneration committee and chairman of Law Debenture Trust Company of New York Inc.

Michael Adams

Chief executive officer

Appointed to the board in August 2016. Formerly global head of structured finance services for TMF, where he spent four years. Prior to that, he was at BNY Mellon for ten years where he was ultimately managing director of its structured finance group. Prior to that, he was at Barclays Capital, which he joined from Grant Thornton, having previously qualified as a chartered accountant.

Tim Bond

Non-executive director

Appointed to the board in April 2015. Partner of Odey Asset Management LLP, which he joined in 2010, he currently manages Odey's Odyssey Fund. He previously spent 12 years at Barclays Capital as Managing Director and head of global asset allocation and was editor and principal author of Barclays Capital's Equity Gilt Study and chief advisor to the bank's RADAR fund. Before Barclays, he worked as a strategist at Moore Capital and at Tokai Bank Europe. He is a member of the audit, remuneration and nominations committees.

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 was a partner in that firm (now Maclay Murray & Spens LLP) from 1985 and its chairman from 1 June 2010 until his retirement from the firm in May 2016. He is a non-executive director of The Independent Investment Trust plc. Senior independent director, chairman of the remuneration committee and a member of the audit and nominations committees and a non-executive director of L.D.C. Reporting Services Limited.

Mark Bridgeman

Non-executive director

Appointed to the board in March 2014. 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 vice president of the Country Land and Business Association and 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 responsibility 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.

James is assisted by Laura Foll, who first became involved with Law Debenture's portfolio in September 2011.

Corporation advisers and information

Registered office

Fifth Floor
100 Wood Street
London EC2V 7EX
Telephone: 020 7606 5451
Facsimile: 020 7606 0643
Website: www.lawdebenture.com
(Registered in England – No. 30397)

Alternative Investment Fund Manager

The Law Debenture Corporation p.l.c.

Investment portfolio manager

Henderson Global Investors Limited
201 Bishopsgate
London EC2M 3AE

Auditors

BDO LLP
55 Baker Street
London W1U 7EU

Depository

National Westminster Bank plc

Global custodian

HSBC Group (under delegation by the depository)

Registrar and transfer office

Computershare Investor Services PLC
The Pavilions
Bridgwater Road
Bristol BS99 6ZZ
Telephone: 0370 707 1129

Stockbrokers

J.P. Morgan Cazenove Limited
25 Bank Street
London E14 5JP

A member of

aic
The Association of
Investment Companies

Independent auditor's report

to the members of The Law Debenture Corporation p.l.c.

Our 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 company's affairs as at 31 December 2016 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union;
- the company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with 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.

Respective responsibilities of directors and auditor

As explained more fully in the report of the directors, 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.

This report is made solely to the company'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 company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

What our opinion covers

We have audited the financial statements of The Law Debenture Corporation p.l.c. for the year ended 31 December 2016 which comprise the group income statement, 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 statements of cash flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union and, as regards the company's financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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

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 audit approach was developed by obtaining an understanding of the group's activities and the overall control environment. The Group audit team have responsibility for the audit of all components included in the consolidated financial statements.

Based on this understanding we assessed those aspects of the group's transactions and balances which were most likely to give rise to a material misstatement. We tailored our audit approach to address the specific risks in order to provide an opinion on the financial statements as a whole, and any comments we make on the results of our procedures should be read in this context.

We detail below the risks which we considered to have the greatest effect on the overall audit strategy including the allocation of resources in the audit, and our audit response. This is not a complete list of all risks identified.

Investments

Investments comprise 86% of the total assets of the group. There is a risk that the group does not have beneficial ownership of the holdings and that the investments are not correctly valued at fair value as at the reporting date.

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 all the listed investments to an independent third party source.

Revenue recognition

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. Revenue recognition is considered to be a risk

as it is a key element of dividend returns to investors. In particular, the timing of invoicing of fees results in amounts being accrued or deferred at the year-end based on management's estimates.

We conducted a review of the group's revenue recognition procedures to ensure that they are consistent with prior periods with the accounting policies and the requirements of the accounting framework. We reviewed and checked the calculation of income recognised for dividends and interest receivable and fees receivable from the provision of fiduciary services. In respect of dividend income, tests of control were performed on the key controls within the investments cycle. A sample of dividend income and interest income was vouched to cash receipt. In respect of fee income from the provision of fiduciary services, for a sample we agreed to contract or similar agreement, invoice and receipt of cash. We also obtained a breakdown of accrued and deferred income and selected a sample which we recalculated to gain assurance that the relevant proportion of income had been recognised in the year. Assurance over completeness was gained through a number of procedures including cut-off testing and reviewing client take on records.

Legal costs and associated recoverability of receivables

As part of the ordinary course of the fiduciary services business the group may incur legal costs. These costs will be accrued and charged to client accounts as a fee and a receivable recognised. Where the group is not able to recover the costs from its client the group will record impairment for these amounts. The recording of accruals and the impairment of trade receivable balances are accounting estimates derived from judgements 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 and in estimating the carrying amount of accruals.

We reviewed the amounts accrued to understand the basis and whether they meet the criteria for recognition under the accounting standard which covers accounting for provisions, IAS 37. We also reviewed the impairments of receivable balances to understand their basis. 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.

Defined benefit pension scheme

The defined benefit pension scheme was closed to new members and for future accruals on 31 December 2016. There is a risk surrounding the associated accounting for the closure to future benefit accrual to members. As a result the basis of the year end valuation, which has been prepared by management's actuaries, has changed from the prior year as assumptions regarding future salary increases are now no longer included.

In order to ensure that this change in the valuation basis was appropriately reflected we instructed an expert to complete a review of the pension accounting figures provided by the group under IAS 19 which is the accounting standard for employee benefits. We considered the expert's objectivity and competence and evaluated the findings of their work. Where inconsistencies were identified the audit team inquired of management and where relevant obtained supporting information in order to gain sufficient appropriate evidence that amounts in relation to the defined benefit pension scheme were not materially misstated.

The Audit Committee's consideration of these risks is set out on page 36.

Our application of materiality

We determined final materiality for the financial statements as a whole to be £7.8 million. In determining this, we based our assessment on a percentage of net 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 65% of materiality, namely £5 million. Our objective in adopting this approach was to ensure that total detected and undetected audit differences do not exceed our final materiality of £7.8 million 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

Independent auditor's report continued

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 £257,000.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £156,000, 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, based on the work undertaken in the course of the audit;

- the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- 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 those reports have been prepared in accordance with applicable legal requirements.

Statement regarding the directors' assessment of principal risks, going concern and longer term viability of the company

We have nothing material to add or to draw attention to in relation to:

- the directors' confirmation in the annual report that they have carried out a robust assessment of the principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity;
- the disclosures in the annual report that describe those risks and explain how they are being managed or mitigated;
- the directors' statement in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the entity's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements; or
- the directors' explanation in the annual report as to how they have assessed the prospects of the entity, over

what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the entity will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any material disclosures drawing attention to any necessary qualifications or assumptions.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatement in the strategic report and director's report.

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 company 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 by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company 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.

Under the Listing Rules we are required to review the parts of the directors' statement relating to the company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor

in accordance with Listing Rule 9.8.10 R(2). The Listing Rules also require that we review the directors' statements set out on pages 11 and 32 regarding going concern and longer term viability.

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
28 February 2017

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	2016			2015		
		Revenue £000	Capital £000	Total* £000	Revenue £000	Capital £000	Total* £000
UK dividends		16,468	–	16,468	14,813	–	14,813
UK special dividends		831	–	831	1,643	–	1,643
Overseas dividends		3,021	–	3,021	2,355	–	2,355
Overseas special dividends		157	–	157	194	–	194
		20,477	–	20,477	19,005	–	19,005
Interest income	6	303	–	303	125	–	125
Independent fiduciary services fees		30,735	–	30,735	30,384	–	30,384
Other income		225	–	225	196	–	196
Total income		51,740	–	51,740	49,710	–	49,710
Net gain/(loss) on investments held at fair value through profit or loss	2	–	105,437	105,437	–	(20,210)	(20,210)
Total income and capital gains/(losses)		51,740	105,437	157,177	49,710	(20,210)	29,500
Cost of sales		(3,565)	–	(3,565)	(3,461)	–	(3,461)
Administrative expenses	3	(20,776)	(9)	(20,785)	(20,411)	(410)	(20,821)
Provision for onerous contracts	4	(3,031)	–	(3,031)	–	–	–
Operating profit		24,368	105,428	129,796	25,838	(20,620)	5,218
Finance costs							
Interest payable	6	(5,542)	–	(5,542)	(3,632)	–	(3,632)
Profit before taxation	7	18,826	105,428	124,254	22,206	(20,620)	1,586
Taxation	8	17	–	17	(847)	–	(847)
Profit for the year	7	18,843	105,428	124,271	21,359	(20,620)	739
Return per ordinary share (pence)	10	15.96	89.30	105.26	18.10	(17.47)	0.63
Diluted return per ordinary share (pence)	10	15.96	89.30	105.26	18.10	(17.47)	0.63

*See note 1.

Statement of comprehensive income for the year ended 31 December

	2016			2015		
	Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000
Group						
Profit for the year	18,843	105,428	124,271	21,359	(20,620)	739
Foreign exchange on translation of foreign operations	–	1,247	1,247	–	290	290
Pension actuarial (losses)/gains	(2,200)	–	(2,200)	1,200	–	1,200
Taxation on pension	417	–	417	(240)	–	(240)
Other comprehensive income for the year	(1,783)	1,247	(536)	960	290	1,250
Total comprehensive income for the year	17,060	106,675	123,735	22,319	(20,330)	1,989

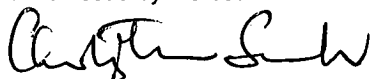
Statement of financial position as at 31 December

		Group		Corporation	
	Notes	2016 £000	2015 £000	2016 £000	2015 £000
Assets					
Non current assets					
Goodwill	11	1,968	2,256	–	–
Property, plant and equipment	12	161	206	–	–
Other intangible assets	13	70	16	–	–
Investments held at fair value through profit or loss	14	696,080	621,613	695,798	621,294
Investments in subsidiary undertakings	14	–	–	96,311	96,311
Deferred tax assets	8	1,312	824	–	–
Total non current assets		699,591	624,915	792,109	717,605
Current assets					
Trade and other receivables	15	6,680	7,073	681	239
Other accrued income and prepaid expenses		4,603	4,888	1,163	1,083
Cash and cash equivalents	16	94,804	60,301	45,606	17,607
Total current assets		106,087	72,262	47,450	18,929
Total assets		805,678	697,177	839,559	736,534
Current liabilities					
Amounts owed to subsidiary undertakings		–	–	62,089	61,617
Trade and other payables	17	13,346	13,816	1,755	897
Corporation tax payable		–	506	20	20
Other taxation including social security		444	686	320	513
Deferred income		3,826	3,934	16	16
Derivative financial instruments	20	2,029	725	2,029	725
Total current liabilities		19,645	19,667	66,229	63,788
Non current liabilities and deferred income					
Long term borrowings	21	114,024	113,980	74,499	74,481
Retirement benefit obligations	24	2,300	1,400	–	–
Deferred income		4,318	4,810	165	175
Provision for onerous contracts	4	3,106	–	–	–
Total non current liabilities		123,748	120,190	74,664	74,656
Total net assets		662,285	557,320	698,666	598,090
Equity					
Called up share capital	18	5,917	5,916	5,917	5,916
Share premium		8,722	8,667	8,722	8,667
Own shares	18	(1,197)	(1,493)	–	–
Capital redemption		8	8	8	8
Translation reserve		2,156	909	–	–
Capital reserves	19	609,077	503,649	662,307	563,161
Retained earnings		37,602	39,664	21,712	20,338
Total equity		662,285	557,320	698,666	598,090

As permitted by Section 408 of the Companies Act 2006, the Corporation has not presented its own income statement, however its profit for the year was £119,642,000 (2015: loss £1,848,000).

Approved and authorised for issue by the board on 28 February 2017 and signed on its behalf by:

C. Smith Chairman



M. Adams Chief executive



Registered number 30397

Statement of changes in equity for the year ended 31 December

Group	Called up share capital £000	Share premium £000
Equity at 1 January 2015	5,916	8,622
Profit	—	—
Foreign exchange	—	—
Actuarial gain on pension scheme (net of tax)	—	—
Total comprehensive income	—	—
Issue of shares	—	45
Dividend relating to 2014	—	—
Dividend relating to 2015	—	—
Movement in own shares	—	—
Total equity at 31 December 2015	5,916	8,667

Equity at 1 January 2016	5,916	8,667
Profit	—	—
Foreign exchange	—	—
Actuarial (loss) on pension scheme (net of tax)	—	—
Total comprehensive income	—	—
Issue of shares	1	55
Dividend relating to 2015	—	—
Dividend relating to 2016	—	—
Movement in own shares	—	—
Total equity at 31 December 2016	5,917	8,722

Corporation	Share capital £000	Share premium £000
Equity at 1 January 2015	5,916	8,622
Total comprehensive income	—	—
Issue of shares	—	45
Dividend relating to 2014	—	—
Dividend relating to 2015	—	—
Total equity at 31 December 2015	5,916	8,667

Equity at 1 January 2016	5,916	8,667
Total comprehensive income	—	—
Issue of shares	1	55
Dividend relating to 2015	—	—
Dividend relating to 2016	—	—
Total equity at 31 December 2016	5,917	8,722

Capital reserves comprises realised and unrealised gains on investments held at fair value through profit or loss (see note 19).

Own shares £000	Capital redemption £000	Translation reserve £000	Capital reserves £000	Retained earnings £000	Total £000
(1,686)	8	619	524,269	36,463	574,211
-	-	-	(20,620)	21,359	739
-	-	290	-	-	290
-	-	-	-	960	960
-	-	290	(20,620)	22,319	1,989
-	-	-	-	-	45
-	-	-	-	(12,979)	(12,979)
-	-	-	-	(6,139)	(6,139)
193	-	-	-	-	193
(1,493)	8	909	503,649	39,664	557,320

(1,493)	8	909	503,649	39,664	557,320
-	-	-	105,428	18,843	124,271
-	-	1,247	-	-	1,247
-	-	-	-	(1,783)	(1,783)
-	-	1,247	105,428	17,060	123,735
-	-	-	-	-	56
-	-	-	-	(12,983)	(12,983)
-	-	-	-	(6,139)	(6,139)
296	-	-	-	-	296
(1,197)	8	2,156	609,077	37,602	662,285

Own shares £000	Capital redemption £000	Translation reserve £000	Capital reserves £000	Retained earnings £000	Total £000
-	8	-	585,309	19,156	619,011
-	-	-	(22,148)	20,300	(1,848)
-	-	-	-	-	45
-	-	-	-	(12,979)	(12,979)
-	-	-	-	(6,139)	(6,139)
-	8	-	563,161	20,338	598,090
-	8	-	563,161	20,338	598,090
-	-	-	99,146	20,496	119,642
-	-	-	-	-	56
-	-	-	-	(12,983)	(12,983)
-	-	-	-	(6,139)	(6,139)
-	8	-	662,307	21,712	698,666

Statements of cash flows for the year ended 31 December

	Group		Corporation	
	2016 £000	2015 £000	2016 £000	2015 £000
Operating activities				
Operating profit before interest payable and taxation	129,796	5,218	125,140	1,577
(Gains)/losses on investments	(105,428)	20,620	(99,146)	22,148
Foreign exchange	(68)	(43)	–	–
Depreciation of property, plant and equipment	112	94	–	–
Amortisation of intangible assets	20	30	–	–
Provision for impairment of goodwill	418	–	–	–
Decrease/(increase) in receivables	678	209	(522)	(83)
Increase in payables	1,763	1,105	673	1,558
Transfer (from) capital reserves	(157)	(385)	(157)	(385)
Normal pension contributions in excess of cost	(1,300)	(650)	–	–
Cash generated from operating activities	25,834	26,198	25,988	24,815
Taxation	(560)	(803)	–	(1)
Operating cash flow	25,274	25,395	25,988	24,814
Investing activities				
Acquisition of property, plant and equipment	(53)	(168)	–	–
Expenditure on intangible assets	(75)	–	–	–
Purchase of investments	(91,494)	(96,541)	(91,481)	(96,541)
Sale of investments	122,248	55,595	122,198	55,586
Cash flow from investing activities	30,626	(41,114)	30,717	(40,955)
Financing activities				
Intercompany funding	–	–	472	2,005
Derivative financial instrument	(4,775)	–	(4,775)	–
Interest paid	(5,542)	(3,632)	(5,498)	(3,425)
Dividends paid	(19,122)	(19,118)	(19,122)	(19,118)
Long term borrowings	–	74,477	–	74,477
Proceeds of increase in share capital	56	45	56	45
Purchase of own shares	296	193	–	–
Net cash flow from financing activities	(29,087)	51,965	(28,867)	53,984
Net increase in cash and cash equivalents	26,813	36,246	27,838	37,843
Cash and cash equivalents at beginning of period	60,301	23,773	17,607	(18,700)
Foreign exchange gains/(losses) on cash and cash equivalents	7,690	282	161	(1,536)
Cash and cash equivalents at end of period	94,804	60,301	45,606	17,607
Cash and cash equivalents comprise				
Cash and cash equivalents	94,804	60,301	45,606	17,607

Notes to the accounts for the year ended 31 December 2016

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 51. 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 have been prepared on a going concern basis and under the historical cost basis of accounting, modified to include the revaluation of investments at fair value through profit or loss.

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 (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 deficit of the defined benefit scheme is sensitive to the assumptions used. The assumptions used are given in note 24 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 liability	
	at 31 December 2016 £ million	at 31 December 2015 £ million
Discount rate +0.1%	(1.1)	(0.8)
Inflation assumptions +0.1%	0.9	0.6
Life expectancy at 65 +1 year	1.9	1.5
RPI/CPI gap 1.1% instead of 1.0%	(0.2)	(0.2)

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.

The following relevant standards and interpretations were issued by the International Accounting Standards Board ('IASB') or the IFRS Interpretations Committee ('IFRIC') before the period end but are as yet not effective for the 2016 year end:

IFRS 9	Financial Instruments (effective for annual periods beginning on or after 1 January 2018). <i>Early adoption is permitted and has been endorsed for use in the EU.</i>
	The standard would impact the classification and measurement of the group's financial instruments and will require additional disclosure.

Notes to the accounts continued

1 | Summary of significant accounting policies continued

IFRS 15 Revenue from contracts with customers (effective for annual periods beginning on or after 1 January 2018). *Early adoption is permitted and has been endorsed for use in the EU.*

The group is still assessing the likely impact of IFRS 15 on its financial statements, however it is likely that it will have a significant impact on the recognition of revenue in the IFS business, in particular the time period over which the transaction price receivable from customers is likely to be amended. When IFRS 15 is adopted, it can be applied either on a fully retrospective basis or with the cumulative retrospective impact of IFRS 15 applied as an adjustment to equity on the date of adoption. It is expected that the latter approach will be adopted.

IFRS 16 Leases (effective for annual periods beginning on or after 1 January 2019). *Early adoption is permitted if IFRS 15 has been adopted, but has not yet been endorsed for use in the EU.*

The group is still assessing the likely impact on its financial statements. However it is likely to have a significant impact on assets and liabilities but may not have a significant impact on net assets. IFRS 16 will give rise to the recognition of an asset in respect of leases currently treated as operating leases. Lease costs will be recognised in the form of depreciation and interest.

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. The Corporation controls an investment if all three of the following elements are present: power over the investee, exposure to variable returns from the investee, and the ability of the investor to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

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.

Intercompany 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.

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 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.

1 | Summary of significant accounting policies continued

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.

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 and unlisted 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 and unlisted investments are recognised on 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 and unlisted 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. The fair value of unlisted investments is determined by the directors with reference to the International Private Equity and Venture Capital Valuation ('IPEV') guidelines.

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 rate method, so as to generate a constant rate of return on the amount outstanding.

Notes to the accounts continued

1 | Summary of significant accounting policies continued

Hedge accounting

The group has designated US dollar/sterling foreign exchange forward swaps as hedging instruments to hedge the net investment in its US operations. The hedges were documented at the inception of the relationships and on an ongoing basis the group reviews and documents the effectiveness of the hedges.

The gain or loss on the hedging instruments relating to the effective portion of the hedges 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 ('ESOT') to provide share based payments to employees are valued at cost and deducted from equity.

Taxation

Current tax is based on taxable profit for the year. Taxable profit differs from 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 services/transactions 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, which was closed to new members and future accrual on 31 December 2016. 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.

1 | Summary of significant accounting policies continued

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.

In addition the group operates defined contribution plans, where the cost recognised is the contributions paid in respect of the year.

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.

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 the net investment in foreign subsidiaries.

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 by the shareholders.

Notes to the accounts continued

2 | Net capital gain/(loss) on investments

	2016 £000	2015 £000
Realised gains based on historical cost	42,830	27,854
Amounts recognised as unrealised in previous years	(23,551)	(23,526)
Realised gains based on carrying value at previous year end date	19,279	4,328
Unrealised gains/(losses) on investments	86,315	(24,153)
	105,594	(19,825)
Transfers (to) revenue	(157)	(385)
	105,437	(20,210)

3 | Administrative expenses

	2016 £000	2015 £000
Administrative expenses include:		
Salaries and directors' fees	10,786	10,549
Social security costs	1,238	1,231
Other pension costs	693	646
	12,717	12,426
Investment management fee	1,687	1,671
Provision for impairment of goodwill	418	–
Depreciation – property, plant and equipment	112	94
Amortisation – intangible assets	20	30
Operating leases – land and buildings	1,314	1,309
Foreign exchange	(111)	37
Auditors' remuneration	195	211

During the year, the group employed an average of 115 staff (2015: 120). 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 9 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.

Cost of sales represents legal charges which are recovered as part of fees.

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

	2016 £000	2015 £000
Audit services		
– fees payable to the Corporation's auditors for the audit of its financial statements*	175	194
– audit related regulatory	13	7
Tax services	7	5
Other assurance services	–	5
	195	211

* Including the Corporation £35,000 (2015: £35,000).

3 | Administrative expenses continued

A description of the work of the audit committee is set out in the audit committee report on pages 35 and 36 and includes an explanation of how auditor objectivity and independence is safeguarded when non-audit services are provided by the auditors.

4 | Provision for onerous contracts

Group	2016 £000	2015 £000
At 1 January	–	–
Provision made in the year	3,031	–
Foreign exchange	75	–
At 31 December	3,106	–

In December 2016 the group completed the disposal of substantially all of its US corporate trust business for a consideration of \$1. This resulted in no book loss to the group, however costs totalling £437,000 in respect of staff termination costs and legal costs were incurred as a result of the transaction. The disposal was the completion of the first part of a strategy to exit the US corporate trust business, so as to release the \$50 million of capital required by the business. The contracts remaining at 31 December 2016 do not generate sufficient income to cover the costs of running and financing of the remaining business up to the eventual date of its closure. The provision for onerous costs represents the expected net future costs up to the date of disposal or completion of the remaining contracts. The provision comprises financing costs of £2,262,000 and net running costs (including the cost of closure) of \$1,043,000.

5 | Remuneration of directors (key management personnel)

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

	2016 £	2015 £
Short term benefits including fees in respect of non-executive directors	863,630	776,226
Deferred share bonus scheme	292,427	97,914
	1,156,057	874,140

Details for each individual director are shown in the remuneration report on page 46.

6 | Interest

	2016 £000	2015 £000
Interest income		
Interest on bank deposits	1	2
Returns on money market funds	302	123
	303	125
Interest payable		
Interest on pension scheme (net)	100	100
Short term borrowings	–	333
Implied interest on derivative financial instruments	165	–
Interest on long-term debt	5,277	3,199
	5,542	3,632
Interest (net)	(5,239)	(3,507)

Notes to the accounts continued

7 | Segmental analysis

	Investment trust		Independent fiduciary services		Group charges		Total	
	31 December 2016 £000	31 December 2015 £000	31 December 2016 £000	31 December 2015 £000	31 December 2016 £000	31 December 2015 £000	31 December 2016 £000	31 December 2015 £000
Revenue								
Segment income	20,477	19,005	30,735	30,384	–	–	51,212	49,389
Other income	74	25	151	171	–	–	225	196
Cost of sales	–	–	(3,565)	(3,461)	–	–	(3,565)	(3,461)
Administration costs	(2,739)	(2,926)	(17,573)	(17,485)	(464)	–	(20,776)	(20,411)
Provision for onerous contracts	–	–	–	–	(3,031)	–	(3,031)	–
	17,812	16,104	9,748	9,609	(3,495)	–	24,065	25,713
Interest (net) (note 6)	(4,964)	(3,117)	(275)	(390)	–	–	(5,239)	(3,507)
Return, including profit on ordinary activities before taxation	12,848	12,987	9,473	9,219	(3,495)	–	18,826	22,206
Taxation	–	–	(405)	(847)	422	–	17	(847)
Return, including profit attributable to shareholders	12,848	12,987	9,068	8,372	(3,073)	–	18,843	21,359
Revenue return per ordinary share	10.88	11.01	7.68	7.09	(2.60)	–	15.96	18.10
Assets	743,248	640,223	62,052	56,954	378	–	805,678	697,177
Liabilities	(97,230)	(101,063)	(43,057)	(38,794)	(3,106)	–	(143,393)	(139,857)
Total net assets	646,018	539,160	18,995	18,160	(2,728)	–	662,285	557,320

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.

Group charges have been included as a separate element for the first time this year, to reflect the result of matters related to group actions.

	Investment trust		Independent fiduciary services		Total	
	31 December 2016 £000	31 December 2015 £000	31 December 2016 £000	31 December 2015 £000	31 December 2016 £000	31 December 2015 £000
Other information						
Capital expenditure	–	–	128	168	128	168
Depreciation/amortisation	–	–	132	124	132	124

Group charges before taxation during the year comprised the following:

	2016 £000
Closure of the US trust business	
Staff termination and legal costs incurred (see note 4)	(437)
Provision for onerous contracts (see note 4)	(3,031)
	(3,468)
Impairment of goodwill in Delaware Corporate Services Inc. (see note 11)	(418)
Past service credit on closure of defined benefit pension scheme net of costs of closure (see note 24)	391
	(3,495)

8 | Taxation

	2016 £000	2015 £000
Taxation based on revenue for the year comprises:		
UK Corporation tax at 20% (2015: 20.25%)	83	429
Overseas tax (credit)/charge	(59)	239
Total current tax charge	24	668
Deferred tax (credit)/charge	(41)	179
(Credit)/charge for the year	(17)	847

Taxation

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

	2016 £000	2015 £000
Profit before taxation	124,254	1,586
Tax on ordinary activities at standard rate 20% (2015: 20.25%)	24,851	321
Effects of:		
Expenses not deductible for tax purposes	405	29
Higher rates of tax on overseas (losses)/income	(238)	94
Non-taxable capital (gains)/losses	(21,002)	4,176
Tax credit on dividend income	(4,047)	(3,774)
Change in tax rate for deferred tax	14	1
	(17)	847

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 of 20%.

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.

Group	Accelerated tax depreciation £000	Retirement benefit obligations £000	Total £000
Deferred tax assets			
At 1 January 2015	584	650	1,234
(Charge) to income	(49)	(130)	(179)
(Charge) to other comprehensive income	–	(240)	(240)
Foreign exchange	9	–	9
At 1 January 2016	544	280	824
Credit/(charge) to income	301	(260)	41
Credit to other comprehensive income	–	417	417
Foreign exchange	30	–	30
At 31 December 2016	875	437	1,312

In accordance with the accounting policy, deferred tax is calculated at the tax rates that are expected to apply to the reversal. Overseas taxes reflect the current rate, whilst UK taxes are at the enacted rate of 19%.

A deferred tax asset has not been recognised in respect of overseas losses of £1,415,000 (2015: £1,268,000) as their usability cannot be predicted with reasonable certainty.

Notes to the accounts continued

9 | Dividends on ordinary shares

	2016 £000	2015 £000
Dividends on ordinary shares comprise the following:		
2016 Interim 5.2p (2015: 5.2p)	6,139	6,139
2015 Final 11.0p (2014: 11.0p)	12,983	12,979
Total for year	19,122	19,118
Proposed final dividend for the year ended 31 December 2016	13,583	

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.

	2016 £000	2015 £000
2016 Interim 5.2p (2015: 5.2p)	6,139	6,139
2016 Final 11.5p (2015: 11.0p)	13,583	12,984
	19,722	19,123

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 shares owned by the ESOT (see note 18).

10 | Return per share

Revenue return is based on profits attributable of £18,843,000 (2015: £21,359,000).

Capital return per share is based on capital gains for the year of £105,428,000 (2015: loss £20,620,000).

Total return per share is based on gain for the year of £124,271,000 (2015: £739,000).

The calculations of returns per share are based on 118,063,495 (2015: 118,013,557) shares, being the weighted average number of shares in issue during the year after adjusting for shares owned by the ESOT. In 2016 total, revenue and capital diluted returns per share were calculated using 118,064,394 shares (2015: 118,020,665 shares), being the diluted weighted average number of shares in issue assuming exercise of options at less than fair value. There were 77,720 (2015: 105,565) antidilutive shares.

11 | Goodwill

Group	2016 £000	2015 £000
Cost		
At 1 January	2,256	2,215
Foreign exchange	171	41
At 31 December	2,427	2,256
Provision for impairment		
At 1 January	–	–
Provision in year	418	–
Foreign exchange	41	–
At 31 December	459	–
Net book value at 31 December	1,968	2,256

11 | Goodwill continued

The goodwill is identifiable with separate operating companies (Safecall Limited: £1,419,000; and Delaware Corporate Services Inc.: £1,008,000). At 31 December 2016 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 2017.

The review for Safecall was assessed using annual growth for five years of 5% with no terminal growth, which is based on current expectations and a discount rate of 9%. Sensitivity analysis was also completed using annual growth of 2% and a discount rate of 10% and on neither basis was the goodwill considered to be impaired.

The review of Delaware Corporate Services Inc. was assessed using no annual growth for five years and no terminal growth, which is based on current expectations and a discount rate of 9%. On this basis the goodwill is impaired and a provision has been made of \$568,000. It is not expected that the performance will decline, however using a discount rate of 10% for sensitivity analysis would give rise to a further impairment of \$60,000.

12 | Property, plant and equipment

Group	2016			2015		
	Leasehold improvements £000	Office furniture & equipment £000	Total £000	Leasehold improvements £000	Office furniture & equipment £000	Total £000
Cost						
At 1 January	849	1,654	2,503	777	1,557	2,334
Additions at cost	5	48	53	71	97	168
Foreign exchange	27	33	60	1	–	1
At 31 December	881	1,735	2,616	849	1,654	2,503
Accumulated depreciation						
At 1 January	779	1,518	2,297	765	1,438	2,203
Foreign exchange	14	32	46	–	–	–
Charge	37	75	112	14	80	94
At 31 December	830	1,625	2,455	779	1,518	2,297
Net book value at 31 December	51	110	161	70	136	206

The Corporation holds no property, plant and equipment.

13 | Other intangible assets

Group	Computer software 2016 £000	Computer software 2015 £000
Cost		
At 1 January	1,458	1,458
Additions at cost	75	–
At 31 December	1,533	1,458
Accumulated amortisation		
At 1 January	1,442	1,413
Foreign exchange	1	(1)
Charge	20	30
At 31 December	1,463	1,442
Net book value at 31 December	70	16

The Corporation holds no other intangible assets.

Notes to the accounts continued

14 | Investments

Investments held at fair value through profit or loss

Group	2016			2015		
	Listed £000	Unlisted £000	Total £000	Listed £000	Unlisted £000	Total £000
Opening cost at 1 January	453,202	3,652	456,854	388,128	328	388,456
Gains at 1 January	164,759	–	164,759	212,438	–	212,438
Opening fair value at 1 January	617,961	3,652	621,613	600,566	328	600,894
Purchases at cost	91,481	13	91,494	93,208	3,333	96,541
Cost of acquisition	(373)	–	(373)	(402)	–	(402)
Sales – proceeds	(122,198)	(50)	(122,248)	(55,586)	(9)	(55,595)
– realised gains on sales	42,830	–	42,830	27,854	–	27,854
Gains/(losses) in the income statement	62,421	343	62,764	(47,679)	–	(47,679)
Closing fair value at 31 December	692,122	3,958	696,080	617,961	3,652	621,613
Closing cost at 31 December	464,942	3,615	468,557	453,202	3,652	456,854
Gains	227,180	343	227,523	164,759	–	164,759
Closing fair value at 31 December	692,122	3,958	696,080	617,961	3,652	621,613

Corporation	2016			2015		
	Listed £000	Unlisted £000	Total £000	Listed £000	Unlisted £000	Total £000
Opening cost at 1 January	458,300	3,333	461,633	393,226	–	393,226
Gains at 1 January	159,661	–	159,661	207,340	–	207,340
Opening fair value at 1 January	617,961	3,333	621,294	600,566	–	600,566
Purchases at cost	91,481	–	91,481	93,208	3,333	96,541
Cost of acquisition	(373)	–	(373)	(402)	–	(402)
Sales – proceeds	(122,198)	–	(122,198)	(55,586)	–	(55,586)
– realised gains on sales	42,830	–	42,830	27,854	–	27,854
Gains/(losses) in the income statement	62,421	343	62,764	(47,679)	–	(47,679)
Closing fair value at 31 December	692,122	3,676	695,798	617,961	3,333	621,294
Closing cost at 31 December	470,040	3,333	473,373	458,300	3,333	461,633
Gains	222,082	343	222,425	159,661	–	159,661
Closing fair value at 31 December	692,122	3,676	695,798	617,961	3,333	621,294

Listed investments are all traded on active markets and as defined by IFRS 13 are Level 1 financial instruments. As such they are valued at unadjusted quoted bid prices. Unlisted investments are Level 3 financial instruments. They are valued by the directors using unobservable inputs including the underlying net assets of the investments.

Investments in subsidiary undertakings – Corporation	2016 £000	2015 £000
Cost		
At 1 January and at 31 December	96,311	96,311

The cost of subsidiary undertakings includes capital contributions and as a consequence is not comparable to the fair value of the IFS businesses.

14 | Investments continued

Fair valuation of the Independent Fiduciary Services businesses (IFS)

The IFS is represented by the wholly owned subsidiaries of the Corporation, with the exception of Law Debenture Finance p.l.c. The directors have chosen to provide a fair valuation of the IFS businesses, which is not included within the financial statements, to assist the users of the Annual Report. The fair valuation is used in preparing performance data for the group. The fair value is determined using unobservable inputs (including the group's own data), which represent Level 3 inputs. The directors' estimate of fair value uses the guidelines and methodologies on valuation published by the International Private Equity and Venture Capital Association.

The fair valuation of IFS is based upon the historic earnings before interest, taxation, depreciation and amortisation ('EBITDA'), an appropriate multiple and the surplus net assets of the business at their underlying fair value. The multiple applied in valuing the IFS is from comparable companies sourced from market data, with appropriate adjustments to reflect the difference between the comparable companies and the IFS in respect of growth, margin, size and liquidity.

Fair valuation of the IFS	2016 £000	2015 £000
EBITDA at a multiple of 8.1 (2015: 8.4)	80,028	78,397
Surplus net assets	9,908	12,082
	89,936	90,479

An increase or decrease of 1 in the multiple would give rise to a £9.9 million change in the fair valuation of the IFS. The adjustment to NAV to reflect the IFS fair value is an increase of 62.37p per share (2015: 61.27p).

Subsidiaries and related undertakings

The following is a list of all of the subsidiaries within the Law Debenture group. Each of them is 100% owned within the group and has been consolidated in the group accounts. Unless indicated, all subsidiaries are incorporated and have their registered office in the United Kingdom. All shares issued by group subsidiaries are ordinary shares. The Corporation and the group do not have any significant holdings in any qualifying undertakings other than the subsidiary undertakings listed below.

L.D. Pension Plan Trustee Limited	The Sole Trustee plc
L.D.C. Trust Management Limited	The Law Debenture Corporation (Deutschland) Limited
Law Debenture Investment Management Limited	L.D.C. Latvia Limited
LDC Reporting Services Limited	Law Debenture Trustee for Charities
Beagle Nominees Limited	Law Debenture (No. 1 Scheme) Trust Corporation
The Law Debenture Trust Corporation p.l.c.	Law Debenture (No. 2 Scheme) Trust Corporation
The Law Debenture Pension Trust Corporation p.l.c.	Law Debenture (No. 3 Scheme) Pension Trust Corporation
Law Debenture Corporate Services Limited	The Law Debenture (No. 5) Trust Corporation
Law Debenture Trustees Limited	The Law Debenture (CSMA) Pension Trust Corporation
The Law Debenture Intermediary Corporation p.l.c.	The Law Debenture (Britannia) Pension Trust Corporation
Law Debenture Overseas No. 1 Limited	The Law Debenture (1996) Pension Trust Corporation
Law Debenture Finance p.l.c.	The Law Debenture (Airborne) Pension Trust Corporation
Law Debenture Securitisation Services Limited	The Law Debenture (BAA) Pension Trust Corporation
LDPTC Nominees Limited	The Law Debenture (BIS Management) Pension Trust Corporation
Law Debenture Governance Services Limited	The Law Debenture (BIS Retirement) Pension Trust Corporation
Safecall Limited	The Law Debenture (Freemans) Trust Corporation
Safecall Training Limited	
The Whistleblowing Company Limited	

Notes to the accounts continued

14 | Investments continued

The Law Debenture (GS) Pension Trust Corporation	L.D.C. Corporate Director No. 2 Limited
The Law Debenture (Intel Old Plan) Pension Trust Corporation	L.D.C. Corporate Director No. 3 Limited
The Law Debenture (SAPP) Pension Trust Corporation	L.D.C. Corporate Director No. 4 Limited
The Law Debenture (JLPF) Pension Trust Corporation	L.D.C. Corporate Director No. 5 Limited
The Law Debenture (JLPP) Pension Trust Corporation	CD Corporate Director No. 1 Limited
The Law Debenture (JGRP) Pension Trust Corporation	CD Corporate Director No. 2 Limited
The Law Debenture (JGSPS) Pension Trust Corporation	LDC Nominee Director No. 1 Limited
The Law Debenture (JIC) Pension Trust Corporation	LDC Nominee Director No. 2 Limited
The Law Debenture (KBPP) Pension Trust Corporation	LDC Nominee Secretary Limited
The Law Debenture (KGPP) Pension Trust Corporation	L.D.C. DR Trustee Limited
The Law Debenture (LBS) Pension Trust Corporation	LDC DR Nominees Limited
The Law Debenture (Swiss Re GB) Trust Corporation	L.D.C. (SPV No.1) Limited
Law Debenture (Ocean) Trust Corporation	The Law Debenture Corporation (HK) Limited (incorporated/registered office in Hong Kong)
Law Debenture (Odyssey) Trust Corporation	Law Debenture Trust (Asia) Limited (incorporated/registered office in Hong Kong)
The Law Debenture (SRL) Pension Trust Corporation	Law Debenture Services (Asia) Limited (incorporated/registered office in Hong Kong)
The Law Debenture (Stena Line EPS) Pension Trust Corporation	Law Debenture China Limited (incorporated/registered office in Hong Kong)
The Law Debenture (Tootal) Trust Corporation	Law Debenture Services (HK) Limited (incorporated/registered office in Hong Kong)
Law Debenture (GWR) Pension Trust Corporation	The Law Debenture Trust Corporation (Channel Islands) Limited (incorporated/registered office in Jersey)
The Law Debenture (JGDBS) Pension Trust Corporation	The Law Debenture Trust Corporation (Cayman) Limited (incorporated/registered office in the Cayman Islands)
ICI Pensions Trustee Limited	The Law Debenture Trust Company of New York (incorporated/registered office in the USA)
Morgan Crucible Pension Trustees Limited	Law Debenture Corporate Services Inc. (incorporated/registered office in the USA)
AstraZeneca Pensions Trustee Limited	Law Debenture Holdings Inc. (incorporated/registered office in the USA)
Law Debenture MC Senior Pension Trust Corporation	Delaware Corporate Services Inc. (incorporated/registered office in the USA)
ICI Specialty Chemicals Pensions Trustee Limited	Law Debenture (Ireland) Limited (incorporated/registered office in the Republic of Ireland)
RTL Shareholder SVC Limited	BHP SVC PTY Limited (incorporated/registered office in Australia)
Billiton SVC Limited	
DLC SVC Limited	
LDC (NCS) Limited	
LDC (Shares Two) Limited	
Terrier Services Limited	
L.D.C. Securitisation Director No. 1 Limited	
L.D.C. Securitisation Director No. 2 Limited	
L.D.C. Securitisation Director No. 3 Limited	
L.D.C. Securitisation Director No. 4 Limited	
L.D.C. Corporate Director No. 1 Limited	

15 | Trade and other receivables

The carrying value represents trade and other receivables which are not impaired. The directors consider that the carrying value approximates to the fair value. Allowances for impairment are determined by reference to past experience.

16 | 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 value of these assets approximates to their fair value.

17 | 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 value of trade and other payables approximates to their fair value, due to their age.

18 | Called up share capital

Group and Corporation

Allotted, issued and fully paid share capital

	2016 £000	2015 £000
Value		
As at 1 January	5,916	5,916
Issued in year	1	–
As at 31 December	5,917	5,916
	Number	Number
Shares		
As at 1 January	118,328,874	118,314,903
Issued in year	15,525	13,971
As at 31 December	118,344,399	118,328,874

During the year to 31 December 2016, 15,525 shares were allotted under the SAYE Scheme for a total consideration of £55,503 which includes a premium of £54,727.

During the year, 34,182 options were granted under the Corporation's SAYE scheme. At 31 December 2016, options under the SAYE Scheme exercisable from 2017 to 2022 at prices ranging from 398.50p to 518.00p per share were outstanding in respect of 168,726 ordinary shares (2015: 188,163 ordinary shares). During 2016, 38,094 options lapsed or were cancelled (2015: 7,627) and 15,525 (2015: 13,971) were exercised.

Further details of options outstanding are given in the directors' report on page 28.

Own shares held – Group

	2016 £000	2015 £000
Own shares held – cost	1,197	1,493

The own shares held represent the cost of 232,554 (2015: 288,493) 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 2016 was £1,232,536 (2015: £1,436,695).

Notes to the accounts continued

19 | Capital reserves

Group	2016			2015		
	Unrealised appreciation £000	Realised reserves £000	Total £000	Unrealised appreciation £000	Realised reserves £000	Total £000
At 1 January	159,756	343,893	503,649	208,230	316,039	524,269
Transfer on disposal of investments	(23,551)	23,551	–	(23,526)	23,526	–
Net gains/(losses) on investments	86,315	19,279	105,594	(24,153)	4,328	(19,825)
Cost of acquisition	(373)	–	(373)	(402)	–	(402)
Foreign exchange	364	–	364	(8)	–	(8)
Transfers (to) revenue	(157)	–	(157)	(385)	–	(385)
At 31 December	222,354	386,723	609,077	159,756	343,893	503,649

Corporation	2016			2015		
	Unrealised appreciation £000	Realised reserves £000	Total £000	Unrealised appreciation £000	Realised reserves £000	Total £000
At 1 January	153,951	409,210	563,161	203,953	381,356	585,309
Transfer on disposal of investments	(23,551)	23,551	–	(23,526)	23,526	–
Net gains/(losses) on investments	86,315	19,279	105,594	(24,153)	4,328	(19,825)
Cost of acquisition	(373)	–	(373)	(402)	–	(402)
Foreign exchange	(5,918)	–	(5,918)	(1,536)	–	(1,536)
Transfers (to) revenue	(157)	–	(157)	(385)	–	(385)
At 31 December	210,267	452,040	662,307	153,951	409,210	563,161

20 | 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, unlisted equities and fixed interest securities
- Cash and short term investments and deposits
- 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
- Derivative transactions to hedge the net investment in overseas subsidiaries

It remains the group's policy that no trading in derivatives is undertaken. Information in respect of the investment portfolio is included on pages 14 to 19.

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 8 and includes a ceiling on effective gearing of 50%, with a typical range of 10% net cash to 20% gearing.

Capital is represented by the group's net assets.

20 | Financial instruments continued

The group and Corporation held the following categories of financial assets and liabilities at 31 December 2016.

Group	2016 £000	2015 £000
Assets		
Financial assets held at fair value through profit or loss (designated as such upon initial recognition):		
Equity investments	696,080	621,613
Loans and receivables:		
Trade and other receivables	6,680	7,073
Cash and cash equivalents	94,804	60,301
	101,484	67,374
Total financial assets	797,564	688,987
Liabilities		
Derivative financial instruments at fair value (designated as a hedge from inception)	2,029	725
Financial liabilities measured at amortised cost:		
Loans and payables:		
Trade and other payables	13,346	13,816
Long term borrowings	114,024	113,980
	127,370	127,796
Total financial liabilities	129,399	128,521
Corporation	2016 £000	2015 £000
Assets		
Financial assets held at fair value through profit or loss (designated as such upon initial recognition):		
Equity investments	695,798	621,294
Loans and receivables:		
Trade and other receivables	681	239
Cash and cash equivalents	45,606	17,607
	46,287	17,846
Total financial assets	742,085	639,140
Liabilities		
Derivative financial instruments at fair value (designated as a hedge from inception)	2,029	725
Financial liabilities measured at amortised cost:		
Loans and payables:		
Amounts owed to subsidiary undertakings	62,089	61,617
Trade and other payables	1,755	897
Long term borrowings	74,499	74,481
	138,343	136,995
Total financial liabilities	140,372	137,720

Notes to the accounts continued

20 | Financial instruments continued

Derivative financial instruments

	2016 £000	2015 £000
Fair value of hedge instrument	2,029	725

The Corporation enters into currency swaps as designated hedging instruments. The Corporation entered into a \$45 million US dollar/sterling currency swap with HSBC Bank plc which matures on 27 March 2017. The currency swap is a Level 2 financial instrument as defined by IFRS 13 and the fair value of the financial liability at 31 December 2016 represents the sterling equivalent of the change in value of the notional amount since inception. The gross undiscounted cash flows of the swap are £36,417,000 outflow and £34,388,000 inflow.

The hedge was initially created in July 2013 and replaced by swaps since September 2015, to hedge the net investment in US operations. The hedges have been reviewed on an ongoing basis and have been effective at all times since inception. The gains or losses on the hedging instruments have been recognised in reserves and set off against gain or loss on the translation of the net investment in US operations.

The principal risks facing the group in respect of its financial instruments remain unchanged from 2015 and are:

Market risk

- **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 2016 fell or rose by 10%, the impact on the group's total profit or loss for the year would have been £69.6 million (2015: £62.2 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 £69.6 million (2015: £62.1 million).
- **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:

Group	2016			2015		
	Investments £m	Net monetary assets £m	Total currency exposure £m	Investments £m	Net monetary assets £m	Total currency exposure £m
US Dollar	84.2	6.9	91.1	59.7	6.0	65.7
Canadian Dollar	5.3	–	5.3	2.1	–	2.1
Euro	37.9	0.4	38.3	24.1	0.3	24.4
Danish Krone	2.4	–	2.4	2.3	–	2.3
Swedish Krona	1.6	–	1.6	1.5	–	1.5
Swiss Franc	13.3	–	13.3	12.1	–	12.1
Hong Kong Dollar	–	0.4	0.4	–	0.3	0.3
Japanese Yen	7.8	–	7.8	6.9	–	6.9
	152.5	7.7	160.2	108.7	6.6	115.3

The group US dollar net monetary assets is that held by the US operations of £42.3 million together with £1.0 million held by non-US operations less the US dollar/sterling currency swap notional amount of £36.4 million (\$45 million).

20 | Financial instruments continued

Corporation	2016			2015		
	Investments £m	Net monetary (liabilities) £m	Total currency exposure £m	Investments £m	Net monetary (liabilities) £m	Total currency exposure £m
US Dollar	84.2	(36.1)	48.1	59.7	(30.3)	29.4
Canadian Dollar	5.3	–	5.3	2.1	–	2.1
Euro	37.9	–	37.9	24.1	–	24.1
Danish Krone	2.4	–	2.4	2.3	–	2.3
Swedish Krona	1.6	–	1.6	1.5	–	1.5
Swiss Franc	13.3	–	13.3	12.1	–	12.1
Japanese Yen	7.8	–	7.8	6.9	–	6.9
	152.5	(36.1)	116.4	108.7	(30.3)	78.4

The Corporation US dollar net monetary liability of £36.1 million is the sterling equivalent of the \$45 million notional US dollar/sterling currency swap, net of cash held of £0.3 million.

The holdings in the Schroder Japan Growth Fund, Baillie Gifford Pacific and Stewart Investors Asia Pacific OEICs and Templeton Emerging Markets Investment Trust and Scottish Oriental Smaller Companies Trust are denominated in sterling but have underlying assets in foreign currencies equivalent to £50.8 million (2015: £63.6 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 2016 rose or fell by 10% against sterling, the impact on the group's total profit or loss for the year would have been £22.7 million and £18.4 million respectively (2015: £19.1 million and £15.6 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.

- **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 was:

	2016					
	Group			Corporation		
	Sterling £m	HK Dollars £m	US Dollars £m	Euro £m	Sterling £m	US Dollars £m
Floating rate assets	50.7	0.4	43.3	0.4	45.3	0.3

	2015					
	Group			Corporation		
	Sterling £m	HK Dollars £m	US Dollars £m	Euro £m	Sterling £m	Euro £m
Floating rate assets	23.4	0.3	36.3	0.3	17.4	0.2

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

Notes to the accounts continued

20 | Financial instruments continued

	Group		Corporation	
	2016 Sterling £m	2015 Sterling £m	2016 Sterling £m	2015 Sterling £m
Fixed rate liabilities	114.0	114.0	74.5	74.5
Weighted average fixed rate for the year	4.589%	5.320%	3.770%	3.770%

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 £620,000 credit (2015: £336,000 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 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 £253,000 credit (2015: £9,000 charge). The calculations are based on the balances 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 largely limits investments to equities and fixed interest securities quoted in major financial markets. In addition, cash balances are maintained commensurate with likely future settlements. The maturity of the group's existing borrowings is set out in note 21.

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 £101.5 million (2015: £67.4 million). The Corporation's maximum exposure to credit risk arising from financial assets is £46.3 million (2015: £17.8 million).

Trade and other receivables

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

	Group		Corporation	
	2016 £000	2015 £000	2016 £000	2015 £000
Between 31 and 60 days	1,713	1,986	–	8
Between 61 and 90 days	210	380	–	–
More than 91 days	577	1,777	30	31
Total	2,500	4,143	30	39

20 | Financial instruments continued

At 31 December 2016, trade and other receivables which were impaired and for which there was a bad debt provision totalled £955,000 (2015: £1,290,000) (Corporation: £2,000 (2015: £2,000)). All the impaired trade and other receivables were more than 91 days past due.

Trade and other payables

	Group		Corporation	
	2016 £000	2015 £000	2016 £000	2015 £000
Due in less than one month	12,851	13,353	1,755	897
Due in more than one month and less than three months	495	463	–	–
	13,346	13,816	1,755	897

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 long term borrowings (see note 21).

21 | Long term borrowings

	Group		Corporation	
	2016 £000	2015 £000	2016 £000	2015 £000
Long term borrowings				
Long term borrowings are repayable as follows:				
In more than five years				
Secured				
6.125% guaranteed secured bonds 2034	39,525	39,499	–	–
3.77% secured senior notes 2045	74,499	74,481	74,499	74,481
	114,024	113,980	74,499	74,481

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 bonds are redeemable at nominal amount on 12 October 2034. Interest (see note 6) is payable semi-annually in equal instalments on 12 April and 12 October in each year.

The 3.77% notes were issued by the Corporation. The £75 million nominal tranche, which produced proceeds of £74.5 million, is constituted by a note purchase agreement and the notes are secured by a floating charge which ranked *pari passu* with the charge given as part of the 6.125% bond issue. The notes are redeemable at nominal amount on 25 September 2045. Interest (see note 6) is payable semi-annually in equal instalments on 25 March and 25 September in each year.

The long term borrowings are stated in the statement of financial position at book value. Including them at a fair value of £143.1 million at 31 December 2016 (2015: £124.4 million) would have the effect of decreasing the year end NAV by 24.62p (2015: 8.87p). The estimated fair value is based on the redemption yield of reference gilts plus a margin derived from the spread of A rated UK corporate bond yields over UK gilt yields (2015: A).

Notes to the accounts continued

22 | Contingent liabilities

The group is from time to time party to legal proceedings and claims, which arise in the ordinary course of the IFS business. The directors do not believe that the outcome of any of these 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 24). 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.

23 | 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:

	2016 £000	2015 £000
Less than one year	1,114	1,290
Two to five years	2,642	3,386
More than five years	138	–
	3,894	4,676

Lease payments represent rentals payable by the group for its office properties. The lease for the main property was negotiated for a term of 20 years and rentals are fixed for an average of five years.

24 | 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. The plan closed to future accrual of benefits on 31 December 2016 and benefits now increase broadly in line with inflation. Under IAS19 this change in benefits is treated as a curtailment and the change in the defined benefit obligation is shown as a past service credit in the pension expense. This past service credit was measured at 31 December 2016 and amounted to £0.5 million.

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 20 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 2016. 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 reduce 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 as at 31 December 2017. The estimated amount of total employer contributions expected to be paid to the plan during 2017 is £0.9 million (2016 actual: £1.3 million).

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

24 | Pension commitments continued

The major assumptions in the 31 December 2016 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.

	2016 %	2015 %	2014 %	2013 %	2012 %
Significant actuarial assumptions:					
Retail Price Inflation	3.2	3.0	3.0	3.3	3.1
Consumer Price Inflation	2.2	2.0	2.0	2.5	2.4
Discount rate	2.7	3.7	3.7	4.6	4.6
5% limited RPI pension increases in payment	3.1	2.9	2.9	3.2	3.0
General salary increases	n/a	4.5	4.5	4.8	4.7

	2016 Years	2015 Years
Life expectancy of male/female aged 65 in 2016	24.0/25.8	23.9/25.7
Life expectancy of male/female aged 65 in 2036	26.2/27.7	26.1/27.6

	2016 £000	2015 £000
The amounts recognised in profit or loss are as follows:		
Employer's part of current service cost	400	490
Interest cost	100	100
(Gain) on curtailment	(500)	–
Total expense recognised in profit or loss	–	590

The gain on curtailment arises from the closure of the previous scheme at 31 December 2016, the credit to revenue net of costs incurred was £391,000.

	2016		2015	
	Allocation %	£000	Allocation %	£000
The current allocation of plan assets is as follows:				
Equities	65	34,700	65	28,400
Bonds	9	4,700	10	4,300
Gilts	24	13,100	23	10,300
Pensioner annuities	1	800	2	700
Other	1	400	–	100
Total	100	53,700	100	43,800

	2016 £000	2015 £000
Reconciliation of present value of defined benefit obligation		
At 1 January	45,200	46,390
Employer's part of current service cost	400	490
Interest on plan liabilities	1,700	1,700
Contributions by plan participants	200	150
Actuarial losses/(gains) due to:		
Experience on benefit obligations	(600)	(1,860)
Changes in financial assumptions	10,800	(520)
Changes in demographic assumptions	–	(50)
Benefits paid	(1,200)	(1,100)
Curtailments and settlements	(500)	–
At 31 December	56,000	45,200

Notes to the accounts continued

24 | Pension commitments continued

	2016 £000	2015 £000				
Reconciliation of fair value of plan assets						
At 1 January	43,800	43,140				
Interest on plan assets	1,600	1,600				
Actual returns net of interest	8,000	(1,230)				
Contributions by the employer	1,300	1,240				
Contributions by plan participants	200	150				
Benefits paid	(1,200)	(1,100)				
At 31 December	53,700	43,800				
	2016 £000	2015 £000				
Movement in the net defined benefit obligations						
Deficit at 1 January	1,400	3,250				
Expense charged to profit and loss	–	590				
Amount recognised outside of profit and loss	2,200	(1,200)				
Employer contributions	(1,300)	(1,240)				
Deficit at 31 December	2,300	1,400				
	2016 £000	2015 £000	2014 £000	2013 £000	2012 £000	2011 £000
Plan assets and obligations						
Present value of defined benefit obligation	56,000	45,200	46,390	40,720	38,292	35,906
Fair value of plan assets	(53,700)	(43,800)	(43,140)	(39,631)	(36,065)	(32,768)
Deficit	2,300	1,400	3,250	1,089	2,227	3,138

25 | 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:

	2016 £000	2015 £000
Dividends from subsidiaries	7,700	7,725
Interest on intercompany balances charged by subsidiaries	2,670	2,676
Management charges from subsidiaries	240	420
Interest on intercompany balances charged to subsidiaries	480	128

The key management personnel are the directors of the Corporation, details of their compensation are included in note 5 to the accounts and in Part 3 of the remuneration report on pages 46 to 49.

Shareholder information

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.

Company share information

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

Registrars

Our registrars, Computershare Investor Services PLC, operate a dedicated telephone service for Law Debenture shareholders – **0370 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 – **0370 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.

Financial calendar

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
3.77% senior secured notes	Paid March and September

Group results

Half year results	Announced in July
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 of annual general meeting

NOTICE IS HEREBY GIVEN that the 127th annual general meeting of the Corporation will be held on 11 April 2017 at 11.00am at the Brewers' Hall, Aldermanbury Square, London EC2V 7HR for the following purposes:

Ordinary business

1. To receive the report of the directors, the strategic report and the audited accounts for the year ended 31 December 2016.
2. To receive and approve the directors' remuneration report for the year ended 31 December 2016.
3. To approve the Corporation's remuneration policy.
4. To declare a final dividend of 11.5p per share in respect of the year ended 31 December 2016.
5. To elect Michael Adams 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-elect Tim Bond as a director.
10. 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 audit committee to determine their remuneration.
11. 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 £295,861;
- (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:

12. Disapplication of statutory pre-emption rights.

THAT:

- (a) in exercise of the authority given to the directors by resolution 11 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 £295,861 (i.e. 5% of the issued share capital) 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.

13. 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 17,739,825 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.

14. 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

28 February 2017

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

Notes to the notice of annual general meeting

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, The Pavilions, Bridgwater Road, 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 20 April 2017 to shareholders on the register on the record date on 17 March 2017.
5. **Resolution 2** is to receive and approve the directors' remuneration report for the year ended 31 December 2016. The remuneration report, which follows the format required by the relevant regulations, is set out at pages 46 to 49 of the annual report.
6. **Resolution 3** is to approve the Corporation's remuneration policy. Under the Large and Medium-Sized Companies and Groups (Accounts and Reports) Regulations 2008, the Corporation is required to have in place a formal remuneration policy which must be approved by shareholders and remain in place for three years. The Corporation's first such policy was approved in 2014. Its successor policy, described in full in the remuneration report, will be implemented immediately after the AGM (subject to shareholder approval) and will be in force until the AGM in April 2020, unless amended in the meantime by subsequent shareholder vote.
7. **Resolution 5:** Michael Adams offers himself for election. The board supports his election. Since his appointment, Michael Adams has quickly identified and begun to implement a strategy to improve the profitability of the independent fiduciary services businesses, which will in turn enhance shareholder value. The board is confident in his ability to deliver over the years to come. His biography is included on page 50 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 50 of the annual report.
9. **Resolution 7:** Robert Laing offers himself for re-election. The board supports his re-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 50 of the annual report.
10. **Resolution 8:** Mark Bridgeman offers himself for re-election. The board supports his re-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 50 of the annual report.

11. **Resolution 9:** Tim Bond offers himself for re-election. The board supports his re-election. The board believes that it is desirable to have input from someone with a global, strategic macroeconomic background. Both from his current and previous experience, Tim is able to contribute in this way and does so effectively. His biography is included on page 50.
12. **Resolution 10** is to re-appoint BDO LLP as the Corporation's auditors. BDO LLP were first appointed on 31 October 2008.
13. **Resolution 11** renews the authority given to directors at the last annual general meeting to allot unissued capital not exceeding 5,917,219 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.
14. **Special resolution 12** is proposed because the directors consider that in order to allot shares in the circumstances described in resolution 11 it is in the best interests of the Corporation and its shareholders to permit the allotment of a maximum of 5,917,219 shares, being 5% of the issued share capital, 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.
15. **Special resolution 13** 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.
16. **Special resolution 14** 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 interests 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).
17. **Meeting notice requirements** – the Corporation is required under the Act to make a number of additional disclosures as follows. The Corporation's website – www.lawdebenture.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 2017 of 118,344,399 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 118,344,399.

Annual general meeting venue

Annual general meeting 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

UNDERGROUND

Moorgate (Circle,
Metropolitan,
Hammersmith & City, and
Thames Link)
Bank (Central, Northern,
Waterloo & City)
St Pauls (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.

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