

ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2014 (AUDITED)

This is the Annual Financial Report of The Law Debenture Corporation p.l.c. as required to be published under DTR 4 of the UKLA Listing Rules.

The directors recommend a final dividend of 11.0p per share making a total for the year of 15.7p. Subject to the approval of shareholders, the final dividend will be paid on 23 April 2015 to holders on the register on the record date of 20 March 2015. The annual financial report has been prepared in accordance with International Financial Reporting Standards.

Group income statement

for the year ended 31 December

| | 2014 | | | 2013 | | |
|--|-----------------|-----------------|---------------|-----------------|-----------------|---------------|
| | Revenue £000 | Capital £000 | Total £000 | Revenue £000 | Capital £000 | Total £000 |
| UK dividends | 14,054 | - | 14,054 | 12,276 | - | 12,276 |
| UK special dividends | 631 | - | 631 | 990 | - | 990 |
| Overseas dividends | 2,094 | - | 2,094 | 1,918 | - | 1,918 |
| Overseas special dividends | 34 | - | 34 | 35 | - | 35 |
| Interest from securities | 103 | - | 103 | 566 | - | 566 |
| | 16,916 | - | 16,916 | 15,785 | - | 15,785 |
| Interest income | 88 | - | 88 | 61 | - | 61 |
| Independent fiduciary services fees | 32,366 | - | 32,366 | 31,819 | - | 31,819 |
| Other income | 220 | - | 220 | 183 | - | 183 |
| Total income | 49,590 | - | 49,590 | 47,848 | - | 47,848 |
| Net gain on investments held at fair value through profit or loss | - | 4,638 | 4,638 | - | 114,864 | 114,864 |
| Gross income and capital gains | 49,590 | 4,638 | 54,228 | 47,848 | 114,864 | 162,712 |
| Cost of sales | (5,291) | - | (5,291) | (4,744) | - | (4,744) |
| Administrative expenses | (20,231) | (71) | (20,302) | (19,539) | (496) | (20,035) |
| Operating profit | 24,068 | 4,567 | 28,635 | 23,565 | 114,368 | 137,933 |
| Finance costs | | | | | | |
| Interest payable | (2,896) | - | (2,896) | (2,736) | - | (2,736) |
| Profit before taxation | 21,172 | 4,567 | 25,739 | 20,829 | 114,368 | 135,197 |
| Taxation | (1,199) | - | (1,199) | (1,679) | - | (1,679) |
| Profit for year | 19,973 | 4,567 | 24,540 | 19,150 | 114,368 | 133,518 |
| Return per ordinary share (pence) | 16.95 | 3.87 | 20.82 | 16.27 | 97.18 | 113.45 |
| Diluted return per | | | | | | |

| | | | | | | |
|---------------------------|--------------|-------------|--------------|-------|-------|--------|
| ordinary share (pence) | 16.95 | 3.87 | 20.82 | 16.26 | 97.10 | 113.36 |
|---------------------------|--------------|-------------|--------------|-------|-------|--------|

Statement of comprehensive income

for the year ended 31 December

| | Revenue 2014 £000 | Capital 2014 £000 | Total 2014 £000 | Revenue 2013 £000 | Capital 2013 £000 | Total 2013 £000 |
|---|-------------------------|-------------------------|-----------------------|-------------------------|-------------------------|-----------------------|
| Profit for the year | 19,973 | 4,567 | 24,540 | 19,150 | 114,368 | 133,518 |
| Foreign exchange on translation of foreign operations | - | 431 | 431 | - | (121) | (121) |
| Pension actuarial (losses)/gains | (2,846) | - | (2,846) | 432 | - | 432 |
| Taxation on pension | 569 | - | 569 | (100) | - | (100) |
| Total comprehensive income for the year | 17,696 | 4,998 | 22,694 | 19,482 | 114,247 | 133,729 |

Financial summary and performance

Financial summary

| | 31 December 2014 Pence | 31 December 2013 pence |
|---|---------------------------------|---------------------------------|
| Share price | 530.00 | 529.00 |
| NAV per share after proposed final dividend | 475.82 | 472.87 |
| NAV per share after proposed final dividend with debt at fair value | 465.62 | 467.87 |
| Revenue return per share | | |
| - Investment trust | 10.08 | 9.31 |
| - Independent fiduciary services | 6.87 | 6.96 |
| Group revenue return per share | 16.95 | 16.27 |
| Capital return per share | 3.87 | 97.18 |
| Dividends per share | 15.70 | 15.00 |

| | 2014 % |
|------------------------------|-------------|
| Ongoing charges ¹ | 0.47 |
| Gearing ¹ | 5 |

¹ Source AIC.

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

Performance

| | 2014 % | 2013 % | 2012 % | 2011 % | 2010 % |
|---------------------------------------|------------------|-----------|-----------|-----------|-----------|
| Share price total return ¹ | 3.1 | 28.3 | 32.0 | (2.9) | 30.5 |
| NAV total return ¹ | 2.6 | 28.6 | 19.7 | (1.6) | 24.8 |
| FTSE Actuaries All-Share Index total | 1.2 | 20.8 | 12.3 | (3.5) | 14.5 |

¹ Source AIC.

Chairman's statement and review of 2014

Performance

Our net asset value total return for the year to 31 December 2014 was 2.6%, compared to a total return of 1.2% for the FTSE Actuaries All-Share Index. Net revenue return per share was 16.95p, an increase of 4.2% over the previous year, as a result of a 8.3% increase in the investment trust and a 1.3% decrease in independent fiduciary services.

Dividend

The board is recommending a final dividend of 11.0p per ordinary share (2013: 10.5p), which together with the interim dividend of 4.7p (2013: 4.5p) gives a total dividend of 15.7p (2013: 15.00p).

The final dividend will be paid, subject to shareholder approval, on 23 April 2015 to holders on the register on the record date of 20 March 2015.

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 over a period, if not every year, at a rate which is covered by earnings and which does not inhibit the flexibility of our investment strategy. Our basis for reporting earnings is more conservative than that of many investment trusts, in that all of our expenses, including interest costs, are charged fully to the revenue account.

Investment trust

The portfolio performed reasonably well during the year outperforming the FTSE-All Share Index once again. James Henderson describes the performance in 2014 in more detail in his report. We had a less successful second half and with the benefit of hindsight, we should have had more weight in the USA and our position in the oil sector, particularly in small oil exploration companies in the UK, was not well judged. More positively, holdings in the pharmaceutical sector have again performed well and dividend revenues have been particularly pleasing. We have retained a modest level of gearing at 5% but continue to keep this under review. Looking forward, the markets are particularly difficult to judge at present. The fundamentals underlying many stocks suggest that there is still value in the market and continuing strong cash generation should see good dividend receipts. The reduction in the oil price should have a positive impact in some sectors. Weighed against these factors, continuing concerns about the strength of the global recovery, particularly in Europe, introduce a level of uncertainty that may prove to be a drag on markets. The portfolio continues to be well diversified on a geographical and industry sector basis.

Independent fiduciary services

The businesses are an integral part of Law Debenture's unique business model. Performance in 2014 was solid – a more detailed review of the independent fiduciary services businesses is set out below.

125th anniversary

Law Debenture reached the age of 125 in December 2014. While we have not sought to make too much of this, nevertheless it is a milestone that should be noted. I am very proud to be the Chairman of the City institution that is Law Debenture. Our shareholders have benefited from consistently good performance and dividend growth from the portfolio over many years. Not many will be aware, I suspect, of just how ingrained is the reputation of Law Debenture as an independent fiduciary within the City and more widely. That is a testament to the professionalism of our Managing Director and staff, whose important work often goes unseen and unheralded, but

is nevertheless important to the effective functioning of certain sectors of the City's capital markets.

Regulatory matters – the Alternative Investment Fund Managers ('AIFM') Directive

The AIFM Directive requires certain funds, including investment trusts, to appoint an appropriately regulated AIFM to provide portfolio management, risk management, administration, accounting and company secretarial services to the fund. Since all of these functions, bar portfolio management, have traditionally been performed by the Corporation, which unusually for an investment trust has full time staff within the Group, the Corporation has elected to be its own AIFM as permitted under the legislation. As part of this, we have been required to appoint a depositary at not insignificant cost to shareholders. The Corporation will, it goes without saying, continue to comply with its legal and regulatory obligations to the maximum extent necessary. Nevertheless, I am yet to hear a satisfactory explanation for why investment trusts have been caught by this Directive, nor have I found anybody in the industry (or more widely) who can suggest what benefit shareholders might derive from its adoption

The annual general meeting will be held at the Brewers Hall, Aldermanbury Square, London, EC2V 7HR on 14 April 2015 and I look forward to seeing as many as possible of you there.

Christopher Smith

Investment manager's review

Review

Returns from equities were positive during the year driven by the expansion of the US economy. It was therefore US shares that led the way and the dollar was strong.

Towards the end of the year the oil price dramatically fell as OPEC did not cut back production despite of a build up in over supply.

This fall has initially been met with investor concern; however, over the longer term it will in aggregate be beneficial to companies. It will reduce costs and will stimulate demand. For instance the current fall in petrol prices is estimated to be a £4bn windfall to car users in the UK in 2015, while it is projected it will add 0.4% to US GDP over the year. During much of 2014, before the oil price fall, the worry was that GDP growth could stall, particularly in Europe. This led to concerns that industrial companies would face operational headwinds and share prices in this area retreated. The large position in industrials in the portfolio was a negative during the year, as was the exposure to oil related companies. However, the exposure to overseas markets and stocks, such as the pharmaceutical companies BTG and AstraZeneca, meant that overall, the portfolio marginally outperformed the FTSE All-Share. It should be remembered over a five year period, the exposure to industrials has been a major contributor to the portfolio's outperformance.

Biggest rises by value

| | | Value appreciation £'000 |
|----|---------------------|-------------------------------------|
| 1. | Applied Materials | 2,654 |
| 2. | BTG | 2,641 |
| 3. | Provident Financial | 2,304 |
| 4. | AstraZeneca | 2,280 |
| 5. | Microsoft | 1,876 |

Biggest falls by value

| | | Value depreciation £'000 |
|----|----------------------|---|
| 1. | BP | (2,750) |
| 2. | Indus Gas | (2,747) |
| 3. | Providence Resources | (2,233) |
| 4. | Rolls Royce | (2,023) |
| 5 | BHP Billiton | (1,910) |

Investment Approach

The focus is on picking stocks that are long term growth companies, trading at valuations which do not properly reflect their long term prospects. The focus on providing good shareholder returns through dividend growth and the international spread of their earnings is an attractive mix. However, individual stocks need to be blended so that the overall portfolio has genuine diversity of underlying activities. Therefore we have a relatively long list of stocks so that we can hold large, medium and small companies as well as overseas equities when they bring something to the mix that we cannot find in the UK market. An example of this would be global oil services companies. The world leading companies in this area such as Schlumberger, reside in the US.

The UK market last year underperformed global markets but over the long term it has performed in line.

The UK market currently offers investors better value as measured by the Price Earnings Ratio and a higher dividend yield than other major markets.

Portfolio Activity

The general weakness in emerging markets equities was driven by concerns over QE ending in the US. This has thrown up longer term investment opportunities. During the year we purchased a holding in Embraer, the Brazilian aerospace company that has excellent products sold to a global client base. Templeton Emerging Markets Investment Trust, which is on a reasonable discount to its asset value, brings value to the overall blend of Law Debenture's portfolio. In the UK market towards the year end, we increased a position in Tesco at distressed prices. The problems the retailer is facing are large but the poor sentiment towards the stock is probably over exaggerated. We increased the position in selective smaller companies such as Velocys, the gas to liquid, technology company. Our holding in Shire was sold on the proposed bid that did not materialise and the position in AstraZeneca was reduced as the strength of its drug pipeline came to be more fully appreciated by investors. However, as usual portfolio turnover remained low at approximately 9% for the year

Outlook

Over the year the exposure to oil and commodity stocks has been increased and with hindsight this has been a mistake as the oil price has continued to weaken. The level of oversupply in oil over demand is estimated to be 1½%. It is surprising that this level of oversupply should result in a fall of over 50% in the price of oil, especially as demand growth is expected to outstrip supply growth in coming years, even before oil companies cut back on production because of the oil price fall. This suggests that, over time, the oil price will rise. However, the timing of any increase is very difficult to predict. The portfolio will retain its exposure to oil companies. The focus will be on stocks that can survive through a sustained difficult period. These stocks bring diversity to the portfolio and help to position it for the expected recovery in energy prices. Meanwhile the industrial companies should benefit from stronger economic growth and reduced cost pressures. Industrial operating margins can rise further. These companies are producing strong cash flows as a result of these margins. Special dividends, share buybacks and the normal dividend being increased will be the result. The strength of the balance sheets of the companies held in the portfolio is high. This positions them well to produce both good capital and income growth, which underlies our confidence in the portfolio. As a result we remain committed to equities and we are employing gearing of around 5%.

James Henderson

Henderson Global Investors Limited

Management review – independent fiduciary services

Results

Independent fiduciary services profit before tax decreased by 5.7% from £9.9million to £9.3million. Revenue return per share decreased by 1.3% from 6.96p to 6.87p.

Independent fiduciary services businesses (“IFS”)

Law Debenture is a leading provider of independent third party fiduciary services, including corporate trusts (including trustee and escrow banking), agency services, 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 2014

The IFS performance was generally satisfactory, with some areas performing strongly. As reported last year, 2013 revenues were boosted by one-off receipts of fees accumulated but uncollected over several years. In addition, interest costs were higher in 2014 as a result of the full year impact of the loan taken out in July 2013. This complicates comparison with 2014, which in fact (excluding the one-offs) saw an increase in “business as usual” profits compared to 2013.

The markets in which we operate were generally quite active and levels of new appointments reflect this, although in some areas these remain behind pre-recession levels. As a result, we continue to experience downward pressure on fees as competition for new appointments remains fierce in most of our markets, especially so in the pensions area. Some sectors, such as service of process and corporate trusts were very busy and Safecall, our whistleblowing service, again had its best year so far. Market share remained satisfactory and activity levels in pre-existing transactions, where we are able to generate additional fees for time spent, remained high.

In what was our 125th year as a trustee, it is clear from the appointments we won in 2014 – some notable highlights are set out below – that our services remain as relevant and highly valued as ever by eminent national and multi-national bodies and corporations throughout the world. As a testimony to our longevity, dignified austerity and dependability, shareholders may be interested to know that our oldest active trust – the Merchants Trust – is as old as we are, dating back to 1889.

Corporate trusts, including trustee and escrow banking

Corporate trusts had a good year for new appointments, with the trends that we saw in 2013 continuing: greater activity in the bond market particularly in the European high yield bond market (where medium sized companies are now looking to the capital markets rather than their traditional bank lenders); and more long term security trustee appointments such as in the airline sector.

We act as trustee of the Bank of England’s own debt issuance programme and early in 2014, the Bank issued US\$2 billion 0.875% Notes due 2017 under the programme. We were also appointed

as trustee on debt issues by a wide range of companies including Aviva, Babcock International, BAT, Hammerson, HSBC Holdings, Legal & General, National Grid, Pearson, TSB and Vodafone.

We have acted as trustee for many years for The Housing Finance Corporation (“THFC”), which raises funds in the capital markets and then on-lends to UK housing associations. THFC was selected by the UK government to set up a new debt programme called Affordable Housing Finance, which raises funds guaranteed by the UK Government for affordable housing providers, and to which we were appointed trustee.

We have also acted for International Finance Corporation (“IFC”) for many years and we were appointed in 2014 as trustee on a number of new IFC projects including acting as offshore security trustee on three solar energy projects in Jordan.

We were appointed as Delegate for several new sukuk bonds, which have the benefit of a guarantee provided by The Islamic Development Bank under its US\$10 billion Trust Certificate Issuance Programme.

Our recognised independence as an impartial third party has been instrumental in enabling us to secure many escrow agent appointments and our trustee and escrow banking team continues to service our cash escrow, security trust and project finance business.

Finally, we remained busy on post-issuance work including both restructurings, liquidations and transaction amendments. This work generates significant additional income.

Pension trusts and governance services

Our pension trusteeship service had a good year in a changing market environment. An increased focus on defined contribution schemes and the continued refinement of the needs of final salary schemes provided an increasing demand for our services.

The performance of our sole trusteeship services, where we act as the sole trustee of final salary schemes and deliver one-stop governance cost effectively, continues to show progress. This positive development, alongside the requirement for the providers of workplace personal pensions to establish Independent Governance Committees, has generated new opportunities for us.

Our governance and board effectiveness business completed its fourth year in a highly competitive market that is still developing. We continued to win assignments in the investment trust and FTSE 250 sectors as well as reviewing several pension trustee boards. Our corporate governance board evaluation tools are being used widely, especially by our clients on pension fund trustee boards. We have also published our fourth annual review of FTSE 350 board evaluation compliance.

Corporate services and agency solutions

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

The corporate services business (provision of corporate directors, company secretary, accounting and administration of special purpose vehicles) saw some good gains, including new securitisations for Virgin Money and Unicredit Bank AG. We secured appointments to several issuers with bonds traded on the London Stock Exchange’s Order Book for Retail Bonds market and we continued to win new customers in the company secretarial, private equity, pensions and corporate governance markets.

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

Safecall

It was another good year for our external whistleblowing service with a further increase in the number of new appointments. The demand for whistleblowing continues to remain strong both in the UK and across Europe, particularly in the manufacturing sector, as organisations recognise the value of an external whistleblowing service. Notable appointments included Air Liquide, Rexam, Virgin Atlantic, Yorkshire Water and City of Edinburgh Council.

Overseas

United States

The New York Trust Company produced mixed results. The separate trustee business continued to grow and we are shepherding several high profile litigation matters through the U.S. courts as trustee for investors in the residential mortgage-backed security market. We also secured appointment to the creditors' committee, as a trustee for bondholders, in one of the largest U.S. leveraged buy-out bankruptcies and we maintained our top ten ranking in the U.S. trustee league tables (measuring business volumes). However, we continue to face strong headwinds in the challenging successor/bankruptcy trustee market.

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

Hong Kong

General business levels were quiet during the first half of the year but picked up in the second half, notably in M&A related escrow work. The service of process business continued to make a strong contribution to revenues and we remain one of the leaders in the employee share trust business – the continuing flow of PRC related IPOs coming to market suggests that this is an area of further potential. New management was taken on mid-year and has identified some promising opportunities for the future in what is a very competitive market.

Channel Islands

Although we had an increase in the number of service of process appointments, 2014 generally saw a continuation in the difficult market conditions for independent offshore corporate services. However, enquiries received near the year end may signal a positive change in activities and financial returns.

Outlook

We expect that 2015 will see limited growth in market activity levels, since there are still wider macroeconomic uncertainties, especially in Europe, that are preventing some players from returning to the market. We will continue to keep under review the range of services that we offer and remain open to any prospect that might allow us safely to grow the IFS business, either by expansion into areas where there is a need for an established, trusted, independent third party, or through acquisition.

Caroline Banzky
Managing director

Statement of financial position

as at 31 December

| | 2014 | 2013 |
|-------------------------------|-------|-------|
| | £000 | £000 |
| Assets | | |
| Non current assets | | |
| Goodwill | 2,215 | 2,167 |
| Property, plant and equipment | 131 | 207 |

| | | |
|---|----------------|----------------|
| Other intangible assets | 45 | 223 |
| Investments held at fair value through profit or loss | 600,894 | 595,173 |
| Deferred tax assets | 1,234 | 775 |
| Total non current assets | 604,519 | 598,545 |
| Current assets | | |
| Trade and other receivables | 7,491 | 6,787 |
| Other accrued income and prepaid expenses | 4,679 | 4,963 |
| Cash and cash equivalents | 50,321 | 49,688 |
| Total current assets | 62,491 | 61,438 |
| Total assets | 667,010 | 659,983 |
| Current liabilities | | |
| Trade and other payables | 13,012 | 12,071 |
| Short term borrowings | 26,548 | 26,793 |
| Corporation tax payable | 632 | 951 |
| Other taxation including social security | 613 | 655 |
| Deferred income | 4,027 | 4,059 |
| Total current liabilities | 44,832 | 44,529 |
| Non current liabilities and deferred income | | |
| Long term borrowings | 39,472 | 39,445 |
| Retirement benefit obligations | 3,250 | 1,089 |
| Deferred income | 5,245 | 5,848 |
| Total non current liabilities | 47,967 | 46,382 |
| Total net assets | 574,211 | 569,072 |
| Equity | | |
| Called up share capital | 5,916 | 5,908 |
| Share premium | 8,622 | 8,283 |
| Capital redemption | 8 | 8 |
| Own shares | (1,686) | (1,695) |
| Capital reserves | 524,269 | 519,702 |
| Retained earnings | 36,463 | 36,678 |
| Translation reserve | 619 | 188 |
| Total equity | 574,211 | 569,072 |

Statement of cash flows

for the year ended 31 December

| Operating activities | 2014 | *Restated |
|---|---------------|---------------|
| | £000 | £000 |
| Operating profit before interest payable and taxation | 28,635 | 137,933 |
| (Gains) on investments | (4,567) | (114,368) |
| Foreign exchange | (49) | 15 |
| Depreciation of property, plant and equipment | 120 | 154 |
| Amortisation of intangible assets | 185 | 199 |
| Increase in receivables | (420) | (1,526) |
| Increase in payables | 291 | 1,303 |
| Transfer (from)/to capital reserves | (389) | 150 |
| Normal pension contributions in excess of cost | (685) | (706) |
| Cash generated from operating activities | 23,121 | 23,154 |
| Taxation | (1,408) | (1,482) |
| Operating cash flow | 21,713 | 21,672 |

Investing activities

| | | |
|--|----------|-----------|
| Acquisition of property, plant and equipment | (40) | (109) |
| Expenditure on intangible assets | (10) | (57) |
| Purchase of investments | (54,894) | (101,534) |
| Sale of investments | 53,997 | 100,222 |

| | | |
|--|--------------|----------------|
| Cash flow from investing activities | (947) | (1,478) |
|--|--------------|----------------|

Financing activities

| | | |
|---------------------------------------|----------|----------|
| Interest paid* | (2,896) | (2,736) |
| Dividends paid | (17,911) | (16,768) |
| Proceeds of increase in share capital | 347 | 164 |
| Purchase of own shares | 9 | 83 |

| | | |
|--|-----------------|-----------------|
| Net cash flow from financing activities | (20,451) | (19,257) |
|--|-----------------|-----------------|

| | | |
|--|------------|------------|
| Net increase in cash and cash equivalents | 315 | 937 |
|--|------------|------------|

| | | |
|--|--------|--------|
| Cash and cash equivalents at beginning of period | 22,895 | 22,201 |
| Foreign exchange gains / (losses) on cash and cash equivalents | 563 | (243) |

| | | |
|---|---------------|---------------|
| Cash and cash equivalents at end of period | 23,773 | 22,895 |
|---|---------------|---------------|

* Interest paid has been included in financing activities. It was previously included in operating activities.

Statement of changes in equity

| | Share capital £000 | Share premium £000 | Own shares £000 | Capital redemption £000 | Translation reserve £000 | Capital reserves £000 | Retained earnings £000 | Total £000 |
|---|-----------------------|-----------------------|--------------------|----------------------------|-----------------------------|--------------------------|---------------------------|---------------|
| Equity 1 January 2013 | 5,905 | 8,122 | (1,778) | 8 | 309 | 405,334 | 33,964 | 451,864 |
| Profit | - | - | - | - | - | 114,368 | 19,150 | 133,518 |
| Foreign exchange | - | - | - | - | (121) | - | - | (121) |
| Actuarial gain on pension scheme (net of tax) | - | - | - | - | - | - | 332 | 332 |
| Total comprehensive income | - | - | - | - | (121) | 114,368 | 19,482 | 133,729 |
| Issue of shares | 3 | 161 | - | - | - | - | - | 164 |
| Dividend relating to 2012 | - | - | - | - | - | - | (11,471) | (11,471) |
| Dividend relating to 2013 | - | - | - | - | - | - | (5,297) | (5,297) |
| Movement in own shares | - | - | 83 | - | - | - | - | 83 |
| Total equity 31 December 2013 | 5,908 | 8,283 | (1,695) | 8 | 188 | 519,702 | 36,678 | 569,072 |
| Equity 1 January 2014 | 5,908 | 8,283 | (1,695) | 8 | 188 | 519,702 | 36,678 | 569,072 |
| Profit | - | - | - | - | - | 4,567 | 19,973 | 24,540 |
| Foreign exchange | - | - | - | - | 431 | - | - | 431 |
| Actuarial (loss) on pension scheme (net of tax) | - | - | - | - | - | - | (2,277) | (2,277) |
| Total comprehensive | - | - | - | - | 431 | 4,567 | 17,696 | 22,694 |

| | | | | | | | | |
|-------------------------------|-------|-------|---------|---|-----|---------|----------|----------|
| income | | | | | | | | |
| Issue of shares | 8 | 339 | - | - | - | - | - | 347 |
| Dividend relating to 2013 | - | - | - | - | - | - | (12,368) | (12,368) |
| Dividend relating to 2014 | - | - | - | - | - | - | (5,543) | (5,543) |
| Movement in own shares | - | - | 9 | - | - | - | - | 9 |
| Total equity 31 December 2014 | 5,916 | 8,622 | (1,686) | 8 | 619 | 524,269 | 36,463 | 574,211 |

Segmental analysis

| | Investment trust | | Independent fiduciary services | | Total | |
|---|------------------|----------|--------------------------------|----------|-----------------|----------|
| | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 |
| | £000 | £000 | £000 | £000 | £000 | £000 |
| Revenue | | | | | | |
| Segment income | 16,916 | 15,785 | 32,366 | 31,819 | 49,282 | 47,604 |
| Other income | 60 | 71 | 160 | 112 | 220 | 183 |
| Cost of sales | - | - | (5,291) | (4,744) | (5,291) | (4,744) |
| Administration costs | (2,606) | (2,412) | (17,625) | (17,127) | (20,231) | (19,539) |
| | 14,370 | 13,444 | 9,610 | 10,060 | 23,980 | 23,504 |
| Interest (net) | (2,498) | (2,481) | (310) | (194) | (2,808) | (2,675) |
| Return, including profit on ordinary activities before taxation | 11,872 | 10,963 | 9,300 | 9,866 | 21,172 | 20,829 |
| Taxation | - | - | (1,199) | (1,679) | (1,199) | (1,679) |
| Return, including profit attributable to shareholders | 11,872 | 10,963 | 8,101 | 8,187 | 19,973 | 19,150 |
| Revenue return per ordinary share | 10.08 | 9.31 | 6.87 | 6.96 | 16.95 | 16.27 |
| Assets | 609,653 | 605,761 | 57,357 | 54,222 | 667,010 | 659,983 |
| Liabilities | (51,100) | (53,320) | (41,699) | (37,591) | (92,799) | (90,911) |
| Total net assets | 558,553 | 552,441 | 15,658 | 16,631 | 574,211 | 569,072 |

The capital element of the income statement is wholly attributable to the investment trust.

Portfolio changes in geographical distribution

| Valuation 31 December 2013 £000 | Purchases £000 | Costs of acquisition £000 | Sales proceeds £000 | Appreciation / (depreciation) £000 | Valuation 31 December 2014 £000 |
|------------------------------------|-------------------|------------------------------|------------------------|---------------------------------------|------------------------------------|
| | | | | | |

| | | | | | | |
|----------------|----------------|--------|-------|----------|---------|----------------|
| United Kingdom | 455,812 | 38,891 | (141) | (47,651) | (9,171) | 437,740 |
| North America | 49,223 | 1,195 | (1) | (2,891) | 8,603 | 56,129 |
| Europe | 39,996 | 1,608 | (2) | (3,455) | 457 | 38,604 |
| Japan | 16,955 | - | - | - | 507 | 17,462 |
| Other Pacific | 33,187 | 775 | (4) | - | 4,663 | 38,621 |
| Other | - | 12,425 | (55) | - | (32) | 12,338 |
| | 595,173 | 54,894 | (203) | (53,997) | 5,027 | 600,894 |

The financial information set out above does not constitute the Corporation's statutory accounts for 2013 or 2014. Statutory accounts for the years ended 31 December 2013 and 31 December 2014 have been reported on by the Independent Auditor. The Independent Auditor's Reports on the Annual Report and Financial Statements for 2013 and 2014 were unqualified, did not draw attention to any matters by way of emphasis, and did not contain a statement under 498(2) or 498(3) of the Companies Act 2006.

Statutory accounts for the year ended 31 December 2013 have been filed with the Registrar of Companies. The statutory accounts for the year ended 31 December 2014 will be delivered to the Registrar in due course.

The financial information in this Annual Financial Report has been prepared using the recognition and measurement principles of International Accounting Standards, International Financial Reporting Standards and Interpretations adopted for use in the European Union (collectively Adopted IFRSs). The accounting policies adopted in this Annual Financial Report have been consistently applied to all the years presented and are consistent with the policies used in the preparation of the statutory accounts for the year ended 31 December 2014. The principal accounting policies adopted are unchanged from those used in the preparation of the statutory accounts for the year ended 31 December 2013.

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 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.

Liquidity and long-term borrowings are managed with the aim of improving returns to shareholders. The policy on gearing is to adopt a level of gearing that balances risk with the objective of increasing the return to shareholders. In pursuit of its investment objective, investments may be held in, inter alia, equity shares, collective investment products including OEICs, fixed interest securities, interests in limited liability partnerships, cash and liquid assets. Derivatives may be used but only with the prior authorisation of the board. Investment in such instruments for trading purposes is proscribed. It is permissible to hedge against currency movements on both capital and income account, subject again to prior authorisation of the board. Stock lending, trading in suspended shares and short positions are not permitted. 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 and is an important element in delivering the objective of steadily increasing income for shareholders, fully covered by current revenues. In turn, tax relief at the investment trust level arising from our debenture interest and excess costs, which would otherwise be unutilised, can be transferred to the IFS.

Fee structure, ongoing charges and Investment Management Agreement

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 1% on the Corporation's holdings in Henderson Japanese and Pacific OEICs are fully rebated. This means that the Corporation continues to maintain one of the most competitive fee structures in the investment trust sector and this, combined with the good performance of Henderson as our investment manager, has led the board to conclude that the continuing appointment of Henderson as the Corporation's investment manager is in the best interests of shareholders.

The agreement with Henderson does not cover custody which is the responsibility of the depositary. 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 0.47%. No performance fees are paid to the investment manager.

Future trends and factors

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

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

Gearing

During the year, the Corporation retained a modest gearing of 5% as described in the investment manager's review above.

Key performance indicators ('KPI')

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

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

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

Top 20 equity holdings by value

| | | 2014 | 2014 | 2013 | 2013 |
|------|---------|-------|-----------|-----------|------|
| | | Value | % of | % of | |
| Rank | Company | £000 | portfolio | portfolio | Rank |

| | | | | | |
|----|-------------------------|--------|-------|------|-----|
| 1 | Senior | 17,419 | 2.90 | 2.96 | 1 |
| 2 | GKN | 15,563 | 2.59 | 2.83 | 2 |
| 3 | BP | 14,371 | 2.39 | 2.67 | 3 |
| 4 | Royal Dutch Shell | 13,395 | 2.23 | 2.30 | 4 |
| 5 | Rio Tinto | 12,746 | 2.12 | 1.86 | 8 |
| 6 | Amlin | 11,669 | 1.94 | 1.88 | 7 |
| 7 | HSBC | 11,259 | 1.87 | 1.95 | 6 |
| 8 | GlaxoSmithKline | 10,320 | 1.72 | 2.03 | 5 |
| 9 | Smith (DS) | 8,862 | 1.47 | 1.68 | 10 |
| 10 | Bellway | 8,712 | 1.45 | 1.19 | 19 |
| 11 | Hill & Smith | 8,700 | 1.45 | 1.30 | 14 |
| 12 | BAE Systems | 8,487 | 1.41 | 1.31 | 13 |
| 13 | Velocys | 8,320 | 1.38 | 1.09 | 25 |
| 14 | Reed Elsevier | 8,235 | 1.37 | 1.13 | 24 |
| 15 | IP Group | 8,232 | 1.37 | 0.97 | 32 |
| 16 | Applied Materials (USA) | 7,991 | 1.33 | 0.90 | 36 |
| 17 | Dunelm | 7,850 | 1.31 | 1.29 | 15 |
| 18 | Hiscox | 7,662 | 1.28 | 1.40 | 11 |
| 19 | Glencore | 7,468 | 1.24 | - | - |
| 20 | Marshalls | 7,199 | 1.20 | 0.19 | 110 |
| | | | 34.02 | | |

Other significant holdings by value

| | | 2014 | 2014 | 2013 |
|------|---|--------|-----------|-----------|
| | | Value | % of | % of |
| Rank | Company | £000 | portfolio | portfolio |
| 1 | Henderson Japan Capital Growth* | 14,632 | 2.43 | 2.42 |
| 2 | Henderson Asia Pacific Capital Growth* | 13,516 | 2.25 | 2.11 |
| 3 | Baillie Gifford Pacific* | 12,776 | 2.13 | 1.86 |
| 4 | First State Asia Pacific* | 11,516 | 1.92 | 1.61 |
| 5 | Templeton Emerging Markets Investment Trust | 8,357 | 1.39 | - |
| 6 | Herald Investment Trust | 5,559 | 0.93 | 0.98 |
| 7 | Better Capital (2012) | 3,700 | 0.62 | 0.92 |
| 8 | Foresight Solar | 3,127 | 0.52 | 0.49 |
| 9 | Scottish Oriental Smaller Company Trust | 813 | 0.14 | - |
| | | | 12.33 | |

*Open ended investment companies.

Portfolio by sector 2014

| | |
|--------------------|-------|
| Oil & gas | 8.7% |
| Basic materials | 8.0% |
| Industrials | 25.4% |
| Consumer goods | 11.3% |
| Health care | 8.0% |
| Consumer services | 8.3% |
| Telecommunications | 0.5% |
| Utilities | 2.9% |
| Technology | 1.8% |
| Financials | 25.1% |

Portfolio by sector 2013

| | |
|--------------------|-------|
| Oil & gas | 10.4% |
| Basic materials | 6.3% |
| Industrials | 25.1% |
| Consumer goods | 10.7% |
| Health care | 8.8% |
| Consumer services | 9.3% |
| Telecommunications | 0.6% |
| Utilities | 3.3% |
| Technology | 2.2% |
| Financials | 23.3% |
| | |

Geographical distribution of portfolio 2014

| | |
|----------------|-------|
| United Kingdom | 72.8% |
| North America | 9.4% |
| Europe | 6.4% |
| Japan | 2.9% |
| Other Pacific | 6.4% |
| Other | 2.1% |

Geographical distribution of portfolio 2013

| | |
|----------------|-------|
| United Kingdom | 76.6% |
| North America | 8.3% |
| Europe | 6.7% |
| Japan | 2.8% |
| Other Pacific | 5.6% |
| | |

Acquisition of own 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. On 11 March 2014, a subsidiary acquired 104,629 of the Corporation's shares on the open market at 5.365094 pence per share in anticipation of fulfilling awards made under the Deferred Share Plan.

Significant financial issues relating to the 2014 accounts.

No new significant issues arose during the course of the audit. 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 as part of the risk management and control framework. The audit 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 audit committee has received assurance on these matters from management.

The audit 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 audit committee was able to conclude that the financial statements themselves and the annual report as a whole are fair, balanced and understandable and that conclusion has been reported to the board.

Total voting rights and share information

The Corporation has an issued share capital at 26 February of 118,314,903 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 118,314,903.

Borrowings

| | 2014 | 2013 |
|-----------------------|--------|--------|
| | £000 | £000 |
| Short term borrowings | | |
| Bank overdraft | 26,548 | 26,793 |

The Corporation has an uncommitted overdraft facility of £30,000,000, repayable on demand, provided by HSBC Bank plc which is secured by a floating charge which ranks pari passu with a charge given in respect of the debenture. At 31 December 2014, fair value is the same as book value.

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

| | 2014 | 2013 |
|--|--------|--------|
| | £000 | £000 |
| Long term borrowings | | |
| Long term borrowings are repayable as follows: | | |
| In more than five years | | |
| Secured | | |
| 6.125% guaranteed secured bonds 2034 | 39,472 | 39,445 |

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

The 6.125% bonds are stated in the statement of financial position at book value. Restating them at a fair value of £51.5 million at 31 December 2014 (2013: £45.3 million) has the effect of decreasing the year end NAV by 10.20p (2013: 5.00p). The estimated fair value is based on the redemption yield of the reference gilt (UK Treasury 4.5% 2034) plus a margin derived from the spread of BBB UK corporate bond yields over UK gilt yields.

Related party transactions

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

| | 2014 | 2013 |
|---|-------|-------|
| | £000 | £000 |
| Dividends from subsidiaries | 6,500 | 2,500 |
| Interest on intercompany balances charged by subsidiaries | 2,656 | 2,642 |
| Management charges from subsidiaries | 192 | 198 |
| Interest on intercompany balances charged to subsidiaries | 1,238 | 4,950 |

Principal risks and uncertainties – investment trust

The principal risks facing the group in respect of its financial instruments remain unchanged from 2013 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 2014 fell or rose by 10%, the impact on the group's total profit or loss for the year would have been £60.1 million (2013: £59.5 million). Corresponding 10% changes in the valuation of the investment portfolio on the Corporation's total profit or loss for the year would have been the same.

- foreign currency risk, arising from movements in currency rates applicable to the group's investment in equities and fixed interest securities and the net assets of the group's overseas subsidiaries denominated in currencies other than sterling. The group's financial assets denominated in currencies other than sterling were:

| | 2014 | 2014 | 2014 | 2013 | 2013 | 2013 |
|--|-------------|--------------|----------------|-------------|--------------|----------------|
| | Investments | Net monetary | Total currency | Investments | Net monetary | Total currency |
| | | | | | | |

| | | assets | exposure | | assets | exposure |
|------------------|-------|--------|----------|------|--------|----------|
| Group | | | | | | |
| | £m | £m | £m | £m | £m | £m |
| US Dollar | 55.4 | 7.7 | 63.1 | 44.3 | 4.9 | 49.2 |
| Canadian Dollar | 4.7 | – | 4.7 | 4.9 | – | 4.9 |
| Euro | 22.8 | 1.2 | 24.0 | 28.2 | 0.4 | 28.6 |
| Danish Krone | 2.5 | – | 2.5 | 1.6 | – | 1.6 |
| Swedish Krona | 1.2 | – | 1.2 | 1.2 | – | 1.2 |
| Swiss Franc | 12.1 | – | 12.1 | 11.6 | – | 11.6 |
| Hong Kong Dollar | – | 0.4 | 0.4 | – | 0.5 | 0.5 |
| Japanese Yen | 2.8 | – | 2.8 | 2.6 | – | 2.6 |
| | 101.5 | 9.3 | 110.8 | 94.4 | 5.8 | 100.2 |

The group US dollar net monetary assets is that held by the US operations of £34.2 million less the US dollar short term borrowings of £26.5 million, which represents the fair value of the borrowings at 31 December 2014. The short term borrowings were designated as a hedging investment to hedge the net investment in US operations at inception in July 2013. The hedge has been reviewed on an ongoing basis and it has been effective at all times since inception. The gain or loss on the hedging instrument is recognised in the translation reserve and set off against the gain or loss on the translation of the net investment in US operations.

| | 2014 | 2014 | 2014 | 2013 | 2013 | 2013 |
|-----------------|-------------|---------------------|-------------------------|-------------|---------------------|-------------------------|
| | Investments | Net monetary assets | Total currency exposure | Investments | Net monetary assets | Total currency exposure |
| | £m | £m | £m | £m | £m | £m |
| Corporation | | | | | | |
| US Dollar | 55.4 | (26.5) | 28.9 | 44.3 | (26.8) | 17.5 |
| Canadian Dollar | 4.7 | – | 4.7 | 4.9 | – | 4.9 |
| Euro | 22.8 | 0.9 | 23.7 | 28.2 | 0.2 | 28.4 |
| Danish Krone | 2.5 | – | 2.5 | 1.6 | – | 1.6 |
| Swedish Krona | 1.2 | – | 1.2 | 1.2 | – | 1.2 |
| Swiss Franc | 12.1 | – | 12.1 | 11.6 | – | 11.6 |
| Japanese Yen | 2.8 | – | 2.8 | 2.6 | – | 2.6 |

| | | | | | | |
|--|-------|--------|------|------|--------|------|
| | 101.5 | (25.6) | 75.9 | 94.4 | (26.6) | 67.8 |
|--|-------|--------|------|------|--------|------|

The holdings in the Henderson Japan Capital Growth, Henderson Pacific Capital Growth, Baillie Gifford Pacific and First State 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 £61.6 million (2013: £47.6 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 2014 rose or fell by 10% against sterling, the impact on the group's total profit or loss for the year would have been £16.3 million (2013: £14.2 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:

2014

| | | Sterling | HK Dollars | US Dollars | Euro |
|----------------------|--|----------|------------|------------|------|
| | | £m | £m | £m | £m |
| Floating rate assets | | 14.5 | 0.4 | 34.2 | 1.2 |

2013

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

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

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

| | | |
|--|------|------|
| | 2014 | 2013 |
|--|------|------|

| | US Dollars | US Dollars |
|---------------------------|------------|------------|
| | £m | £m |
| Floating rate liabilities | | |
| Short term borrowings | 26.5 | 26.8 |

Interest on the short term borrowings is 1.5% above HSBC's base rate, the weighted average rate during the year was 1.59% (2013:1.61%).

| | 2014 | 2013 |
|-----------------------------|----------|----------|
| | Sterling | Sterling |
| | £m | £m |
| Total | | |
| Fixed rate liabilities* | 39.5 | 39.4 |
| Weighted average fixed rate | 6.125% | 6.125% |

*Fixed until 2034.

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

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 £183,000 credit (2013: £173,000 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 £142,000 charge (2013: £27,000 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 guidelines only permit investment in equities and fixed interest securities quoted in major financial markets. In addition, cash balances and overdraft facilities are maintained commensurate with likely future settlements. The maturity of the group's existing borrowings is set out below

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 £57.8 million (2013: £56.5 million). The Corporation's maximum exposure to credit risk arising from financial assets is £8.0 million (2013: £69.5 million).

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

| | 2014 | 2013 |
|------------------------|-------|-------|
| | £000 | £000 |
| Between 31 and 60 days | 1,533 | 1,706 |
| Between 61 and 90 days | 493 | 149 |
| More than 91 days | 1,950 | 509 |
| Total | 3,976 | 2,364 |

At 31 December 2014, trade and other receivables which were impaired and for which there was a bad debt provision totalled £272,000 (2013: £347,000) (Corporation: £nil (2013: £14,000)). All the impaired trade and other receivables were more than 91 days past due.

Trade and other payables

| | 2014 | 2013 |
|---|--------|--------|
| | £000 | £000 |
| Due in less than one month | 12,448 | 10,863 |
| Due in more than one month and less than three months | 564 | 552 |
| | 13,012 | 11,415 |

Fair value

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

Principal risks and uncertainties – IFS businesses

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

The single KPI of the IFS is revenue return per share, which is reported within the financial summary and performance table.

Directors' responsibility statement pursuant to DTR4

The directors confirm that 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.

Copies of the annual report will be available from the Corporation's registered office or on the above website link once published on 9 March 2015.

By order of the board

Law Debenture Corporate Services Limited

Secretary

26 February 2015