

ANNUAL FINANCIAL REPORT

YEAR ENDED 31 DECEMBER 2015 (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 16.2p. Subject to the approval of shareholders, the final dividend will be paid on 21 April 2016 to holders on the register on the record date of 18 March 2016. The annual financial report has been prepared in accordance with International Financial Reporting Standards.

Group income statement

for the year ended 31 December

	2015			2014		
	Revenue £000	Capital £000	Total £000	Revenue £000	Capital £000	Total £000
UK dividends	14,813	-	14,813	14,054	-	14,054
UK special dividends	1,643	-	1,643	631	-	631
Overseas dividends	2,355	-	2,355	2,094	-	2,094
Overseas special dividends	194	-	194	34	-	34
Interest from securities	-	-	-	103	-	103
	19,005	-	19,005	16,916	-	16,916
Interest income	125	-	125	88	-	88
Independent fiduciary services fees	30,384	-	30,384	32,366	-	32,366
Other income	196	-	196	220	-	220
Total income	49,710	-	49,710	49,590	-	49,590
Net (loss)/gain on investments held at fair value through profit or loss	-	(20,210)	(20,210)	-	4,638	4,638
Gross income and capital (losses)/gains	49,710	(20,210)	29,500	49,590	4,638	54,228
Cost of sales	(3,461)	-	(3,461)	(5,291)	-	(5,291)
Administrative expenses	(20,411)	(410)	(20,821)	(20,231)	(71)	(20,302)
Operating profit	25,838	(20,620)	5,218	24,068	4,567	28,635
Finance costs						
Interest payable	(3,632)	-	(3,632)	(2,896)	-	(2,896)
Profit before taxation	22,206	(20,620)	1,586	21,172	4,567	25,739
Taxation	(847)	-	(847)	(1,199)	-	(1,199)
Profit for the year	21,359	(20,620)	739	19,973	4,567	24,540
Return per ordinary share (pence)	18.10	(17.47)	0.63	16.95	3.87	20.82
Diluted return per ordinary share (pence)	18.10	(17.47)	0.63	16.95	3.87	20.82

Statement of comprehensive income

for the year ended 31 December

	Revenue 2015 £000	Capital 2015 £000	Total 2015 £000	Revenue 2014 £000	Capital 2014 £000	Total 2014 £000
Profit for the year	21,359	(20,620)	739	19,973	4,567	24,540
Foreign exchange on translation of foreign operations	-	290	290	-	431	431
Pension actuarial gains/(losses)	1,200	-	1,200	(2,846)	-	(2,846)
Taxation on pension	(240)	-	(240)	569	-	569
Other comprehensive income for the year	960	290	1,250	(2,277)	431	(1,846)
Total comprehensive income for the year	22,319	(20,330)	1,989	17,696	4,998	22,694

Financial summary and performance

Financial summary

	31 December 2015 Pence	31 December 2014 Pence
Share price	498.00	530.00
NAV per share after proposed final dividend	461.14	475.82
NAV per share after proposed final dividend at fair value ¹	513.54	531.35
Revenue return per share		
- Investment trust	11.01	10.08
- Independent fiduciary services	7.09	6.87
Group revenue return per share	18.10	16.95
Capital (loss)/return per share	(17.47)	3.87
Dividends per share	16.20	15.70

	2015 %	2014 %
Ongoing charges ²	0.46	0.47
Gearing ²	12	5

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

2 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

	2015 %	2014 %	2013 %	2012 %	2011 %
Share price total return ¹	(3.0)	3.1	28.3	32.0	(2.9)
NAV total return ²	(0.3)	2.8	29.4	15.6	(0.1)
FTSE Actuaries All-Share Index total return	1.0	1.2	20.8	12.3	(3.5)

¹ Source AIC.

² Calculated in accordance with AIC methodology based on NAV including fair value of IFS businesses and long term borrowings.

Fair value of independent fiduciary services businesses and long term borrowings

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. However, because our IFS businesses are not part of the investment trust portfolio, they cannot be included in the consolidated financial statements at fair value so from an accounting perspective, have been included at 'book value' – in broad terms this is the aggregate share capital and retained reserves of each of the IFS businesses.

This accounting treatment, over which we have had no control or influence, has meant that to date, the market has had to determine what it believes is the discrete fair value of the IFS businesses from the financial information that we have disclosed. This explains why Law Debenture's share price has usually traded at a premium whereas most investment trusts are valued at a discount to NAV. The difference is that the market has priced in its own value for the IFS businesses which, for the reasons described above, cannot be reported in the published financial statements.

Fair value of the IFS businesses

This difference between the published NAV and the market's assessment of the value of the IFS businesses has meant that some investors, particularly individual investors, find it difficult to appraise Law Debenture's shares compared with other investment trusts. The board has therefore concluded that, in order to present a better understanding of the group's valuation, it should publish a fair value NAV, including the fair value of the IFS businesses and long term borrowings.

This will be shown in our annual report as a separate figure – for the reasons given above, the fair valuation cannot be included in the published financial statements.

In determining a basis for the fair valuation of the IFS businesses the directors have taken external professional advice. Details of the methodology are included below. 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 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 2015 this reduced the tax charge by £1,169,000.

In order to assist investors, the Corporation has restated its historic NAV, which already includes long term borrowings at fair value, to include the fair value of the IFS businesses for the last ten years. This restatement is being made in conjunction with the AIC and Morningstar so that the long term performance of NAV fair value can be provided.

Long term borrowings

The fair value of long term borrowings held by the group is disclosed below. Following the issuance of the new £75 million debt maturing in 2045 with interest at 3.77% per annum, the directors reviewed the methodology of fair valuing all long term borrowings and determined that from 31 December 2015, it was more appropriate to benchmark the group debt against A rated UK corporate bond yields, rather than BBB rated, which was used previously. Historic fair value information in respect of long term borrowings has not been restated.

Basis and fair value of the IFS businesses

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 report and accounts. 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.

	2015	2014
	£000	£000
Fair valuation of IFS		
EBITDA at a multiple of 8.4 (2014:8.9)	78,397	84,684
Surplus net assets	12,082	8,507
	90,479	93,191

An increase or decrease of 1 in the multiple would give rise to a £9.3 million change in the fair valuation of the IFS. The adjustment to NAV to reflect the IFS fair value is an increase of 61.27p per share (2014: 65.73p).

Chairman's statement and review of 2015

Performance

Our net asset value total return for the year to 31 December 2015 was down 0.3%, compared to a total return of 1.0% for the FTSE Actuaries All-Share Index. Net revenue return per share was 18.1p, an increase of 6.8% over the previous year, as a result of a 9.2% increase in the investment trust and a 3.2% increase in independent fiduciary services.

Dividend

The board is recommending a final dividend of 11.0p per ordinary share (2014: 11.0p), which together with the interim dividend of 5.2p (2014: 4.7p) gives a total dividend of 16.2p (2014: 15.7p).

The final dividend will be paid, subject to shareholder approval, on 21 April 2016 to holders on the register on the record date of 18 March 2016.

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

After a strong start to the year, events in China, problems in some emerging market countries and weak commodity and oil prices adversely affected markets, leading to a sharp sell-off last autumn. These difficult market conditions have continued into early 2016.

Investment performance in 2015, in terms of Net Asset Value total return, was slightly behind that of the FTSE All-Share Index for the first time since 2008. Over periods of 5 and 10 years, performance remains satisfactory, with NAV total returns (including fair value of IFS businesses and long term borrowings) of 53.2% and 124.0% respectively, compared with returns on the FTSE All-Share Index over these periods of 33.8% and 71.8%.

As the investment manager comments in his report, the focus continues to be in holding stocks that are long term growing businesses, whose shares trade at levels that do not reflect their long term prospects. The portfolio is actively managed and, from time to time, performance will diverge from that of the main market indices. The investment manager continues to hold a relatively long list of stocks, well diversified by geographical and industry sectors.

Current market volatility will probably continue for some while, with events in China and the outlook for US economic growth likely to dominate market sentiment. Other than in the mining and oil sectors, the outlook for company earnings appears, however, to be stable. And the background of low inflation and modest global growth is not necessarily bad for equities.

Independent fiduciary services

As set out in more detail in the managing director's review, revenues and profits of the IFS businesses were flat in 2015. We have again seen the benefits of the diversity of our IFS businesses as one or more of the activities has a good year, where other areas have been less profitable, usually because the markets in which they operate have been subdued.

Fair valuation of the IFS businesses

We have decided to take the important step this year of publishing a 'fair value' of the IFS businesses as well as our long-term debt. The background for this is set out earlier. In short, we believe it is vital that our shareholders and the markets generally should have the clearest possible understanding of Law Debenture, its unique business model and the relative values of the investment portfolio and the IFS businesses. The published NAV should now more accurately reflect the value of the group's assets, since the market will, we believe, be guided by the board's assessment of the value of the IFS businesses.

Debenture

In September 2015, we issued a new £75 million fixed rate 30-year secured private placement debenture at an annualised coupon of 3.77% because bond and interest rates made it desirable to obtain fixed rate, long dated financing at attractive pricing levels. The board is fully committed to the long-term attractiveness of equity investment as a means to deliver our corporate objectives. Around £45 million of the debenture proceeds have been invested thus far. The remaining £30 million has been used to repay short term borrowings.

The managing director

Caroline Banszky will retire as the group's managing director during 2016, once her successor has been recruited. Caroline joined the board in January 2002 and took over as managing director at that year's AGM. During her tenure, our IFS businesses have diversified and grown profitably, delivering significant income for the investment trust, which played a major part in the board being able to maintain or increase dividends every year, even when markets were suffering major downturns. Caroline has worked tirelessly on behalf of shareholders to ensure that Law Debenture has maintained its reputation for innovation, independence and reliability. On behalf of the board, I should like to place on record our appreciation for Caroline's long and distinguished service. We wish her well for the future.

The annual general meeting will be held at the Brewers Hall, Aldermanbury Square, London, EC2V 7HR on 12 April 2016 and I look forward to seeing as many as possible of you there.

Christopher Smith

Investment manager's review

Review

Returns from equities were virtually unchanged over the year. However, within this there were large swings in individual company share prices. Industrial stocks across the globe came under pressure as economic growth expectations weakened, driven by developing problems within China and other emerging markets, as well as the large capital expenditure cuts put through by resource based companies, which reverberated through their suppliers. The share price weakness reduced valuations across the industrial sector. This sector is a significant part of the portfolio and although it has added considerable value over the longer term, it was the major area to detract value during 2015. However, the stocks we hold are strong competitive companies, often with unique technology based products. They are also usually cash generative, have low levels of debt by historic standards, and have attractive growing dividend yields.

The problems of the global economy have been excessively concentrated on by commentators and investors. For instance, the negative effects of the fall in the oil price have been the focus, but for non-oil producing countries, the fall in the oil price will in time prove beneficial. It will reduce costs for high energy using companies and it is a benefit for consumers. Overall the global economy is growing at a reasonable rate, while inflation in aggregate remains subdued.

The UK market underperformed other major global stock markets during 2015. Sterling also weakened against the dollar. However, the UK market offers strong global companies with attractive dividend yields.

The substantially higher dividend yield from the UK market is fundamental to the belief that UK quoted companies have relative and absolute valuation attractions. It is part of the reason we do not make major changes in the geographical allocation of the portfolio. Dividends are a cash payment and they focus the investor on cash generative businesses. It is this valuation tool that points us towards strong business franchises, especially at times when short term valuations of equities are moving on momentum and fashion.

Biggest rises by value

		Value appreciation £'000
1	Amlin	4,525
2.	Redrow	3,748
3.	Bellway	2,912
4.	Marshalls	2,911
5.	Provident Financial	2,497

Amlin received an agreed cash offer from Mitsui Sumitomo at a substantial premium, while Redrow and Bellway benefitted from the strength of the UK housing market.

Biggest falls by value

		Value depreciation £'000
1.	Glencore	(6,265)
2.	Velocys	(5,992)
3.	Rio Tinto	(4,753)
4.	Royal Dutch Shell	(4,506)
5	Senior	(4,228)

The four largest detractors were all hurt by the fall in commodity prices.

Investment Approach

The focus is on holding stocks that are long term growing businesses, trading at levels that do not reflect their long term prospects. Individual stocks in the portfolio need to be blended so that overall, the portfolio has genuine diversity of underlying activities. The exposure to Far East stock markets is done through collective investment funds so as to achieve a broader selection of holdings. These funds are closely monitored by the board and the underlying managers are regularly questioned on their management of each fund.

Investment Activity

During the year, some of the companies whose share prices have been strong in recent years have been reduced or sold outright. Bellway would be an example of the former and AB Foods of the latter. The reason for this is that valuations had become demanding, which can leave the share price vulnerable to any disappointment in underlying trading. The proceeds were recycled into a variety of companies. These included Elementis, the international specialist chemical company, which is experiencing subdued trading conditions in some of its end markets, but given its overall strengths, this could be more than discounted for in the share price. We added to our holding in IP Group, a holding company for some very successful early stage university linked businesses. We also purchased a holding in Oxford Sciences Innovation, an unquoted company which will have a shareholding in all science based businesses that come out of Oxford University. Alongside these purchases, exposure was increased to oil and mining companies. An example would be Anglo American where the share price fall has been extreme and the valuation may not reflect the quality of its assets, such as their stake in the diamond company De Beers.

Outlook

The current oil price is likely to prove unsustainably low. Oil production will fall as a result of the substantial cutbacks on exploration and project deferrals, at a time when demand for oil should continue to grow.

Further purchases have been made in oil companies since the period end as we believe that the depressed share prices are not reflecting the medium term outlook. The same is true for parts of the mining sector, where certain commodity prices are likely to recover as demand and supply return to balance. Again, long term investors can take advantage by making selective purchases. These additions have detracted value in the short term, but place the portfolio for a recovery in investor confidence. This should return when it becomes clearer that there will be a reasonable level of economic growth. The long term drivers of growth are in place. New technologies will lead to further rapid changes and as these are implemented economic growth will advance. For instance, looking ahead at the automotive sector, the next generation of technology sophisticated cars will supplant the current stock and these cars are likely to be driven more. This in turn will not only boost industrial production, but will also require better infrastructure with increased spending on roads and bridges. The opportunities abound across various sectors for companies that can produce competitive goods and services.

This year will see the BREXIT vote. This may lead to further investor uncertainty. However, over 75% of the underlying earnings of the companies held in the portfolio come from outside the UK. It must be remembered that we are not invested in an economy but rather in dynamic companies that will be managed so as to deal with the problems that they encounter.

The portfolio will continue to comprise of a diverse range of companies, which are driving further improvements out of their businesses so as to maintain their advantage. In a period of considerable investor uncertainty, the dividend yield and the potential growth of dividend are a sound valuation yardstick. The dividend yield on the portfolio was at the period end 2.8%, which compares with a yield on the 10 year gilt of 1.7%. This suggests equity valuations are undemanding and companies that come through with good operating results will benefit.

James Henderson

Henderson Global Investors Limited

Management review – independent fiduciary services

Results

Independent fiduciary services profit before tax decreased marginally from £9.3 million to £9.2 million. Revenue return per share increased by 3.2% from 6.87p to 7.09p, assisted by a reduction in the tax charge.

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), 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 2015

As the profit before tax number demonstrates, IFS performance was generally flat. The markets in which we operate were quite active in the first half of the year, less so in the second. Wider economic uncertainties began to filter through to the capital and debt markets, meaning that transaction volumes tailed off somewhat. As previously

reported, we are in a prolonged period of downward pressure on fees. Competition for new appointments remains fierce, exacerbated in 2015 by competitor consolidations in some of our markets. Some sectors, such as pensions, did well and Safecall, our whistleblowing service, again had a very good year. Market share remained generally satisfactory.

Corporate trusts, including trustee and escrow banking

Corporate trusts had a reasonable year, with some interesting and prestigious appointments.

We act as trustee for the majority of the UK's clearing banks. In addition to the banks' traditional bond issuance under Medium Term Note ("MTN") programmes, we were appointed trustee of a new MTN programme by Lloyds and to a new programme by Permanent TSB (the third largest Irish bank). Santander UK Group Holdings appointed us trustee of a new Tier one capital issue.

Ireland updated its Euro 20bn EMTN Programme, with Law Debenture again acting as trustee. This highlights the successful turnaround of the Irish economy. It is rare for a sovereign to appoint a trustee, so we were pleased to be selected again.

We were involved as trustee on two equity linked bond issues for National Grid and Vodafone. In these transactions, the converting bondholders receive the cash equivalent of the underlying National Grid plc or Vodafone shares rather than the shares themselves.

On project finance initiatives, we have worked with International Finance Corporation (part of the World Bank) for many years and this year, we were selected as security trustee on a hydro-electric power station project with IFC as the lead lender - one of a series of hydro-electric power projects where we work with IFC. These projects represent good long term income for us.

We act as security trustee on aircraft financings involving a variety of aircraft, financing structures, carriers and security jurisdictions, holding security under either English or NY law mortgages and sometimes local law. In 2015 we were appointed on new aircraft financings for Emirates, Hainan (China's 4th largest airline), Iberia and Qatar Airways.

Our recognised independence as an impartial third party continues to enable us to secure many escrow agent appointments. If an escrow arrangement involves Law Debenture holding cash as escrow agent, then it is serviced by our trust and escrow banking team. This escrow work helps us to diversify our income base away from the competitive bond market.

It has been another active and busy year for us on post-issuance work, ranging from transaction amendments to restructurings and defaults. This work is carefully managed by our experienced trust management team and continues to be a source of material additional income for the business.

Pension trusts and governance services

Our pension trusteeship service had another good year in a market environment that continues to change. 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, especially as chair of trustees.

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 establishment of independent governance committees for providers of workplace personal pensions, has generated new opportunities for us and we have secured several appointments.

Our governance and board effectiveness business is still in demand in what has become a highly competitive market. We continued to win assignments in the FTSE 250 sector as well as conducting several significant reviews for pension trustee boards. Our corporate governance board evaluation tools are being used widely, especially by our clients on pension fund trustee boards.

Corporate services

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

The corporate services business (provision of corporate directors, company secretary, accounting and administration of special purpose vehicles) saw some gains, and despite sluggish securitisation markets, a number of new appointments were secured for clients including Virgin Money and Blackrock. In non-structured finance markets, we continued to win new customers with company secretarial, M&A and corporate governance appointments.

Safecall

Our external whistleblowing service had another successful year with a considerable number of new appointments. As pressure increases from regulators, both in the UK and around the world, more and more organisations are looking to enhance their compliance programmes. This has been particularly evident in the financial sector, with the FCA looking to promote a culture where individuals feel able to raise concerns and challenge poor practice and behaviour. Notable appointments during the year included Clydesdale Bank, SSE, Paddy Power, UBM & Aer Lingus.

Overseas

United States

2015 financial performance was driven by the 'separate trustee' and the 'successor trustee/bankruptcy' businesses. During the year the separate trustee portfolio continued its strong growth, adding an additional 100 appointments, but the successor trustee/bankruptcy business again underperformed expectations, despite gaining appointment to the creditors' committee on a high profile casino bankruptcy. We maintained our top ten ranking in the U.S. league tables for new trustee business in 2015.

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

Hong Kong

Levels of new business in 2015 were generally low, partially as a result of developments in the Chinese stock market. Accordingly, volumes of new issuance in the Asian loan and bond markets, as well as M&A activity and business activity generally, were significantly lower in 2015 compared with the previous year. More positively however, a move to new offices was concluded successfully thereby reducing overheads. We are cautiously optimistic that levels of general activity in Hong Kong will begin to improve in 2016.

Channel Islands

There was much activity on existing transactions, which contributed to good returns in 2015, along with an increase in the number of business enquires in the year, which should lead to more new appointments. There was also an increase in the number and value of service of process appointments.

Outlook

We expect that 2016 will be another flat year. Wider uncertainties surrounding commodities and the emerging markets are not good news for some of our businesses. Nor is the threat of a Brexit. Uncertainty forces market participants to postpone or cancel transactions where we would expect to have roles. Nevertheless, our modus operandi is unchanged – that is, 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 businesses, either by expansion into areas where there is a need for an established, trusted, independent third party, or through acquisition.

This is my last annual report as The Managing Director. I have thoroughly enjoyed my time with Law Debenture and in particular, leading the successful independent fiduciary services businesses, which are in my opinion a real gem. I would also like to sincerely thank our staff, present and past, whose important work by its nature often goes unheralded, for their professionalism and dedication and without whom, Law Debenture would not be the organisation it is today.

I remain committed to delivering the best outcome possible for Law Debenture between now and my retirement and I look forward to following its continuing, successful journey in the years to come.

Caroline Banzky

Statement of financial position

as at 31 December

	2015	2014
	£000	£000
Assets		
Non current assets		
Goodwill	2,256	2,215
Property, plant and equipment	206	131
Other intangible assets	16	45
Investments held at fair value through profit or loss	621,613	600,894
Deferred tax assets	824	1,234
Total non current assets	624,915	604,519
Current assets		
Trade and other receivables	7,073	7,491
Other accrued income and prepaid expenses	4,888	4,679
Cash and cash equivalents	60,301	50,321
Total current assets	72,262	62,491
Total assets	697,177	667,010
Current liabilities		
Trade and other payables	13,816	13,012
Short term borrowings	-	26,548
Corporation tax payable	506	632
Other taxation including social security	686	613
Deferred income	3,934	4,027
Derivative financial instruments	725	-
Total current liabilities	19,667	44,832
Non current liabilities and deferred income		
Long term borrowings	113,980	39,472
Retirement benefit obligations	1,400	3,250
Deferred income	4,810	5,245

Total non current liabilities	120,190	47,967
Total net assets	557,320	574,211
Equity		
Called up share capital	5,916	5,916
Share premium	8,667	8,622
Capital redemption	8	8
Own shares	(1,493)	(1,686)
Capital reserves	503,649	524,269
Retained earnings	39,664	36,463
Translation reserve	909	619
Total equity	557,320	574,211

Statement of cash flows

for the year ended 31 December

Operating activities

	2015	2014
	£000	£000
Operating profit before interest payable and taxation	5,218	28,635
Losses/(gains) on investments	20,620	(4,567)
Foreign exchange	(43)	(49)
Depreciation of property, plant and equipment	94	120
Amortisation of intangible assets	30	185
Decrease/(increase) in receivables	209	(420)
Increase in payables	1,105	291
Transfer (from) capital reserves	(385)	(389)
Normal pension contributions in excess of cost	(650)	(685)
Cash generated from operating activities	26,198	23,121
Taxation	(803)	(1,408)
Operating cash flow	25,395	21,713

Investing activities

Acquisition of property, plant and equipment	(168)	(40)
Expenditure on intangible assets	-	(10)
Purchase of investments	(96,541)	(54,894)
Sale of investments	55,595	53,997
Cash flow from investing activities	(41,114)	(947)

Financing activities

Interest paid	(3,632)	(2,896)
Dividends paid	(19,118)	(17,911)
Long term borrowing	74,477	-
Proceeds of increase in share capital	45	347
Purchase of own shares	193	9
Net cash flow from financing activities	51,965	(20,451)
Net increase in cash and cash equivalents	36,246	315
Cash and cash equivalents at beginning of period	23,773	22,895
Foreign exchange gains / (losses) on cash and cash equivalents	282	563
Cash and cash equivalents at end of period	60,301	23,773

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 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 income	-	-	-	-	431	4,567	17,696	22,694
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
Equity 1 January 2015	5,916	8,622	(1,686)	8	619	524,269	36,463	574,211
Profit	-	-	-	-	-	(20,620)	21,359	739
Foreign exchange	-	-	-	-	290	-	-	290
Actuarial gain on pension scheme (net of tax)	-	-	-	-	-	-	960	960
Total comprehensive income	-	-	-	-	290	(20,620)	22,319	1,989
Issue of shares	-	45	-	-	-	-	-	45
Dividend relating to 2014	-	-	-	-	-	-	(12,979)	(12,979)
Dividend relating	-	-	-	-	-	-	(6,139)	(6,139)

to 2015								
Movement in own shares	-	-	193	-	-	-	-	193
Total equity 31 December 2015	5,916	8,667	(1,493)	8	909	503,649	39,664	557,320

Segmental analysis

	Investment trust		Independent fiduciary services		Total	
	2015	2014	2015	2014	2015	2014
	£000	£000	£000	£000	£000	£000
Revenue						
Segment income	19,005	16,916	30,384	32,366	49,389	49,282
Other income	25	60	171	160	196	220
Cost of sales	-	-	(3,461)	(5,291)	(3,461)	(5,291)
Administration costs	(2,926)	(2,606)	(17,485)	(17,625)	(20,411)	(20,231)
	16,104	14,370	9,609	9,610	25,713	23,980
Interest (net)	(3,117)	(2,498)	(390)	(310)	(3,507)	(2,808)
Return, including profit on ordinary activities before taxation	12,987	11,872	9,219	9,300	22,206	21,172
Taxation	-	-	(847)	(1,199)	(847)	(1,199)
Return, including profit attributable to shareholders	12,987	11,872	8,372	8,101	21,359	19,973
Revenue return per ordinary share	11.01	10.08	7.09	6.87	18.10	16.95
Assets	640,223	609,653	56,954	57,357	697,177	667,010
Liabilities	(101,063)	(51,100)	(38,794)	(41,699)	(139,857)	(92,799)
Total net assets	539,160	558,553	18,160	15,658	557,320	574,211

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

Portfolio changes in geographical distribution

	Valuation 31 December 2014 £000	Purchases £000	Costs of acquisition £000	Sales proceeds £000	Appreciation/ (depreciation) £000	Valuation 31 December 2015 £000
United Kingdom	437,740	80,718	(368)	(51,423)	(17,452)	449,215
North America	56,129	7,375	(9)	-	(5,011)	58,484
Europe	38,604	1,720	(12)	(3,817)	3,591	40,086
Japan	17,462	4,269	(3)	-	2,841	24,569
Other Pacific	38,621	2,459	(10)	(355)	(1,047)	39,668
Other	12,338	-	-	-	(2,747)	9,591
	600,894	96,541	(402)	(55,595)	(19,825)	621,613

The financial information set out above does not constitute the Corporation's statutory accounts for 2014 or 2015. Statutory accounts for the years ended 31 December 2014 and 31 December 2015 have been reported on by the Independent Auditor. The Independent Auditor's Reports on the Annual Report and Financial Statements for 2014 and 2015 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 2014 have been filed with the Registrar of Companies. The statutory accounts for the year ended 31 December 2015 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 2015. The principal accounting policies adopted are unchanged from those used in the preparation of the statutory accounts for the year ended 31 December 2014.

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 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 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 0.75% 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 0.46%. 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 increased its gearing to 12% (AIC net basis) following the issue of £75 million fixed rate 30-year secured private placement notes at an annualised coupon of 3.77%. The board believed that, in the current bond and interest rate environment, it was desirable to obtain fixed rate, long dated sterling denominated financing at an attractive pricing level. Over the longer term, this should help to enhance shareholder value as equity returns are delivered that should exceed the carrying cost of the notes. The proceeds have been used to repay short term borrowings (an uncommitted, drawn down facility of c.£30 million), for equity investment and for general corporate purposes.

The weighted average interest payable on the Corporation's structural borrowings (the new debenture plus the pre-existing debenture) decreased from 6.125% to 4.589% as at the date of launch of the new funding.

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.

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 overarching strategy for the IFS businesses remains to continue to grow them profitably and safely.

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 have the right to 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.

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.

Top 20 equity holdings by value

		2015	2015	2014	2014
		Value	% of	% of	
Rank	Company	£000	portfolio	portfolio	Rank
1	GKN	13,943	2.24	2.59	2
2	Senior	13,191	2.12	2.90	1
3	HSBC	12,598	2.03	1.87	7
4	BP	12,390	1.99	2.39	3
5	Royal Dutch Shell	11,573	1.86	2.23	4
6	Amlin	11,280	1.81	1.94	6
7	IP Group	11,203	1.80	1.37	15
8	Smith (DS)	10,917	1.76	1.47	9
9	Rio Tinto	10,390	1.67	2.12	5
10	GlaxoSmithKline	10,298	1.66	1.72	8
11	Marshalls	10,110	1.63	1.20	20
12	Hiscox	9,918	1.60	1.28	18
13	Hill & Smith	9,838	1.58	1.45	11
14	Provident Financial	9,257	1.49	1.12	23
15	BAE Systems	8,993	1.45	1.41	12
16	Relx	8,978	1.44	1.37	14
17	Prudential	8,176	1.32	0.74	50
18	Rolls Royce	8,050	1.30	0.72	52
19	Dunelm	7,969	1.28	1.31	17
20	Becton Dickinson (USA)	7,791	1.25	1.11	24
			33.28		

Other significant holdings by value

		2015	2015	2014
		Value	% of	% of
	Company	£000	portfolio	portfolio
	Henderson Asia Pacific Capital Growth*	17,661	2.84	2.43
	Henderson Japan Capital Growth*	13,105	2.11	2.25
	Baillie Gifford Pacific*	12,241	1.97	2.13
	Stewart Investors Pacific*	11,739	1.89	1.92
	Herald Investment Trust	6,294	1.01	0.93
	Templeton Emerging Markets Investment Trust	6,237	1.00	1.39
	Foresight Solar	3,000	0.48	0.52
	Scottish Oriental Smaller Company Trust	2,583	0.42	0.14
	Better Capital (2012)	2,000	0.32	0.62
			12.04	

*Open ended investment companies.

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%
Technology	2.2%
Financials	28.5%

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%

Geographical distribution of portfolio 2015

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

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%

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 3 March 2015, a subsidiary acquired 92,900 of the Corporation's shares on the open market at 5.385277 pence per share in anticipation of fulfilling awards made under the Deferred Share Plan.

Significant financial issues relating to the 2015 accounts.

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

Two new significant issues arose during the course of the audit. The first was about accounting for the new long term borrowings. Necessary assurances were provided to justify the chosen treatment under IAS 39. The second concerns the fair valuation of the IFS businesses.

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 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 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.

Total voting rights and share information

The Corporation has an issued share capital at 25 February 2016 of 118,328,874 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 118,328,874.

Borrowings

	2015	2014
	£000	£000
Short term borrowings		
Bank overdraft	-	26,548

The uncommitted overdraft facility of £30,000,000, repayable on demand, provided by HSBC Bank plc secured by a floating charge which ranked pari passu with a charge given in respect of the debenture was repaid from funds raised by the issue of the senior secured notes during the year and the facility cancelled.

	2015	2014
	£000	£000
Long term borrowings		
Long term borrowings are repayable as follows:		
In more than five years		
Secured		
6.125% guaranteed secured bonds 2034	39,499	39,472
3.77% secured senior notes 2045	74,481	-
	113,980	39,472

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 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 on 25 September 2015. 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 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. Restating them at a fair value of £124.4 million at 31 December 2015 (2014: £51.5 million) has the effect of decreasing the year end NAV by 8.87p (2014: 10.20p). 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 (2014: BBB).

Related party transactions

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

	2015	2014
	£000	£000
Dividends from subsidiaries	7,725	6,500
Interest on intercompany balances charged by subsidiaries	2,676	2,656
Management charges from subsidiaries	420	192
Interest on intercompany balances charged to subsidiaries	128	1,238

Principal risks and uncertainties – investment trust

The principal risks to the business model and 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.

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 and at every meeting. As stated in the investment strategy, there is a ceiling on effective gearing of 50%.

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 2015 fell or rose by 10%, the impact on the group's total profit or loss for the year would have been £62.2 million (2014: £60.1 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:

	2015	2015	2015	2014	2014	2014
Group	Investments	Net monetary assets	Total currency exposure	Investments	Net monetary assets	Total currency exposure
	£m	£m	£m	£m	£m	£m
US Dollar	59.7	6.0	65.7	55.4	7.7	63.1
Canadian Dollar	2.1	–	2.1	4.7	–	4.7
Euro	24.1	0.3	24.4	22.8	1.2	24.0
Danish Krone	2.3	–	2.3	2.5	–	2.5
Swedish Krona	1.5	–	1.5	1.2	–	1.2
Swiss Franc	12.1	–	12.1	12.1	–	12.1
Hong Kong Dollar	–	0.3	0.3	–	0.4	0.4
Japanese Yen	6.9	–	6.9	2.8	–	2.8
	108.7	6.6	115.3	101.5	9.3	110.8

The group US dollar net monetary assets is that held by the US operations of £36.3 million less the US dollar/sterling currency swap notional amount of £30.3 million (\$45 million).

The holdings in the Henderson Japan Capital Growth, Henderson Pacific Capital Growth, 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 £63.6 million (2014: £61.6 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 2015 rose or fell by 10% against sterling, the impact on the group's total profit or loss for the year would have been £19.1 million and £15.6 million respectively (2014: £18.1 million and £14.8 million respectively). 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:

2015

	Sterling	HK Dollars	US Dollars	Euro
	£m	£m	£m	£m
Floating rate assets	23.4	0.3	36.3	0.3

2014

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

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.

	2015	2014
	US Dollars	US Dollars
	£m	£m
Floating rate liabilities		
Short term borrowings	-	26.5

Interest on the short term borrowings was 1.5% above HSBC's base rate. The weighted average rate during the year was 1.62% (2014: 1.59%).

	2015	2014
	Sterling	Sterling
	£m	£m
Fixed rate liabilities	114.0	39.5
Weighted average fixed rate	5.320%	6.125%

The weighted average fixed rate will be 4.589% with all long term borrowing in place for a full year. 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 £336,000 credit (2014: £183,000 credit). It is assumed that interest rates are unlikely to fall below the current level.

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 above.

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 £67.4 million (2014: £57.8 million).

Trade and other receivables

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

	2015	2014
	£000	£000
Between 31 and 60 days	1,986	1,533
Between 61 and 90 days	380	493
More than 91 days	1,777	1,950
Total	4,143	3,976

At 31 December 2015, trade and other receivables which were impaired and for which there was a bad debt provision totalled £522,000 (2014: £272,000). All the impaired trade and other receivables were more than 91 days past due.

Trade and other payables

	2015	2014
	£000	£000
Due in less than one month	13,353	12,448
Due in more than one month and less than three months	463	564
	13,816	13,012

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

Principal risks and uncertainties – IFS businesses

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 cannot 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.

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. Copies of the annual report will be available from the Corporation's registered office or on its website once published on 4 March 2016.

By order of the board

Law Debenture Corporate Services Limited

Secretary

25 February 2016