Law Debenture

Annual Report 2011

The Law Debenture Corporation p.l.c.

Contents

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

Investment trust

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

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

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

Independent fiduciary services

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

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

2 10 year record

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	**2011**
Net assets[1] (£m)	260.3	199.6	241.7	272.5	339.6	392.6	407.1	266.4	342.4	412.6	**390.9**
Revenue return[2] (pence)	7.05	6.33	6.91	8.57	10.05	12.19	14.23	15.58	13.02	13.26	**15.52**
Capital return[2] (pence)	(29.75)	(50.12)	37.31	25.85	54.67	40.94	9.37	(120.59)	62.77	58.22	**(19.07)**
Total[2] (pence)	(22.70)	(43.79)	44.22	34.42	64.72	53.13	23.60	(105.01)	75.79	71.48	**(3.55)**
Revenue return[2] (pence)											
Investment trust	4.07	4.10	4.51	5.06	5.73	7.07	8.60	10.23	7.33	7.07	**8.27**
Independent fiduciary services	2.98	2.23	2.40	3.51	4.32	5.12	5.63	5.35	5.69	6.19	**7.25**
	7.05	6.33	6.91	8.57	10.05	12.19	14.23	15.58	13.02	13.26	**15.52**
Dividends[2] (pence)	6.90	6.90	6.90	7.55	9.05	10.50	12.00	12.20	12.20	12.70	**13.50**
NAV[1, 2] (pence) (after proposed final dividend)	222.9	170.5	201.9	228.1	284.0	328.2	339.6	219.2	284.0	342.9	**323.8**
Share price[1, 2] (pence)	233.5	192.5	221.75	232.5	288.75	349.0	354.5	223.5	284.5	356.6	**333.5**
Premium[1] (%)	4.7	12.9	9.8	1.9	1.7	6.3	4.4	2.0	0.2	4.0	**3.0**
Market capitalisation[1] (£m)	272.7	225.3	260.0	273.2	339.7	410.8	417.4	263.8	335.9	418.6	**393.8**
Cost of running investment trust[3] (% of average portfolio value)	0.53	0.56	0.55	0.52	0.51	0.49	0.49	0.48	0.54	0.43	**0.43**

[1] At 31 December.

[2] Pence per share as restated following a five for one share split in August 2002.

[3] Cost of running investment trust in 2008 and 2009 excludes VAT refunds related to prior years.

The information in respect of 2003-2011, is in accordance with International Financial Reporting Standards. The information in respect of 2001-2002 is in accordance with UK Generally Accepted Accounting Principles.

Highlights

	31 December 2011 pence	31 December 2010 pence
Share price	**333.50**	356.60
NAV per share after proposed final dividend	**323.75**	342.92
Revenue return per share		
– Investment trust	**8.27**	7.07
– Independent fiduciary services	**7.25**	6.19
Group revenue return per share	**15.52**	13.26
Capital (loss)/return per share	**(19.07)**	58.22
Dividends per share	**13.50**	12.70

Performance

	2011 %	2010 %
Share price total return[1]	**(2.9)**	30.5
NAV total return[1]	**(1.6)**	24.8
FTSE Actuaries All-Share Index total return	**(3.5)**	14.5

[1] Source AIC, including reinvestment of dividends.

4 Long term performance

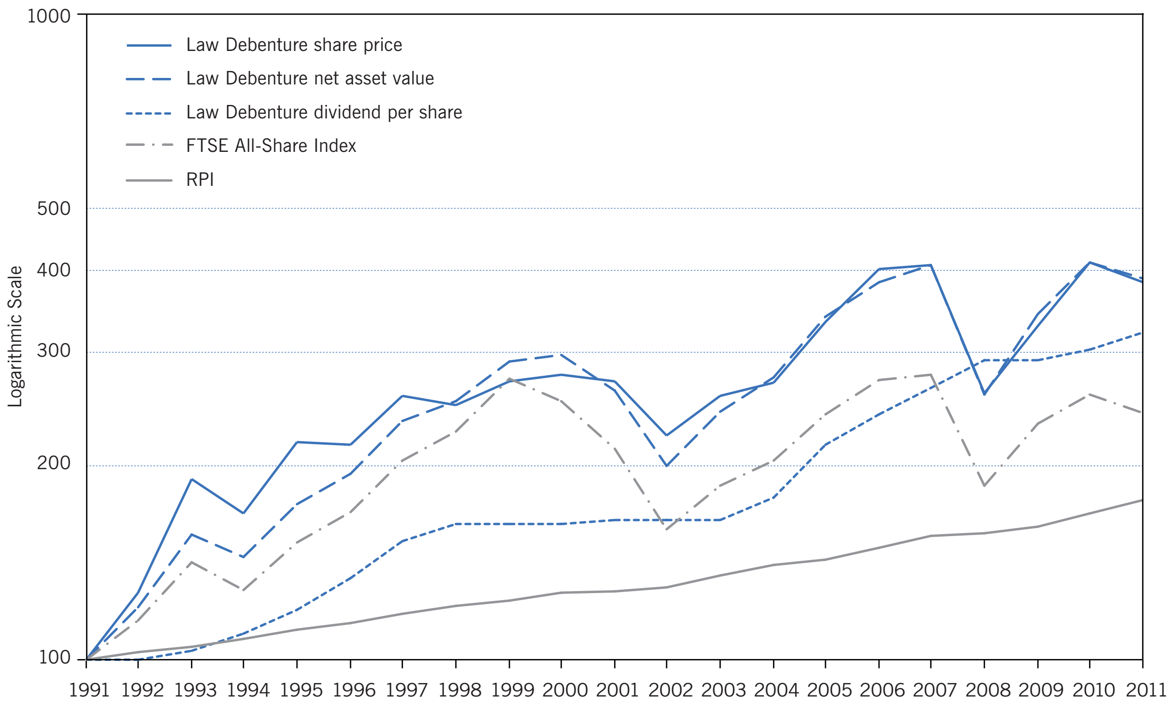
	5 years %	10 years %
NAV total return[1]	**22.1**	**111.3**
FTSE Actuaries All-Share Index total return[1]	**6.2**	**59.5**
Share price total return[1]	**16.8**	**104.6**
Change in retail price index[1]	**18.6**	**37.3**
Annual revenue earnings growth	**5.0**	**8.2**
Annual dividend growth	**5.2**	**6.9**
Annual RPI change	**3.5**	**3.3**

[1] Source: AIC.

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

Total returns assume the reinvestment of dividends.

20 year performance



Douglas McDougall OBE
Chairman
Chairman of The Independent Investment Trust plc, The European Investment Trust PLC and Scottish Investment Trust plc and a director of The Monks Investment Trust, Pacific Horizon Investment Trust and Herald Investment Trust. Former joint senior partner of Baillie Gifford & Co, investment managers, and former chairman of IMRO, of the Association of Investment Trust Companies and of the Fund Managers' Association. Joined the board in 1998, becoming chairman in 2000. Chairman of the remuneration and nomination committees, and a member of the audit committee.

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

Armel Cates
Non-executive director
A former partner of Clifford Chance and appointed to the board in February 2001. Wide experience of capital markets transactions including medium term note programmes, securitisations and repackagings. Director of Fatburen Investment BV and of Charterhouse-in-Southwark Trustee Company.

A member of the remuneration, nomination and audit committees and a director of the L.D.C. Trust Management Limited board. Armel will not be offering himself for re-election this year and accordingly retires as a director at the 2012 AGM.

John Kay
Non-executive director
Appointed to the board in September 2004. Business economist, writer and broadcaster. Visiting Professor at the London School of Economics. Founded London Economics, Britain's largest independent economic consultancy. Director of Value and Income Trust plc and Scottish Mortgage Investment Trust plc.

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

Christopher Smith
Non-executive director
Appointed to the board on 1 March 2009. Former Partner, Cazenove & Co and Managing Director-Corporate Finance for J.P. Morgan Cazenove. Over 30 years experience in corporate finance and equity capital markets. He is a director of CG Asset Management, Allchurches Trust and Helperby Therapeutics Group plc. He is chairman of the audit committee, a member of the remuneration and nomination committees, chairman of L.D.C. Trust Management Limited and chairman of Law Debenture Trust Company of New York Inc.

Investment manager

James Henderson
Joined Henderson Global Investors in 1983 and has been an investment trust portfolio manager since 1990, managing Lowland Investment Company plc since then and Henderson Opportunities Trust plc since January 2006. He first became involved in the management of Law Debenture's portfolio in 1994 and took over sole management of the portfolio in June 2003.

Performance

Our net asset value total return for the year to 31 December 2011 was -1.6%, compared to a total return of -3.5% for the FTSE Actuaries All-Share Index. Net revenue return per share was 15.52p, an increase of 17.0% over the previous year, as a result of a 17.0% increase in the investment trust and a 17.1% increase in independent fiduciary services.

Dividend

The board is recommending a final dividend of 9.0p per ordinary share (2010: 8.5p), which together with the interim dividend of 4.5p (2010: 4.2p) gives a total dividend of 13.5p (2010: 12.7p).

The final dividend will be paid, subject to shareholder approval, on 27 April 2012 to holders on the register on the record date of 30 March 2012.

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 our expenses, including interest costs, are charged fully to the revenue account.

Investment trust

Equity markets were impacted by a year of uncertainty resulting from debt problems, especially in the eurozone, political unrest and natural disasters. We responded by taking gearing out of the investment portfolio and investing the cash raised in short dated UK gilts.

Corporate performance during 2011 was good, resulting in improvement in dividends, which led to our improved earnings. The high exposure to industrial companies has been maintained, whilst consumer related stocks were reduced. For a discussion of the portfolio please see the investment manager's review on page 7.

The prospects for dividend growth are encouraging, however uncertainty in the world economy is still a significant issue for future prospects.

Independent fiduciary services

New appointments in financial wholesale markets remain below historic levels with no sign of any improvement in the corporate bond and securitisation markets. Special fees from pre-existing appointments have been at a high level and we have also benefited from an improvement in the number of corporate transactions in global markets. The outlook remains uncertain, but we continue to look for new opportunities and control costs.

For a discussion on the independent fiduciary services business please see the managing director's report on page 14.

Board

Armel Cates is not seeking re-election to the board at the annual general meeting and I thank him for his valued contribution to the Corporation during the last 11 years. Robert Laing, a partner in the law firm Maclay Murray & Spens LLP, joins the board. His legal background and investment trust experience should be valuable to the Corporation and we look forward to working with him.

In difficult markets we have grown our revenue return and dividends to shareholders. I should like to thank James Henderson and Caroline Banszky and her team for their performances in challenging conditions.

The annual general meeting will be held at the Brewers Hall, Aldermanbury Square, London EC2V 7HR on 24 April 2012, and I look forward to seeing as many as possible of you there.

Douglas McDougall

Review

The global economy expanded as the emerging economies continued to outperform the more developed ones. However, global trade was disrupted by natural disasters such as the Japanese tsunami and by political events in the Middle East and North Africa.

The price of oil and other commodities fell during 2011, suggesting that the sharp rises in inflation that were reported during the year will subside, although any continued political instability in the Middle East might lead to oil price increases. Problems in Western countries – where indebtedness of both governments and consumers will take a long time to resolve – led to further strain and even some concern about the possible break-up of the euro. The uncertainty created by these worries led to the falls in the equity market experienced during the summer and early autumn.

This was frustrating for the observers of individual stocks because companies' operating performances have generally been better than expected. Corporate debt has been dramatically reduced by substantial cash generation flowing from improved profitability and strict cost control. Good dividend growth has been achieved and historically high levels of dividend cover are being recorded. It is a pity therefore that the macroeconomic concerns have meant that so far this has not led to improved valuations for equities.

Portfolio activity

Growing concern about the viability of the euro and the general financial background led to a decision to remove the gearing in early September. This was done by reducing holdings in a large number of individual equities and some £35 million of sales were carried out, with the proceeds being placed in short dated UK government gilts. The object during the selling was to maintain the balance and diversity of the portfolio and retain the bias towards capital goods companies. This area is seen as being a beneficiary of the growing global economy, and companies held in the portfolio should thrive if they are producing excellent products. Aerospace businesses such as Rolls Royce and Senior are examples of companies achieving this objective, with sales and profit performance that show no sign of being impacted by recessionary concerns. On the other hand, consumer-related stocks were reduced and in some cases, such as Carnival Corporation, sold altogether. This reflects my view that the consumer area in both the US and Europe will remain difficult while debt is being paid down and wage growth remains muted.

The overseas holdings bring to the portfolio the type of companies we cannot find in the UK market and which we believe are good value. An example of this approach was the purchase during the year of Microsoft.

The holdings in collective funds were left untouched. These holdings allow us to access different areas of investment expertise. For instance, the holding in Herald Investment Trust gives the portfolio exposure to a diversified range of smaller technology and media stocks that we could not replicate by direct investment.

The overall shape of the portfolio has not altered and currently no change is envisaged. We continue to have very limited exposure to banks as their earnings outlook remains murky – they are attempting fundamental change, but the return on capital that their new business models will achieve remains uncertain. Our financial sector exposure therefore comes mainly through life assurance companies and general non-life insurers, which have shown their strength over the last year as they have dealt with high levels of natural disasters and yet have held or increased their dividend payments.

Outlook

There is a tension among investors between those who believe that the global economy is in a fragile state and therefore advocate a very cautious investment approach and those who believe that the worries are overstated. I am of the latter belief. Companies are generally in good health, but I see no sign of complacency from management. The global economy overall is likely to show some growth, so the potential remains for substantial corporate cash generation and improving operating margins. The biases in the portfolio, particularly the weighting in manufacturing industry, should mean it is well placed to benefit from any upturn.

James Henderson
Henderson Global Investors Limited

8 Top 20 equity holdings by value

Rank	Company	2011 Value £000	2011 % of portfolio	2010 % of portfolio	2010 Rank
1	Senior	**13,770**	**3.25**	3.21	2
2	Royal Dutch Shell	**12,268**	**2.90**	3.31	1
3	BP	**12,185**	**2.88**	3.06	3
4	GlaxoSmithKline	**11,033**	**2.61**	2.25	6
5	GKN	**8,462**	**2.00**	2.32	5
6	Rio Tinto	**7,031**	**1.66**	–	–
7	HSBC	**6,384**	**1.51**	2.51	4
8	Vodafone	**6,262**	**1.48**	1.43	9
9	Amlin	**6,107**	**1.44**	1.10	19
10	Interserve	**6,089**	**1.44**	1.10	20
11	British American Tobacco	**5,347**	**1.26**	1.95	7
12	Diageo	**5,345**	**1.26**	1.15	18
13	IP Group	**5,321**	**1.26**	–	–
14	Morgan Crucible	**5,260**	**1.24**	1.41	11
15	Weir Group	**5,080**	**1.20**	1.41	10
16	Hiscox	**5,042**	**1.19**	1.16	15
17	Microsoft (USA)	**5,011**	**1.18**	–	–
18	Meggitt	**4,927**	**1.16**	1.31	12
19	BG	**4,818**	**1.14**	1.03	24
20	Hill & Smith	**4,588**	**1.08**	1.08	22
			33.14		

The top 20 equity holdings by value at 31 December 2010 accounted for 35% of the investment portfolio.

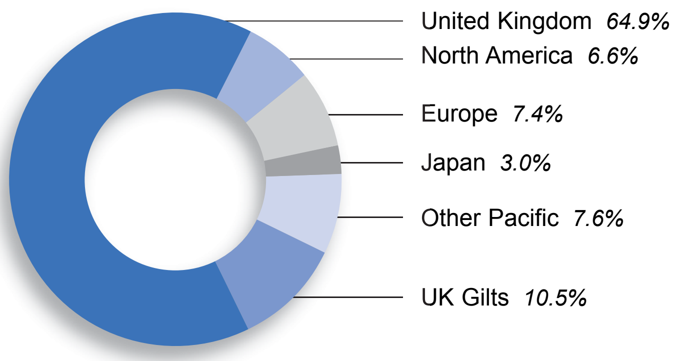
Other significant holdings by value

Rank	Company	2011 Value £000	2011 % of portfolio	2010 % of portfolio	2010 Rank
1	UK Treasury 4.5% 07/03/13	**20,454**	**4.84**	–	–
2	UK Treasury 2.25% 07/03/14	**15,104**	**3.57**	–	–
3	Henderson Japan Capital Growth*	**11,278**	**2.67**	2.80	2
4	Henderson Asia Pacific Capital Growth*	**10,128**	**2.39**	2.90	1
5	UK Treasury 5.25% 07/06/12	**8,933**	**2.11**	–	–
6	Baillie Gifford Pacific*	**8,650**	**2.04**	2.22	3
7	First State Asia Pacific*	**7,975**	**1.89**	1.95	4
8	National Grid 6.125% 15/04/14	**5,830**	**1.38**	1.32	6
9	Scottish Oriental Smaller Companies Trust	**5,220**	**1.23**	1.39	5
			22.12		

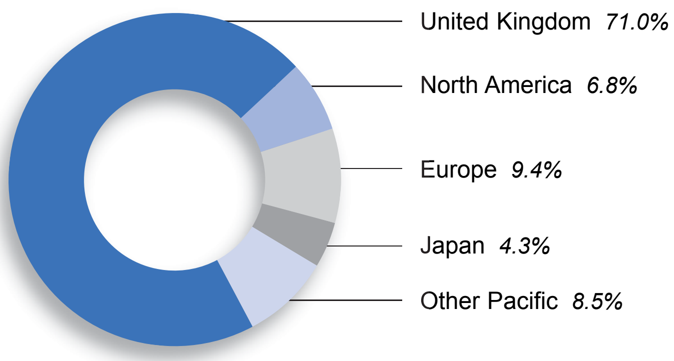
*Open ended investment companies.

	Valuation 31 December 2010 £000	Purchases £000	Costs of acquisition £000	Sales proceeds £000	(Depreciation) £000	**Valuation 31 December 2011 £000**
United Kingdom	313,388	37,385	(207)	(66,356)	(9,505)	**274,705**
North America	30,250	11,309	(13)	(10,251)	(3,436)	**27,859**
Europe	41,450	3,048	(5)	(10,877)	(2,353)	**31,263**
Japan	18,928	–	–	(4,791)	(1,384)	**12,753**
Other Pacific	37,321	–	–	–	(5,348)	**31,973**
UK Gilts	–	44,766	–	–	(275)	**44,491**
	441,337	96,508	(225)	(92,275)	(22,301)	**423,044**

Geographical distribution of portfolio 2011



Geographical distribution of portfolio 2010



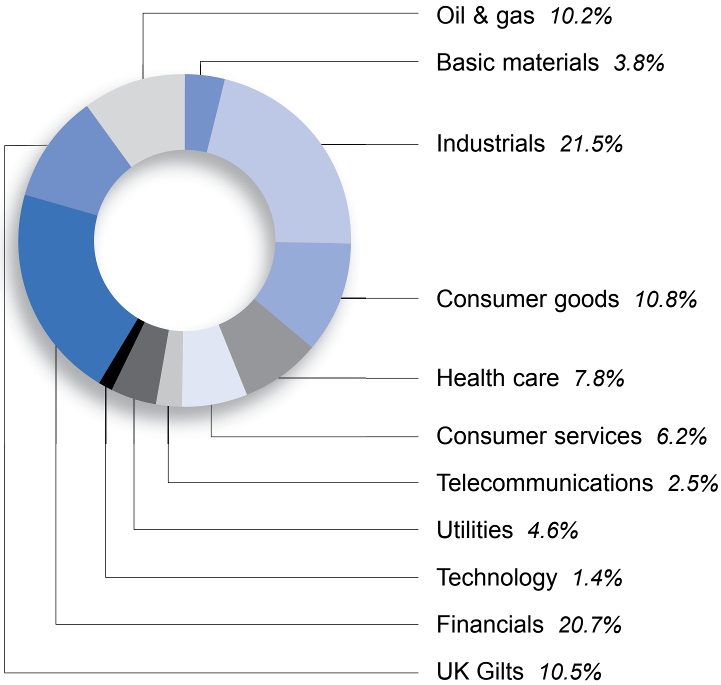
10 Classification of investments based on market values at 31 December 2011

	United Kingdom %	North America %	Europe %	Japan %	Other Pacific %	UK Gilts %
Oil & gas						
Oil & gas producers	6.92	–	0.49	–	–	–
Oil equipment & services	0.27	2.26	0.25	–	–	–
	7.19	2.26	0.74	–	–	–
Basic materials						
Chemicals	0.75	–	0.17	–	–	–
Forestry & paper	0.54	–	–	–	–	–
Mining	2.32	–	–	–	–	–
	3.61	–	0.17	–	–	–
Industrials						
Construction & materials	0.89	–	–	–	–	–
Aerospace & defence	6.49	–	–	–	–	–
General industrials	1.30	–	–	–	–	–
Electronic & electrical equipment	2.61	0.81	0.15	–	–	–
Industrial engineering	2.82	1.50	0.20	–	–	–
Industrial transportation	0.24	–	0.24	–	–	–
Support services	3.08	–	1.18	–	–	–
	17.43	2.31	1.77	–	–	–
Consumer goods						
Automobiles & parts	2.00	–	–	0.35	–	–
Beverages	1.26	–	0.18	–	–	–
Food producers	1.54	–	0.70	–	–	–
Household goods & home construction	1.91	–	0.38	–	–	–
Leisure goods	0.06	–	–	–	–	–
Tobacco	2.12	–	0.27	–	–	–
	8.89	–	1.53	0.35	–	–
Health care						
Health care equipment & services	0.69	0.85	1.22	–	–	–
Pharmaceuticals & biotechnology	4.07	–	0.95	–	–	–
	4.76	0.85	2.17	–	–	–
Consumer services						
Food & drug retailers	0.95	–	–	–	–	–
General retailers	1.03	–	0.25	–	–	–
Media	2.50	–	–	–	–	–
Travel & leisure	1.45	–	–	–	–	–
	5.93	–	0.25	–	–	–
Telecommunications						
Fixed line telecommunications	0.54	–	–	–	–	–
Mobile telecommunications	1.84	–	0.16	–	–	–
	2.38	–	0.16	–	–	–
Utilities						
Electricity	1.51	–	0.16	–	–	–
Gas water & multiutilities	2.93	–	–	–	–	–
	4.44	–	0.16	–	–	–
Financials						
Banks	1.51	–	–	–	–	–
Nonlife insurance	2.71	–	–	–	–	–
Life insurance / assurance	1.42	–	–	–	–	–
Real estate investment & services	0.26	–	–	–	–	–
Real estate investment trusts	1.03	–	–	–	–	–
Financial services	2.43	–	0.21	–	–	–
Equity investment instruments	0.91	–	–	2.67	7.55	–
	10.27	–	0.21	2.67	7.55	–
Technology						
Software & computer services	–	1.18	0.25	–	–	–
	–	1.18	0.25	–	–	–
UK Gilts	–	–	–	–	–	10.52
Total 2011	**64.90**	**6.60**	**7.41**	**3.02**	**7.55**	**10.52**
Total 2010	71.00	6.85	9.40	4.29	8.46	

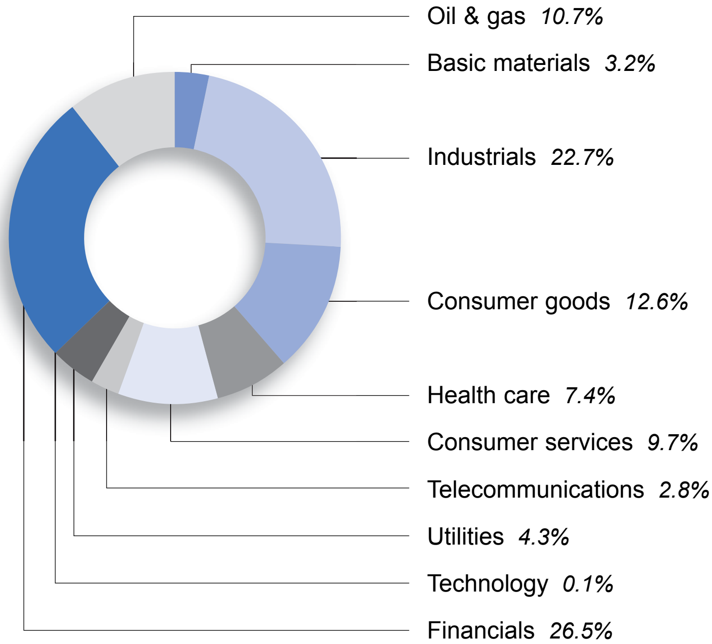
The above table excludes bank balances and short term deposits.

Total 2011 £000	2011 %	Total 2010 £000	2010 %
31,296	**7.41**	34,712	7.87
11,696	**2.78**	12,554	2.85
42,992	**10.19**	47,266	10.72
3,892	**0.92**	5,690	1.29
2,275	**0.54**	3,081	0.70
9,838	**2.32**	5,102	1.16
16,005	**3.78**	13,873	3.15
3,776	**0.89**	5,376	1.22
27,479	**6.49**	27,905	6.33
5,528	**1.30**	6,642	1.49
15,112	**3.57**	13,932	3.17
19,098	**4.52**	23,850	5.40
2,017	**0.48**	6,361	1.45
17,937	**4.26**	16,192	3.68
90,947	**21.51**	100,258	22.74
9,937	**2.35**	12,943	2.92
6,107	**1.44**	5,865	1.31
9,509	**2.24**	11,526	2.61
9,703	**2.29**	10,176	2.31
242	**0.06**	187	0.04
10,159	**2.39**	15,193	3.44
45,657	**10.77**	55,890	12.63
11,715	**2.76**	10,975	2.49
21,171	**5.02**	21,716	4.91
32,886	**7.78**	32,691	7.40
4,034	**0.95**	5,100	1.16
5,489	**1.28**	10,365	2.35
10,495	**2.50**	15,867	3.61
6,154	**1.45**	11,330	2.56
26,172	**6.18**	42,662	9.68
2,291	**0.54**	3,491	0.79
8,386	**2.00**	8,764	1.97
10,677	**2.54**	12,255	2.76
7,065	**1.67**	7,027	1.59
12,358	**2.93**	11,914	2.70
19,423	**4.60**	18,941	4.29
6,384	**1.51**	20,919	4.75
11,496	**2.71**	13,723	3.11
6,016	**1.42**	8,754	1.98
1,120	**0.26**	1,650	0.37
4,382	**1.03**	9,938	2.25
11,201	**2.64**	8,084	1.83
47,119	**11.13**	53,764	12.19
87,718	**20.70**	116,832	26.48
6,076	**1.43**	669	0.15
6,076	**1.43**	669	0.15
44,491	**10.52**	–	–
423,044	**100.00**		
		441,337	100.00

Portfolio by sector 2011



Portfolio by sector 2010



The number of investments decreased from 142 at 31 December 2010 to 123 at 31 December 2011.

	£000	%
Oil & gas		
Oil & gas producers		
Royal Dutch Shell	12,268	2.90
BP	12,185	2.88
BG	4,818	1.14
Total (Fra)	2,025	0.49
	31,296	7.41
Oil equipment & services		
Gibson Energy (Can)	3,800	0.90
Schlumberger (USA)	3,516	0.83
National Oilwell Varco (USA)	2,187	0.53
Cape	*1,141*	*0.27*
Saipem (Ita)	1,052	0.25
	11,696	2.78
Basic materials		
Chemicals		
Croda	3,157	0.75
Brenntag (Ger)	735	0.17
	3,892	0.92
Forestry & paper		
Mondi	2,275	0.54
	2,275	0.54
Mining		
Rio Tinto	*7,031*	*1.66*
BHP Billiton	2,807	0.66
	9,838	2.32
Industrials		
Construction & materials		
Balfour Beatty	3,215	0.76
Marshalls	561	0.13
	3,776	0.89
Aerospace & defence		
Senior	13,770	3.25
Meggitt	4,927	1.16
Rolls Royce	4,476	1.06
BAE Systems	4,268	1.01
Hampson Industries	38	0.01
	27,479	6.49
General industrials		
Smith (DS)	4,158	0.98
Smiths	1,370	0.32
	5,528	1.30
Electronic & electrical equipment		
Morgan Crucible	5,260	1.24
Spectris	3,837	0.91
Applied Materials (USA)	3,442	0.81
TT Electronics	1,950	0.46
Legrand (Fra)	623	0.15
	15,112	3.57

	£000	%
Industrial engineering		
Weir Group	5,080	1.20
Hill & Smith	4,588	1.08
Cummins (USA)	3,965	0.94
Caterpillar (USA)	2,332	0.56
Renold	1,110	0.26
ABB (Swi)	851	0.20
IMI	*756*	*0.18*
Severfield-Rowen	416	0.10
	19,098	4.52
Industrial transportation		
Kuehne & Nagel (Swi)	1,001	0.24
Goldenport	495	0.12
Wincanton	297	0.07
Autologic	224	0.05
	2,017	0.48
Support services		
Interserve	6,089	1.44
Carillion	3,755	0.89
Babcock	1,834	0.44
SGS (Swi)	1,659	0.39
Deutsche Post (Ger)	1,446	0.35
Sodexo (Fra)	1,291	0.31
Johnson Service	1,048	0.25
Adecco (Swi)	550	0.13
Augean	265	0.06
	17,937	4.26
Consumer goods		
Automobiles & parts		
GKN	8,462	2.00
Toyota Motor (Jap)	1,475	0.35
	9,937	2.35
Beverages		
Diageo	5,345	1.26
Pernod-Ricard (Fra)	762	0.18
	6,107	1.44
Food producers		
Unilever	3,783	0.89
Nestlé (Swi)	2,959	0.70
Associated British Foods	2,767	0.65
	9,509	2.24
Household goods & home construction		
Bellway	3,204	0.76
Redrow	2,513	0.59
Reckitt Benckiser	2,385	0.56
L'Oreal (Fra)	*807*	*0.19*
Essilor (Fra)	794	0.19
	9,703	2.29
Leisure goods		
Harvard International	242	0.06
	242	0.06
Tobacco		
British American Tobacco	5,347	1.26
Imperial Tobacco	3,652	0.86
Swedish Match (Swe)	1,160	0.27
	10,159	2.39

	£000	%
Health care		
Health care equipment & services		
Becton Dickinson (USA)	3,606	0.85
Fresenius (Ger)	3,462	0.82
Smith & Nephew	2,937	0.69
Fresenius Medical Care (Ger)	1,710	0.40
	11,715	2.76
Pharmaceuticals & biotechnology		
GlaxoSmithKline	11,033	2.61
BTG	*3,921*	*0.93*
Novartis (Swi)	2,568	0.61
AstraZeneca	2,226	0.53
Roche (Swi)	1,423	0.34
	21,171	5.02
Consumer services		
Food & drug retailers		
Tesco	4,034	0.95
	4,034	0.95
General retailers		
Dunelm	3,659	0.86
Inditex (Spa)	1,077	0.25
Findel	565	0.13
Topps Tiles	188	0.04
	5,489	1.28
Media		
Reed Elsevier	3,881	0.92
Pearson	3,325	0.79
British Sky Broadcasting	*1,831*	*0.44*
Daily Mail & General Trust	1,393	0.33
Yell	65	0.02
	10,495	2.50
Travel & leisure		
Greene King	3,057	0.72
Marstons	1,881	0.44
International Consolidated Airlines	1,216	0.29
	6,154	1.45
Telecommunications		
Fixed line telecommunications		
BT	2,291	0.54
	2,291	0.54
Mobile telecommunications		
Vodafone	6,262	1.48
Inmarsat	1,466	0.36
Ericsson (Swe)	*658*	*0.16*
	8,386	2.00
Utilities		
Electricity		
SSE	3,870	0.91
SSE 5.75% 05/02/14	2,523	0.60
Iberdrola (Spa)	672	0.16
	7,065	1.67

	£000	%
Gas water & multiutilities		
National Grid 6.125% 15/04/14	5,830	1.38
National Grid	3,494	0.83
Severn Trent	3,034	0.72
	12,358	2.93
Financials		
Banks		
HSBC	6,384	1.51
	6,384	1.51
Nonlife insurance		
Amlin	6,107	1.44
Hiscox	5,042	1.19
Hardy Underwriting Bermuda	347	0.08
	11,496	2.71
Life insurance/assurance		
Aviva	2,357	0.56
Prudential	1,912	0.45
Chesnara	1,740	0.41
Irish Life & Permanent (Ire)	7	–
	6,016	1.42
Real estate investments & services		
St Modwen Properties	1,120	0.26
	1,120	0.26
Real estate investment trusts		
Mucklow (A&J) Group	2,336	0.55
Land Securities	2,046	0.48
	4,382	1.03
Financial services		
IP Group	5,321	1.26
Provident Financial	2,577	0.61
International Personal Finance	2,125	0.50
Deutsche Börse (Ger)	863	0.20
	10,886	2.57
Equity investment instruments		
Henderson Japan Capital Growth	11,278	2.67
Henderson Asia Pacific Capital Growth	10,128	2.39
Baillie Gifford Pacific	8,650	2.04
First State Asia Pacific	7,975	1.89
Scottish Oriental Smaller Companies Trust	5,220	1.23
Herald Investment Trust	3,868	0.91
	47,119	11.13
Technology		
Software & computer services		
Microsoft (USA)	5,011	1.18
Amadeus IT (Spa)	1,065	0.25
	6,076	1.43
Gilts		
UK Treasury 4.5% 07/03/13	*20,454*	*4.84*
UK Treasury 2.25% 07/03/14	*15,104*	*3.57*
UK Treasury 5.25% 07/06/12	*8,933*	*2.11*
	44,491	10.52

Those shown in italics are new holdings in the six months since 30 June 2011.

Results

Independent fiduciary services profit before tax increased by 17.2% from £8.95 million to £10.49 million. Revenue return per share increased by 17.1% from 6.19p to 7.25p.

Independent fiduciary services businesses

Law Debenture is a leading provider of independent third party fiduciary services, including corporate and pension trusts, service of process, treasury and agency solutions, corporate services, board effectiveness and whistle blowing. The businesses are monitored and overseen by a board comprising the heads of the relevant business areas, chaired by a non-executive independent director, currently Christopher Smith.

Review of 2011

The independent fiduciary businesses performed better than we had anticipated. Although the markets where we operate did not return to pre-recession levels, activity levels were up on 2010. Some markets, particularly for service of process appointments, were very lively as corporate activity overseas increased following recovery in certain regions. We maintained market share across all of the businesses and activity levels in pre-existing transactions remained high, with a number of cases generating significant additional fees.

Some notable highlights of the year are set out below.

Corporate trusts

Corporate trusts had a good year despite low levels of activity in the bond market caused by the eurozone crisis and continuing nervousness in the banking sector.

Existing clients such as Akzo Nobel, Aviva, Marks & Spencer, National Grid, Next, Northern Ireland Electricity and The Housing Finance Corporation appointed us to act as trustee of their bond issues. A number of investment trusts also selected us, including City Natural Resources High Yield Trust, Edinburgh Dragon Trust and Standard Life UK Smaller Companies Trust.

Beyond the bond market, we are doing an increasing amount of work as escrow agent where we are asked to hold cash or shares as an independent third party and we have been selected to act as security trustee on a number of non-bond related financing transactions.

We have also been busy on post issuance work on existing trusts. This has included work on restructuring and in dealing with transaction implications arising from ratings downgrades of transaction parties.

Pension trusts

Our pension scheme trusteeship service continued to be busy and demanding, reflecting the challenges which pension schemes face. We were appointed to a number of new schemes, including the BT Pension Scheme, which is the UK's largest private sector scheme. The Right Honourable Michael Portillo chaired a very successful 2011 annual debate and has agreed to chair our 2012 debate, where the proposal that pension schemes should be regulated in the same way as insurance companies will be keenly contested.

Corporate services

Our long established and highly regarded service of process business saw a continued increase in new appointments arising from increased corporate activity overseas as some regions prospered.

The corporate services business (provision of corporate directors, company secretary, accounting and administration of special purpose vehicles) had a good year. Despite continuing low activity levels in the structured finance markets, we were appointed to new transactions originated by Apollo European Principal Finance and the City of Kiev. We also continued to win business from other markets. This included a number of new company secretarial roles and some specialised roles supporting companies set up for specific purposes in the light of the 2007/2008 recession.

Treasury and agency solutions

The team continued to grow and develop its business further during the year. We have a strong cash escrow business and through the creation of enhanced reporting systems we are well placed to capitalise on opportunities to increase the existing agency business, as customers look for high-end service and customised solutions.

Safecall

It has been a good year for our external whistleblowing service with a 45% increase in the customer base. The introduction of the Bribery Act 2010 has resulted in a number of organisations reviewing their policies and procedures and deciding to contract with Safecall. Notable appointments include Kazakhmys, Guardian Media Group, Worldpay, Brit Insurance and Simmons & Simmons.

Governance services

Our new governance services business was launched in February 2011. It has been warmly received for its independence and has been featured in the specialist business press. While many listed businesses have delayed formal board evaluations to 2012 or later, there has been a lot of interest from non-listed sectors. We have developed additional products and services for operating boards and committees that focus particularly on decision making and managing risk, and these products and services will give us a useful additional offering to clients in the coming years.

Overseas

United States

The business in the United States continues to generate favourable earnings and increased visibility. Law Debenture Trust Company of New York obtained a number of trust, administration, paying agent and escrow appointments, while the corporate services business, including Delaware Corporate Services, continues to generate good returns.

Hong Kong

The Far East market was strong for much of the year and overall 2011 was a good year for our business in Hong Kong. Service of process appointments reached a record high, employee share trusts continued to be a major growth area and escrow appointments associated with Chinese cross-border transactions increased on the back of our exclusive co-operation arrangements with Jiangsu International Trust Corporation in mainland China. China continues to be a potential growth area for both foreign direct investment as well as overseas direct investment by Chinese entities in other markets where Law Debenture already provides a full range of services.

Channel Islands

There was an increase in income from restructuring activity, although this was offset by the termination of two voting trust transactions.

Summary and outlook

Overall, our independent fiduciary business had a better than expected 2011, which reflects great credit on the dedication and hard work of our staff. The markets in which we operate remain sluggish, even fractured in some cases, so the prospects for 2012 are difficult to predict. The danger of a double dip recession in the eurozone, combined with continuing caution in the banking sector, make for significant challenges. However, our businesses are well established and robust and we will continue to seek to turn challenges into opportunities.

Caroline Banszky

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Global custodians and bankers

HSBC Group

Registrar and transfer office

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A member of

aic
The Association of Investment Companies

The directors present their annual report and the audited financial statements for the year ended 31 December 2011. The Corporation retains its status as an investment trust and has been treated by HM Revenue & Customs ('HMRC') and approved as such for the year ended 31 December 2010, the latest year for which financial statements have been submitted. Such approval for the year ended 2010 is subject to there being no subsequent enquiry under Corporation Tax Self Assessment. In the opinion of the directors, the Corporation has subsequently conducted its affairs so as to enable it to obtain Sections 1158-1159 approval under the Corporation Tax Act 2010. The Corporation, which (as far as the directors are aware) is not a close company, is registered as an investment company as defined in section 833 of the Companies Act 2006 and operates as such. The directors consider that the group operates as a going concern.

Business review

The group divides into two distinct complementary areas of business. The Corporation is a global investment trust, its portfolio of investments being managed by Henderson Global Investors Limited ('Henderson'). Independent fiduciary services activities are corporate trusts, agency services, pension trusts, corporate services (including agent for service of process), treasury and agency solutions, whistle blowing services and board evaluation services to client boards. The services are provided by wholly owned subsidiaries of the Corporation with offices in London, Sunderland, New York, Delaware, Hong Kong and the Channel Islands.

The Corporation's objective for the investment trust is to achieve long term capital growth in real terms and steadily increasing income. The directors consider a number of performance measures to assess the group's success in achieving its objectives. The key performance indicators used to measure the progress and performance of the group are: net asset value total return per share; the discount or premium in share price to net asset value; and the cost of running the portfolio as a percentage of its value. The net asset value total return combines the capital and income returns of the group.

The net asset value performance and other performance factors affecting the group are included in the chairman's statement and the premium or discount to net asset value and cost of running the portfolio are given within the 10 year record.

The outlook for the investment portfolio is described in the investment manager's report and the outlook for the independent fiduciary services business is included in the management review.

Law Debenture considers that none of its trading activities has a negative environmental impact beyond the consumption of energy to service its offices.

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

The group does not support local social and community initiatives, its offices being based in non-residential financial districts.

The board is required to give information about persons with whom Law Debenture has contractual or other arrangements that are essential to the business of the group. In the view of the board, the only contract that is essential is the one in place with Henderson, details of which are given elsewhere in the directors' report.

Investment strategy

The Corporation's investment strategy is as follows:

The Corporation carries on its business as a global growth investment trust. Its objective is set out in the business review. 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.

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

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

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

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

Liquidity and long-term borrowings are managed with the aim of improving returns to shareholders. The policy on gearing is to assume only that level of gearing which 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, fixed interest securities, interests in limited liability partnerships, cash and liquid assets. Derivatives may be used but only with the prior authorisation of the board. Investment in such instruments for trading purposes is proscribed. It is permissible to hedge against currency movements on both capital and income account, subject again to prior authorisation of the board. Stock lending, trading in suspended shares and short positions are not permitted.

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

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

Investment strategy – implementation

During the year, the assets of the Corporation were invested in accordance with the investment strategy.

A full list of holdings is disclosed on pages 12 and 13 and detailed analyses of the spread of investments by geographic region and industry sector are shown on pages 9 to 11. NAV relative performance against the FTSE Actuaries All-Share Index is shown on page 3.

The top 20 holdings (excluding collective investment companies and UK gilts) comprise 33% of the total portfolio (2010: 35%).

The extent to which the Corporation's objective has been achieved, and how the investment strategy was implemented, are described in the chairman's statement on page 6 and the investment manager's review on page 7.

Principal risks and uncertainties

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

The principal risks of the independent fiduciary services business arise during the course of defaults, potential defaults and restructurings where we have been appointed to provide services. Such default risk is currently heightened due to the wider economic pressures on some countries and borrowers. 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 at all other stages whether or not there is a danger of default.

Revenue, dividends and reserves

The revenue return attributable to shareholders for the year ended 31 December 2011 was £18,231,000. The directors recommend a final dividend of 9.0p per share, which together with the interim dividend of 4.5p paid in September 2011, will produce a total of 13.5p (2010: 12.7p). The final dividend will be paid on 27 April 2012 to holders on the register on the record date of 30 March 2012. After deduction of the interim and final dividends of £15,859,000 (2010: £14,909,000), consolidated revenue reserves increased by £2,372,000 (2010: increase of £652,000).

Directors

All the directors on page 5 held office throughout the year.

All directors are required to stand for re-election every year. The list of candidates, which the board supports, is set out in the notice of annual general meeting, along with a statement in each case of why the candidate is supported. Mr Cates will not be seeking re-election and stands down after 11 years of service.

The board is appointing a new non-executive director with effect from 2 April 2012 – the Hon. Robert Laing. Robert Laing was admitted as a solicitor in England in 1977 and in Scotland in 1985. He worked for Slaughter and May from 1975 until 1983, when he joined Maclay Murray & Spens. He has been a partner in that firm (now Maclay Murray & Spens LLP) since 1985 and chairman since 1 June 2010.

No director has a service contract with any member of the group in excess of one year or was materially interested in any other contract with any member of the group. During the year, liability insurance was maintained for the benefit of directors and other officers.

Directors' shareholdings

Beneficial interests as at 31 December	**2011**	2010
C.J. Banszky	**223,246**	207,959
A.C. Cates	**37,029**	36,730
J.A. Kay	**15,000**	15,000
D.C.P. McDougall	**410,000**	410,000
C Smith	**55,000**	55,000

Caroline Banszky received 33,191 shares on 2 March 2012 under the Corporation's deferred share scheme and sold 16,000 of them on the same day to meet the PAYE and NI liability arising on the release of the shares. There have been no other changes in directors' interests since 31 December 2011. No director has a beneficial interest in the shares of any subsidiary company.

The beneficial interest of James Henderson at 31 December 2011 was 50,000 shares (2010: 50,000).

Directors' conflicts of interests

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

Regulatory compliance

The Corporation is subject to continuing obligations applicable to premium listed companies, overseen by the UK Listing Authority ('UKLA'), which is a division of the Financial Services Authority. One company in the group, The Law Debenture Trust Corporation p.l.c., is regulated in the conduct of a limited range of authorised business activities. The directors receive periodic reports from the compliance officer about its conduct.

Law Debenture's responsibilities as an institutional shareholder

The Corporation's policy is as follows:

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

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

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

Henderson, on Law Debenture's behalf, monitors companies in which Law Debenture is invested, and from time to time may discuss matters of corporate governance with such companies. The Henderson corporate governance unit will notify Law Debenture's investment manager, who in turn will notify Law Debenture, should matters arise that might lead the Corporation to consider intervening, abstaining or voting against a particular proposal. During the year, the Corporation abstained or voted against one or more resolutions at the annual general meetings of 15 investee companies.

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

A conflict of interest could potentially arise from the Corporation's investments in products operated by its investment manager, Henderson. The board is mindful of this and manages the potential conflict by careful monitoring of the performance of any such funds. To the extent necessary in these cases, the Corporation would not hesitate to exercise votes against resolutions where it felt that shareholders' interests warranted such a step.

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

The Corporation has complied with the requirements of the Stewardship Code and its statement of compliance can be viewed at: **www.lawdeb.com/investment-trust/investor-information/corporate-governance**.

Repurchase of shares

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

Shares may be issued in accordance with the articles of association – see AGM resolution 11.

Substantial shareholdings and share information

As at 13 March 2012, there were no shareholders that had notified the Corporation of an interest in 3% or more of the issued share capital. Share information as required by Section 992 of the Companies Act 2006 appears at page 68. Unless expressly stated the Corporation has no disclosure to make under that section.

Shareholder relations

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

Employee participation

Employees are informed of the financial aspects of the group's performance through periodic management meetings. Copies of the annual and half yearly reports are made available to all employees. Details of the general independent fiduciary services profit sharing arrangements are contained in the remuneration report on page 29. The Corporation has since 1992 operated SAYE schemes in which all UK full-time employees are eligible to participate after completing a minimum service requirement.

Options outstanding under the SAYE scheme at 31 December 2011 were:

Date of grant	Number of option holders	Shares under option	Exercise price
11 June 2007	4	2,995	349.76p
22 May 2008	14	51,268	314.24p
27 May 2009	33	167,355	211.50p
25 May 2010	11	12,831	314.88p
4 August 2011	19	31,913	357.51p

From 1993 to 2004, the Corporation operated Executive Share Option Schemes, which enabled executives to be granted options to acquire shares in the Corporation. Options granted under the scheme were normally exercisable between the third and tenth anniversaries of the option grant date. Such exercise was contingent upon targets for the independent fiduciary services business being achieved. Following a board decision in 2005 to discontinue the scheme and replace it with a Deferred Share Plan, no further options have been granted. Total options outstanding at 31 December 2011 were as follows:

Date of grant	Number of option holders	Shares under option	Exercise price
2 March 2004	2	9,740	228.2p

The market price at the beginning of the year was 356.60p: the highest price during the year was 385.00p the lowest price was 321.00p.

Investment management

Henderson is responsible for the management of the investment portfolio. Henderson is fully aware of the Corporation's investment strategy and provides a cost competitive service. Consequently the directors believe that the continuing appointment of Henderson is in the best interests of shareholders. The agreement does not cover custody or the preparation of data associated with investment performance, which are outsourced, or record keeping, which is maintained by the Corporation. Fees paid to Henderson in the year amounted to £1,150,000 (2010: £965,000). For the period to 31 March 2011, fees were based on 0.25% per annum of the average portfolio value, excluding cash. From 1 April 2011, the fee basis changed to be expressed as 0.30% of the value of the net assets of the group (excluding the net assets of the independent fiduciary services business), calculated on the basis adopted in the audited financial statements. This represents an increase in the overall amount payable to Henderson (the first increase in the rate of fee since 1999) but means that the Corporation continues to maintain one of the most competitive fee structures in the investment trust sector. The underlying management fee of 1% on the Corporation's holdings in the Henderson Japanese and Pacific OEICs continues to be rebated. From 1 April 2011, the notice period under the agreement was reduced from 12 months to 6 months.

The Corporation holds no shares in members of the HHG Group, the parent company of Henderson. It has been notified that funds managed by members of the HHG Group held 129,389 shares in the Corporation at 31 December 2011.

Charitable donations

During the year the Corporation made charitable donations of £2,193 (2010: £1,285).

Bribery Act

Following the implementation of the Bribery Act 2010, the Corporation has adopted a 'zero tolerance' anti-bribery policy, which applies to the Corporation and all its subsidiaries. The policy is published on the Corporation's website.

Payment of suppliers

The group is committed to seeking the best terms possible for all types of business and hence there is no single policy as to the terms used. For most suppliers, the average credit period is 30 days.

Statement of directors' responsibilities in relation to the financial statements

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

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

International Accounting Standard 1 requires that financial statements present fairly for each financial year the Corporation's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the preparation and presentation of financial statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRSs. A fair presentation also requires the directors to:

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

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

Statement of information given to auditors

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

Directors' responsibility statement pursuant to DTR4

The directors confirm to the best of their knowledge:

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

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

Auditors

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

By order of the board

Law Debenture Corporate Services Limited
Secretary

13 March 2012

Registered in England – No. 30397

The directors are required to report on how the Corporation has applied the main and supporting principles in the UK Corporate Governance Code (the 'Code'), and to confirm that it has complied with the Code's provisions or, where this has not been the case, to provide an explanation. This report relates to the Code as published in June 2010, a copy of which may be obtained by visiting www.frc.org.uk. The Corporation was a constituent of the FTSE 250 during the period of the review, so all of the provisions of the Code apply to it. However, the Code recognises that investment companies such as Law Debenture may have board structures which might affect the relevance of particular provisions of the Code. Where Law Debenture has departed from any provisions of the Code, this is explained below. This corporate governance statement is intended to form a part of the directors' report.

The board – role, modus operandi and appraisal

The board includes a majority of non-executive directors. The names of the directors, all of whom served through the year, along with biographies, are on page 5 of the annual report.

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

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

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

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

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

	Board	Remuneration	Audit	Nominations
Number of meetings in the year	**8**	**3**	**3**	**2**
Meetings attended by:				
C.J. Banszky	8	–	–	–
A.C. Cates	8	3	3	2
J.A. Kay	8	3	3	2
D.C.P. McDougall	8	3	3	2
C. Smith	8	3	3	2

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

Mr Cates is the SID. The SID is available to shareholders who have concerns that cannot be addressed through the chairman, managing director or chief financial officer. Following his decision not to stand for re-election at the forthcoming AGM, Mr Cates will be replaced by Professor John Kay as SID.

The board – independence

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

The chairman, Mr McDougall, was independent at appointment and continues to be independent in the view of the board, notwithstanding the fact that he has served as a director for more than nine years and that he is not taken into account in assessing the independence of the board as a whole. Assessment of independence should be based on character and conduct, not on any arbitrary time limit.

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

Mr Cates has been a director for more than nine years since his first election. Notwithstanding this, the board considers that he remains independent and has classified him as such for the period under review because of his independent qualities of character and judgement. As noted in the directors’ report, Mr Cates will not be seeking re-election at the 2012 AGM.

Professor Kay was independent at appointment in September 2004 and remains so, having had no previous connections with the Corporation or any of its subsidiaries.

Mr Smith was independent at appointment in March 2009 and remains so.

The Hon. Robert Laing will become a NED on 2 April 2012 and the board is satisfied that he will be independent at appointment, having no current or previous connections with the Corporation or any of its subsidiaries.

The board – re-election and renewal

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

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

All directors are submitted for annual re-election, subject to continued satisfactory performance, which is assessed as described above. There is no maximum number of terms that a director may serve. The Corporation has not established a diversity policy but 20% of the board is female, 42% of the senior executive team in the London independent fiduciary services business is female and, globally, approximately 48% of employees are female.

Directors’ remuneration

Details of the directors’ remuneration appear in the remuneration report on page 32.

Board committees

The board has established a nominations committee, an audit committee and a remuneration committee, to which it has delegated certain responsibilities. Each committee has terms of reference, which are published on the Corporation’s website (www.lawdeb.com/investment-trust/investor-information/corporate-governance). Membership of the committees is kept under review, taking account of the Code’s acknowledgement of the position of investment trusts. The board is deliberately kept small in the best interests of shareholders. It is the expertise of directors that counts, not the number of them. The Corporation is not apologetic for the minor areas of non-compliance reported in the paragraphs below although the issues reported are formally considered at least annually.

A majority of members of board committees are independent NEDs as assessed by the board. The Code says that the chairman should not be a member of the audit committee (although it would be acceptable if the Corporation was outside the FTSE 350). The Corporation's board has concluded that given the range and complexity of issues considered by the committee and the chairman's particular expertise in the financial management of investment trusts, it is appropriate to have four members including the chairman. Non-compliance with this part of the Code is in the shareholders' best interests.

The Code provides that the chairman may be a member of the remuneration committee but that he should not be its chairman. The Corporation's board has concluded that it is essential, given the size of the board, for the chairman to be on the remuneration committee and, given his experience and knowledge, that he is best placed of the four committee members to chair it. Non-compliance with this part of the Code is, again, in the shareholders' best interests.

A summary of each committee is set out below.

Nominations committee

Role

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

Key duties

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

During the year, the committee considered how to replace Armel Cates as a director. The committee first identified the skills that were needed to ensure continued effectiveness – in this case, a NED with a legal background, preferably including experience of one or more of the independent fiduciary services businesses. Rather than engaging a head hunter, informal soundings were taken in the marketplace to establish potential candidates using the Corporation's own existing contacts, as this was a very specialised and sensitive brief. After normal recruitment due process – interviewing of potential candidates, taking of references etc – Robert Laing was identified as the most suitable candidate and was selected for appointment.

Members

D.C.P. McDougall (chairman)
A.C. Cates
J.A. Kay
C. Smith

Audit committee

Role

To assist the board in the management of the group's finances and financial reporting structure.

Key duties

- Monitoring the independence and objectivity of the auditors, their performance and remuneration and making recommendations on the appointment of new auditors;
- Monitoring the statutory audit;
- Reviewing the annual and interim accounts before submission to the board, including particular focus on changes in accounting policy, etc; and
- Reviewing the effectiveness of systems of internal control and risk management (including monitoring the internal audit function and consideration of country and currency risks).

Members

C. Smith (chairman)
D.C.P. McDougall
A.C. Cates
J.A. Kay

The board is satisfied that all members have the necessary recent and relevant financial experience to serve.

Remuneration committee

Role

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

Key duties

- Reviewing and agreeing the remuneration and benefits of the executive director and senior executives in the light, as relevant, of corporate performance against a range of measures;

- Development of total remuneration packages, taking account of factors set out in the Code, based in part on performance and subject to suitable performance measurements as set by the committee; and
- Making recommendations to the board for any changes to long term incentive arrangements.

Members
D.C.P. McDougall (chairman)
A.C. Cates
J.A. Kay
C. Smith

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

Accountability and audit

The statement of directors' responsibilities in relation to the financial statements appears on page 22 of the annual report and accounts. The independent auditors' report appears on pages 34 and 35. The directors confirm that the Corporation is a going concern as evidenced by the financial statements, which demonstrate a healthy position, taking into account all known and future anticipated liabilities, and the group's ability to meet those liabilities.

The financial statements present a balanced and clear assessment of the financial position and prospects of the Corporation and the group. The financial statements are reviewed by the audit committee, then approved by the board, and signed by the chairman and managing director.

Non-audit services provided by the auditor are reviewed by the audit committee to ensure that independence is maintained. Non-audit fees are shown at note 3 on page 45. The board's policy is that non-audit work (which normally consists of taxation and other technical advice) will be carried out by the Corporation's auditors unless there is a conflict of interest or someone else is considered to have more relevant experience.

Internal controls

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

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

- Board review of the group's matrix of key risks and controls;
- An internal audit function, which involves not only each business department (including overseas offices) being subject to audit on a regular basis, but also regular reviews of other business wide processes;
- Testing by the compliance officer of the Financial Services Authority ('FSA') regulated business systems and controls;
- Periodic reports to the board by the compliance officer about legal and regulatory changes, and the steps that the board must take to comply; and
- Review of reports by the external auditors on their annual audit work, and specific checks carried out on behalf of treasury management clients.

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

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

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

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

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

The systems of internal financial control are designed to provide reasonable, but not absolute, assurance against material mis-statement or loss.

By means of the procedures set out above, the directors have established a process for identifying, evaluating and monitoring the effectiveness of the internal control systems for the period. This process has been in place throughout 2011 and will be reviewed by the board on a regular basis.

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

Relations with shareholders and institutional shareholder responsibilities

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

Information about share capital

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

Annual general meeting

Details of the AGM for 2012 are set out at pages 65 to 68.

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

Summary statement of compliance

The board has concluded that, as demonstrated by the disclosures made in the foregoing, the Corporation has complied throughout 2011 with the requirements of the UK Corporate Governance Code or, where it has not complied, an explanation has been provided. Compliance is reported in respect of the entire Code.

Dear Shareholder

On behalf of the board I submit the remuneration report for The Law Debenture Corporation p.l.c. for 2011. The report contains specific and detailed information about the way directors of the Corporation are remunerated, and the amounts they receive. Some of the information is historical, some forward looking. Those sections that have been audited in accordance with legislative requirements are shown at the top of each relevant paragraph.

The remuneration report will be put to shareholders for approval as an ordinary resolution at the annual general meeting.

Douglas McDougall
Chairman, remuneration committee

Remuneration committee – membership and advisers

The board has delegated responsibility for consideration of all matters relating to the executive director's remuneration to a remuneration committee. All of the members of the committee (listed at page 26) apart from the chairman have been assessed by the board as independent, non-executive directors. Each of these served throughout the year to 31 December 2011.

The committee met three times during the year. The managing director attended all of the meetings at the invitation of the chairman (although she was not present when details of her own remuneration were discussed). The managing director, the chief financial officer and the company secretary provided advice when called upon to do so. As for external advisers, the committee appointed Lesley Pearson, a remuneration consultant, to undertake salary benchmarking exercises. Thrings Solicitors advised on the proposed new SAYE Plan and Linklaters advised on new HMRC Guidance issued under the Finance Act 2011 about 'disguised remuneration'.

To the extent required by statute, disclosures in this remuneration report have been audited – the independent auditors' report appears on pages 34 and 35.

The Corporation's remuneration policy

The remuneration committee and the board recognise that the Corporation and its subsidiaries work in competitive markets. The aim is to ensure that remuneration packages offered to the executive director and senior executives are competitive, and designed to attract, retain and motivate individuals of the highest calibre.

The remuneration committee operates, and will continue in the future to operate, in accordance with key principles which are:

- Remuneration packages should be competitive but not extravagant, and should broadly be in line with average packages in the markets in which Law Debenture operates;
- There should be a clear link between total remuneration and performance; and
- There should be no reward for failure but the executives should be rewarded for increasing the profits of the fiduciary services businesses and enhancing shareholder value.

The major components of Law Debenture's remuneration packages for the executive director and senior executives comprise: basic salary; general profit sharing scheme, which may be invested in a Share Incentive Plan, calculated by reference to the success of the independent fiduciary services businesses; a senior executive discretionary profit sharing element, based upon independent fiduciary services business performance and the attainment of personal targets; a deferred share scheme for certain senior executives, designed to enhance retention of people key to the strategic growth of the independent fiduciary services business; pensions provision (partly in a contributory, funded, HMRC approved, final salary occupational pension scheme and partly in a defined contribution scheme); and participation in a SAYE Sharesave Scheme. Details of the policy applied in each component are outlined below. Non-executive directors receive fees as described at paragraphs 8 and 10, but do not receive any other benefits.

The sole executive director during the period of this report was Mrs Banszky (managing director).

The policy applied in respect of each component of the remuneration package is as follows:

1. Basic salary

Basic salary is set at levels consistent with individual performance and the market rates applicable to jobs of similar complexity and responsibility. To measure this, the remuneration committee engages an independent remuneration consultant. The salary of the executive director, which is described at paragraph 10 below, is reviewed annually by the remuneration committee.

The managing director also received non-pensionable cash payments in the form of a pension allowance as detailed in paragraph 6 and a payment in lieu of private health cover (she is not a member of the group's scheme). This is included within salary/fees at paragraph 10. Non-cash benefits include life insurance cover.

2. General profit sharing scheme

This is payable to all eligible staff but not to the managing director.

A cash payment will be made in March 2012 in respect of performance of the independent fiduciary services businesses in 2011. The amount of the payment is not guaranteed from year to year and is calculated by reference to a number of factors relating to the independent fiduciary services businesses, including profitability and the growth in profits. The profit share is paid as a percentage of basic salary (normally expected to be between 5 and 15%), and all qualifying employees receive a share of the profits calculated at the same percentage. In 2012, the general profit share payment will be 9% of basic salary. There are no performance conditions specific to any individual in order to qualify for receipt of a general profit share payment, although certain length of service and qualification conditions do apply. Entitlement to the payment will be withdrawn if the participant is not employed as at 24 March 2012. Participants are entitled to place all or part of their general profit sharing payment into a HMRC approved Share Incentive Plan.

3. Senior executive discretionary profit sharing scheme

This is payable to a number of senior executives, including the managing director.

In assessing what additional profit sharing payment should be made, account is taken of any factors that the remuneration committee reasonably consider appropriate, including the financial performance and position of the group, the performance of the individual and the performance of the individual's department. The board believes it is inappropriate to publish any individual's performance conditions as these relate directly to the success of the independent fiduciary services business, which would compromise the commercial competitiveness of the business. There is no contractual entitlement that says an additional profit sharing payment must be paid in any given year. There is a high element of deferment of such payments (see below). Entitlement is normally lost if, on the date that additional profit sharing payments are paid, a participant is no longer employed by the group, or either the participant or the group has served notice to terminate employment. Additional profit sharing payments are not taken into account in calculating pension contributions. The discretionary profit share payable in 2012 to Mrs Banszky in respect of 2011 will be £149,250 (2010: £174,000). Up to the allowable limit, her profit share in respect of 2011 and payable in 2012 will be eligible to be placed in the Corporation's Share Incentive Plan.

The Corporation's profit related performance arrangements are as follows. Eligible executives can receive a total profit related payment dependent on performance as measured by the remuneration committee, which except in exceptional circumstances is unlikely to exceed 75% of salary. The total profit related payment includes the general profit sharing scheme (but not for the managing director who is not entitled to participate), the senior executive discretionary profit sharing scheme and any awards made under the Deferred Share Plan. The purpose of the Deferred Share Plan, under which shares awarded as part of the profit related payment do not vest for three years, is to incentivise and retain staff deemed key to the future of the business. Deferred shares will make up at least one-third of the total profit related payment receivable by the participant.

No executive has a contractual entitlement to a profit related payment or to a Deferred Share Plan award, and the committee is not obliged to make an award to any individual in any year. Shares are purchased in the open market up to the amount of the award and held on trust, to be released to the executive on the third anniversary of grant of the award. The executive must pay PAYE and NI before the shares are released, otherwise they are forfeited. Entitlement to the award is lost if the executive gives notice to resign, or is put on notice of termination, before the award release date. Dividend rights and voting rights on shares held pending release to relevant executives are waived. The committee made awards of deferred shares to the executive director (details of which are at paragraph 14) and 41 key members of the executive on 2 March 2011. Subject to eligibility, the shares will be released to award holders on 2 March 2014.

The remuneration committee has agreed an award of shares to the value of £74,625 under the plan to Mrs Banszky in respect of 2011, which will be purchased in March 2012 and subject to conditions, will be released in March 2015.

Non-executive directors are not entitled to be participants.

4. Save as you earn ('SAYE') sharesave plan 2002 ('the Scheme') and proposed sharesave plan 2012 ('the New Scheme')

Subject to eligibility conditions, the executive director (in common with all of the UK members of staff) is entitled to participate in the Corporation's Scheme. Details of her participation in the Scheme appear at paragraph 13.

The Scheme is approved by HMRC under paragraph 1, Schedule 9 Income and Corporation Taxes Act 1988 but under the Scheme rules, will automatically terminate on 9 April 2012. Shareholders are being invited to approve the New Scheme at the AGM on 24 April 2012. The principal features of the Scheme and the New Scheme are as follows. Eligible participants make monthly savings of up to £250 per month in aggregate direct from post tax pay, with a guaranteed tax-free return after five years. On joining the scheme, savers are given an option to acquire shares in the Corporation at the end of the five year saving period, at a price fixed at the beginning of the saving period. The fixed price has historically been the net asset value per ordinary share on the date when eligible participants are invited to join the plan but under the terms of the New Scheme, the fixed price will be the market price of the shares on the invitation date or the latest published NAV, whichever is the higher.

At the end of the five year saving period, participants have historically received a tax free bonus as stipulated by HMRC, although during 2011, HMRC announced that no tax free bonus will be permitted for five year schemes like Law Debenture's. At the end of a saving period, participants may choose to apply the amount saved to exercise the options over the shares notified at the outset of the saving period, or they may choose to relinquish their options in favour of receiving a cash repayment of all of their contributions, plus the bonus (if any).

Mrs Banszky participated in the 2009 invitation to the maximum extent possible and was therefore ineligible to participate in the 2011 offering.

5. Executive share options (discontinued in 2005)

The executive director has no remaining entitlements to any options. No awards have been made under this scheme since 2005. It expires on 9 April 2012 and will not be replaced.

6. Pensions provision

Mrs Banszky was a member of the group's funded contributory, HMRC approved, final salary occupational scheme until 31 March 2006. Details of her membership of the scheme are contained in the table at paragraph 11. Pursuant to her service contract, since leaving the scheme the managing director has received 20% of base salary as compensation. This amount is paid monthly in arrears accruing from day to day after the deduction of income tax and national insurance.

From 1 April 2009, all future pension benefits have accrued at 1/80ths (previously 1/60ths for some eligible employees) with a salary cap linked to increases in RPI. Which is £43,932 from 1 January 2012 (2011: £41,840) for accrual purposes.

Employees earning more than the cap receive a cash sum which they may invest in a separate money purchase scheme. These changes have transferred some of the mortality and investment risks to employees, which in turn has reduced the risk to the Corporation of providing a final salary scheme.

7. Service contracts

Details of the executive director's service contract are as follows:

	Date of Contract	Notice period
C.J. Banszky	9 November 2001	6 months

Her employment is not for a fixed term. There are no contractual provisions for compensation payable upon early termination (with notice) of the contract. There is an entitlement to receive salary and benefits during the period of notice, which may be paid 'in lieu' of all or part of any period of notice. There are no entitlements to payments of any sort in the event that for cause the executive director's employment is summarily terminated.

In the event that the managing director is given notice of termination of employment within twelve months of any change in control of the company, she must be given not less than twelve months' written notice, and the same arrangements for receiving salary and benefits during this period (including payments 'in lieu') also apply as described above.

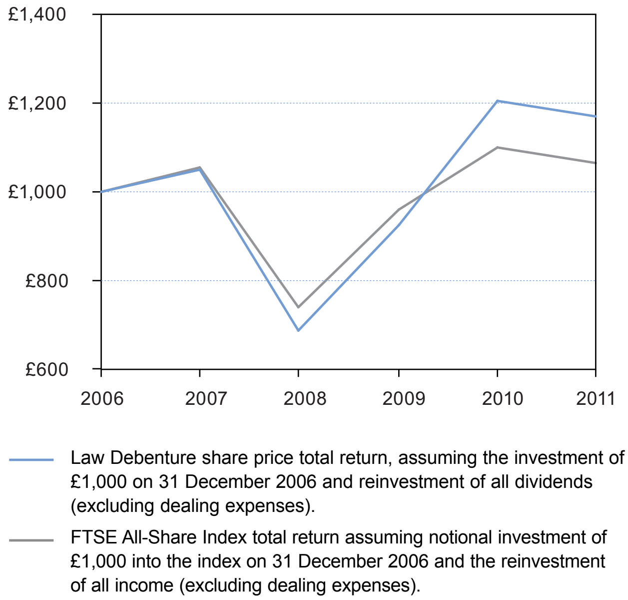
8. Remuneration of non-executive directors

The non-executive directors were paid fees for their services in 2011, as set out in paragraph 10. They may also reclaim travelling expenses.

The fees are reviewed by the board, on advice from the executive director, who from time to time undertakes comparative studies, using an independent remuneration consultant, to ensure that the Corporation's fee levels are consistent with the marketplace. The board concluded in December 2011, for the first time in over three years, that there should be an increase in fees broadly in line with the general salary rise agreed for the executive staff (2%). Fees are payable at the new level from 1 January 2012. All directors are expected to attend all meetings of the board and of any committee of which they are a member, barring unforeseen circumstances. The attendance record of the non-executive directors at meetings of the Corporation's board and committees is set out at page 23 as part of the corporate governance report.

Each non-executive director is appointed for an indefinite term, subject to annual re-election by the shareholders. There are no provisions in any of the non-executive directors' letters of appointment for compensation payable on early termination of the directorship.

9. Performance graph



Notes

1. The graph shows the total shareholder return of a nominal holding of £1,000 of Law Debenture's shares measured against the total shareholder return of a nominal holding of £1,000 invested in the FTSE All-Share Index over a five year period.
2. Dividends have been reinvested.

10. Directors' emoluments 2011 (audited)

	Total salary/fees £	Total profit related payment £	Benefits other than in cash £	**Total receivable for 2011 £**	Total receivable for 2010 £
C.J. Banszky	359,647	242,250	779	**602,676**	588,482
A.C. Cates	43,000	–	–	**43,000**	48,000
D.C.P. McDougall	62,500	–	–	**62,500**	64,792
J.A. Kay	48,250	–	–	**48,250**	48,250
C. Smith	60,000	–	–	**60,000**	52,708

Notes

1.Total salary/fees for Mrs Banszky comprises basic salary plus non-pensionable cash allowances of £61,147 as set out in paragraphs 1 and 6.

2.Total profit related payments for Mrs Banszky comprise the discretionary profit related element payable in respect of 2011 and the deferred shares vesting in 2011 as set out in paragraphs 3 and 14.

3.No compensation or fee was paid to any individual who had previously been a director.

11. Annual pension entitlements upon reaching retirement age (audited)

	Increase in accrued pension during 2011 £ pa	**Accumulated total accrued pension at 31 December 2011 £ pa**	Transfer value as at 31 December 2010 £000	**Transfer value as at 31 December 2011 £000**	Increase in transfer value £000
C.J. Banszky	**250**	**8,426**	157	**173**	16

Notes

1.The pension entitlement shown is that which would be paid annually on retirement based on service to 31 December 2011.

2.The increase in accrued pension during the year includes any increase for inflation.

3.The transfer value has been calculated using the actuarial assumptions currently in place for transfer values, as agreed by the Trustee of the scheme.

4.No previous directors are, or have been, in receipt of any excess retirement benefits.

5.Mrs Banszky ceased to be a member of the scheme from 31 March 2006.

12. Executive share option scheme (audited)

Following her option exercise in January 2010, Mrs Banszky has no remaining entitlements to options.

13. Save as you earn share save plan (audited)

	Interest as at 31 December 2010	Interest acquired in 2011	Exercise price	Market price at invitation date	**Interest as at 31 December 2011**	Earliest exercise	Latest exercise
C.J. Banszky	7,399	–	211.50p	247.25p	**7,399**	01.08.14	31.01.15

None of the terms and conditions relating to any of the options held under this scheme was varied during the year.

14. Deferred share plan (audited)

	Interest at 31 December 2010	**Interest (vested)/ acquired in 2011**	Purchase price	**Interest at 31 December 2011**	Date shares to be released
C.J. Banszky					
2008 (January)	1,993	**(1,993)**	334.50p	**–**	–
2008 (March)	24,874	**(24,874)**	337.71p	**–**	–
2009	33,191	**–**	196.84p	**33,191**	02.03.12
2010	22,865	**–**	285.37p	**22,865**	25.02.13
2011	–	**24,739**	351.67p	**24,739**	02.03.14

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

Mrs Banszky received her allocations of 1,993 and 24,874 deferred shares issued in 2008 on 25 January 2011 and 3 March 2011 respectively, and continues to hold the majority of them although she did sell 12,874 of the March allocation at a price of 346.00p to meet the tax liability payable on receipt of the shares. The prices at vesting were 360.50p and 345.00p respectively. The value of the shares at vesting is included in directors' remuneration and PAYE and NI was paid on that basis. The market value of the shares at 31 December 2011 was 333.50p.

15. Aggregate directors' remuneration

	2011 £	2010 £
Emoluments	**816,426**	802,232
Gain on exercise of share options	**–**	18,536
	816,426	820,768

Employers' national insurance paid in respect of directors' remuneration was £106,723 (2010: £95,464).

We have audited the financial statements of The Law Debenture Corporation p.l.c. for the year ended 31 December 2011 which comprise the group income statement and statement of comprehensive income, the group and Corporation's statement of financial position, the group and Corporation's statements of changes in equity, the group and Corporation's statements of cash flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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

Respective responsibilities of directors and auditors

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

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and the Corporation's affairs as at 31 December 2011 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

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

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

Under the Listing Rules we are required to review:

- the directors' statement, set out on page 17, in relation to going concern;
- the part of the corporate governance statement relating to the company's compliance with the UK Corporate Governance Code specified for our review; and
- certain elements of the report to shareholders by the board on directors' remuneration.

Neil Fung-On (senior statutory auditor)

For and on behalf of BDO LLP, statutory auditor
London
United Kingdom
13 March 2012

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

Group income statement for the year ended 31 December

	Notes	2011 Revenue £000	2011 Capital £000	2011 Total* £000	2010 Revenue £000	2010 Capital £000	2010 Total* £000
UK dividends		**11,643**	**–**	**11,643**	10,180	–	10,180
UK special dividends		**140**	**–**	**140**	–	–	–
Overseas dividends		**1,755**	**–**	**1,755**	1,640	–	1,640
Overseas special dividends		**64**	**–**	**64**	76	–	76
Interest from securities		**524**	**–**	**524**	553	–	553
		14,126	**–**	**14,126**	12,449	–	12,449
Interest income	5	**446**	**–**	**446**	296	–	296
Independent fiduciary services fees		**30,948**	**–**	**30,948**	30,381	–	30,381
Other income		**94**	**–**	**94**	118	–	118
Total income		**45,614**	**–**	**45,614**	43,244	–	43,244
Net (loss)/gain on investments held at fair value through profit or loss	2	**–**	**(22,175)**	**(22,175)**	–	68,476	68,476
Gross income and capital (losses)/gains		**45,614**	**(22,175)**	**23,439**	43,244	68,476	111,720
Cost of sales		**(4,313)**	**–**	**(4,313)**	(6,184)	–	(6,184)
Administrative expenses	3	**(18,643)**	**(223)**	**(18,866)**	(17,368)	(146)	(17,514)
Operating profit		**22,658**	**(22,398)**	**260**	19,692	68,330	88,022
Finance costs							
Interest payable	5	**(2,450)**	**–**	**(2,450)**	(2,452)	–	(2,452)
(Loss)/profit before taxation	6	**20,208**	**(22,398)**	**(2,190)**	17,240	68,330	85,570
Taxation	7	**(1,977)**	**–**	**(1,977)**	(1,679)	–	(1,679)
(Loss)/profit for year	6	**18,231**	**(22,398)**	**(4,167)**	15,561	68,330	83,891
(Loss)/return per ordinary share (pence)	9	**15.52**	**(19.07)**	**(3.55)**	13.26	58.22	71.48
Diluted (loss)/return per ordinary share (pence)	9	**15.52**	**(19.07)**	**(3.55)**	13.25	58.17	71.42

*See note 1.

Statement of comprehensive income for the year ended 31 December

	2011 Revenue £000	2011 Capital £000	2011 Total £000	2010 Revenue £000	2010 Capital £000	2010 Total £000
Group						
(Loss)/profit for the year	**18,231**	**(22,398)**	**(4,167)**	15,561	68,330	83,891
Foreign exchange on translation of foreign operations	**–**	**(9)**	**(9)**	–	102	102
Pension actuarial (losses)/gains	**(3,145)**	**–**	**(3,145)**	283	–	283
Taxation on pension	**800**	**–**	**800**	(79)	–	(79)
Total comprehensive (loss)/income for the year	**15,886**	**(22,407)**	**(6,521)**	15,765	68,432	84,197

	Notes	Group 2011 £000	Group 2010 £000	Corporation 2011 £000	Corporation 2010 £000
Assets					
Non current assets					
Goodwill	10	**2,218**	2,211	**–**	–
Property, plant and equipment	11	**320**	190	**–**	–
Other intangible assets	12	**199**	118	**–**	–
Investments held at fair value through profit or loss	13	**423,044**	441,337	**422,729**	441,072
Investments in subsidiary undertakings	13	**–**	–	**50**	50
Amounts due from subsidiary undertakings		**–**	–	**60,000**	60,000
Deferred tax assets	7	**1,416**	871	**–**	–
Total non current assets		**427,197**	444,727	**482,779**	501,122
Current assets					
Trade and other receivables	14	**4,940**	6,731	**182**	181
Other accrued income and prepaid expenses		**6,246**	3,797	**2,219**	1,673
Cash and cash equivalents	15	**18,063**	20,030	**9,145**	7,311
Total current assets		**29,249**	30,558	**11,546**	9,165
Total assets		**456,446**	475,285	**494,325**	510,287
Current liabilities					
Amounts owed to subsidiary undertakings		**–**	–	**56,203**	50,240
Trade and other payables	16	**11,674**	11,446	**163**	125
Short term borrowings	20	**–**	77	**–**	–
Corporation tax payable		**1,293**	1,119	**265**	393
Other taxation including social security		**559**	846	**378**	672
Deferred income		**3,902**	3,714	**10**	11
Total current liabilities		**17,428**	17,202	**57,019**	51,441
Non current liabilities and deferred income					
Long term borrowings	20	**39,391**	39,364	**–**	–
Retirement benefit obligations	23	**3,138**	876	**–**	–
Deferred income		**5,563**	5,277	**214**	224
Total non current liabilities		**48,092**	45,517	**214**	224
Total net assets		**390,926**	412,566	**437,092**	458,622
Equity					
Called up share capital	17	**5,905**	5,904	**5,905**	5,904
Share premium		**8,106**	8,066	**8,106**	8,066
Capital redemption		**8**	8	**8**	8
Share based payments		**201**	201	**–**	–
Own shares		**(1,684)**	(1,794)	**–**	–
Capital reserves	18	**346,268**	368,666	**406,849**	429,247
Retained earnings		**31,609**	30,993	**16,224**	15,397
Translation reserve		**513**	522	**–**	–
Total equity		**390,926**	412,566	**437,092**	458,622

Approved and authorised for issue by the board on 13 March 2012 and signed on its behalf by:

D.C.P. McDougall Chairman
C.J. Banszky Managing director

Statement of changes in equity for the year ended 31 December

	Share capital £000	Share premium £000
Group		
Equity at 1 January 2010	5,903	8,038
Net profit	–	–
Foreign exchange	–	–
Actuarial gain on pension scheme (net of tax)	–	–
Total comprehensive income	–	–
Issue of shares	1	28
Dividend relating to 2009	–	–
Dividend relating to 2010	–	–
Movement in own shares	–	–
Total equity at 31 December 2010	5,904	8,066
Equity at 1 January 2011	**5,904**	**8,066**
Net (loss)	**–**	**–**
Foreign exchange	**–**	**–**
Actuarial (loss) on pension scheme (net of tax)	**–**	**–**
Total comprehensive (loss)	**–**	**–**
Issue of shares	**1**	**40**
Dividend relating to 2010	**–**	**–**
Dividend relating to 2011	**–**	**–**
Movement in own shares	**–**	**–**
Total equity at 31 December 2011	**5,905**	**8,106**

	Share capital £000	Share premium £000
Corporation		
Equity at 1 January 2010	5,903	8,038
Total comprehensive income	–	–
Issue of shares	1	28
Dividend relating to 2009	–	–
Dividend relating to 2010	–	–
Total equity at 31 December 2010	5,904	8,066
Equity at 1 January 2011	**5,904**	**8,066**
Total comprehensive (loss)	**–**	**–**
Issue of shares	**1**	**40**
Dividend relating to 2010	**–**	**–**
Dividend relating to 2011	**–**	**–**
Total equity at 31 December 2011	**5,905**	**8,106**

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

Own shares £000	Capital redemption £000	Share based payments £000	Translation reserve £000	Capital reserves £000	Retained earnings £000	Total £000
(2,040)	8	201	420	300,336	29,536	342,402
–	–	–	–	68,330	15,561	83,891
–	–	–	102	–	–	102
–	–	–	–	–	204	204
–	–	–	102	68,330	15,765	84,197
–	–	–	–	–	–	29
–	–	–	–	–	(9,378)	(9,378)
–	–	–	–	–	(4,930)	(4,930)
246	–	–	–	–	–	246
(1,794)	8	201	522	368,666	30,993	412,566
(1,794)	**8**	**201**	**522**	**368,666**	**30,993**	**412,566**
–	**–**	**–**	**–**	**(22,398)**	**18,231**	**(4,167)**
–	**–**	**–**	**(9)**	**–**	**–**	**(9)**
–	**–**	**–**	**–**	**–**	**(2,345)**	**(2,345)**
–	**–**	**–**	**(9)**	**(22,398)**	**15,886**	**(6,521)**
–	**–**	**–**	**–**	**–**	**–**	**41**
–	**–**	**–**	**–**	**–**	**(9,984)**	**(9,984)**
–	**–**	**–**	**–**	**–**	**(5,286)**	**(5,286)**
110	**–**	**–**	**–**	**–**	**–**	**110**
(1,684)	**8**	**201**	**513**	**346,268**	**31,609**	**390,926**

Own shares £000	Capital redemption £000	Share based payments £000	Translation reserve £000	Capital reserves £000	Retained earnings £000	Total £000
–	8	–	–	360,554	16,498	391,001
–	–	–	–	68,693	13,207	81,900
–	–	–	–	–	–	29
–	–	–	–	–	(9,378)	(9,378)
–	–	–	–	–	(4,930)	(4,930)
–	8	–	–	429,247	15,397	458,622
–	**8**	**–**	**–**	**429,247**	**15,397**	**458,622**
–	**–**	**–**	**–**	**(22,398)**	**16,097**	**(6,301)**
–	**–**	**–**	**–**	**–**	**–**	**41**
–	**–**	**–**	**–**	**–**	**(9,984)**	**(9,984)**
–	**–**	**–**	**–**	**–**	**(5,286)**	**(5,286)**
–	**8**	**–**	**–**	**406,849**	**16,224**	**437,092**

Statements of cash flows for the year ended 31 December

	Group 2011 £000	Group 2010 £000	Corporation 2011 £000	Corporation 2010 £000
Operating activities				
Operating profit/(loss) before interest payable and taxation	**260**	88,022	**(3,312)**	84,979
Losses/(gains) on investments	**22,398**	(68,330)	**22,398**	(68,693)
Foreign exchange	**(12)**	(24)	**–**	–
Depreciation of property, plant and equipment	**164**	122	**–**	–
Amortisation of intangible assets	**76**	95	**–**	–
(Increase)/decrease in receivables	**(658)**	(2,334)	**(547)**	1
Increase/(decrease) in payables	**442**	2,352	**(267)**	390
Transfer to/(from) capital reserves	**126**	(347)	**126**	(347)
Normal pension contributions in excess of cost	**(883)**	(769)	**–**	–
Cash generated from operating activities	**21,913**	18,787	**18,398**	16,330
Taxation	**(1,548)**	(1,325)	**(470)**	(806)
Interest paid	**(2,450)**	(2,452)	**(2,647)**	(2,627)
Operating cash flow	**17,915**	15,010	**15,281**	12,897
Investing activities				
Acquisition of property, plant and equipment	**(289)**	(58)	**–**	–
Expenditure on intangible assets	**(157)**	(86)	**–**	–
Purchase of investments	**(96,508)**	(36,262)	**(96,458)**	(36,262)
Sale of investments	**92,275**	36,676	**92,275**	36,676
Sale of subsidiary undertaking	**–**	–	**–**	371
Cash flow from investing activities	**(4,679)**	270	**(4,183)**	785
Financing activities				
Subsidiary undertakings	**–**	–	**5,963**	678
Dividends paid	**(15,270)**	(14,308)	**(15,270)**	(14,308)
Proceeds of increase in share capital	**41**	29	**41**	29
Purchase of own shares	**110**	246	**–**	–
Net cash flow from financing activities	**(15,119)**	(14,033)	**(9,266)**	(13,601)
Net (decrease)/increase in cash and cash equivalents	**(1,883)**	1,247	**1,832**	81
Cash and cash equivalents at beginning of period	**19,953**	18,612	**7,311**	7,238
Foreign exchange (losses)/gains on cash and cash equivalents	**(7)**	94	**2**	(8)
Cash and cash equivalents at end of period	**18,063**	19,953	**9,145**	7,311
Cash and cash equivalents comprise				
Cash and cash equivalents	**18,063**	20,030	**9,145**	7,311
Bank overdrafts	**–**	(77)	**–**	–
	18,063	19,953	**9,145**	7,311

1 | Summary of significant accounting policies

General information

The Law Debenture Corporation p.l.c. is a public company incorporated in the United Kingdom. The address of the registered office is given on page 16. The group's operations and its principal activities are as an investment trust and the provider of independent fiduciary services.

Basis of preparation

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

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

Critical accounting estimates and judgements

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

Defined benefit scheme

The estimation of the expected cash flows used in the calculation of the defined benefit scheme's liabilities includes a number of assumptions around mortality, discount rates, inflation rates applicable to defined benefits and the average expected service lives of the employees (see note 23). The directors have considered the sensitivity to the mortality assumption and determined that if life expectancy were to increase by one year then the deficit of the scheme would increase by approximately £1,000,000. The directors take advice from the Scheme Actuary when selecting these assumptions and when selecting the discount rate used to calculate the defined benefit scheme liabilities.

New IFRSs, interpretations and amendments not yet effective

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

None of the new standards, interpretations or amendments, but not yet effective are expected to have a material impact on the group's future financial statements.

Basis of consolidation

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

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

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

Presentation of income statement and statement of comprehensive income

In order to better reflect the activities of an investment trust company and in accordance with the SORP, supplementary information which analyses the income statement and statement of comprehensive income between items of a revenue and capital nature has been presented. In accordance with the Corporation's status as a UK investment company under Section 833 of the Companies Act 2006, net capital returns may not be distributed by way of dividend. Additionally, the net revenue is the measure the directors believe appropriate in assessing the group's compliance with certain requirements set out in Sections 1158-1159 Corporation Tax Act 2010. As permitted by Section 408 of the Companies Act 2006, the Corporation has not presented its own income statement.

1 | Summary of significant accounting policies continued

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

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

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

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

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

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

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

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

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

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

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

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

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

1 | Summary of significant accounting policies continued

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

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

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

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

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

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

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

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

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

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

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

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

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

Employee benefits
Pension costs
The group operates a defined benefit pension plan. The cost of providing benefits is determined using the project unit credit method, with independent actuarial calculations being carried out at each year end date. Actuarial gains and losses are recognised in full in the period in which they occur through other comprehensive income. Past service cost is recognised immediately to the extent that benefits are already vested, and otherwise amortised on a straight-line basis over the average period until the benefits become vested.

1 | Summary of significant accounting policies continued

The liability recognised in the statement of financial position in respect of the defined benefit plan is the present value of the defined benefit obligation at the year end date less the fair value of the plan assets, together with adjustments for unrecognised past service costs.

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

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

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

Reserves
A description of each of the reserves follows:

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

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

Share based payments
This reserve represents the fair value cost of share based payments.

Own shares
This represents the cost of shares purchased by the ESOT.

Capital reserves
The following are dealt with through this reserve:

- Gains and losses on realisation of investments;
- Changes in fair value investments which are readily convertible to cash; and
- Amounts by which other assets and liabilities valued at fair value differ from their book value.

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

Translation reserve
This reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries.

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

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

2 | Total capital gains from investments

	2011 £000	2010 £000
Realised gains based on historical cost	**15,837**	4,833
Amounts recognised as unrealised in previous years	**(20,847)**	(1,789)
Realised (losses)/gains based on carrying value at previous year end date	**(5,010)**	3,044
Unrealised (losses)/gains on investments	**(17,291)**	65,779
	(22,301)	68,823
Transfers from/(to) revenue	**126**	(347)
	(22,175)	68,476

3 | Administrative expenses

	2011 £000	2010 £000
Administrative expenses include:		
Salaries and directors' fees	**9,733**	8,987
Social security costs	**1,046**	933
Other pension costs	**793**	660
Investment management fee	**1,150**	965
Irrecoverable VAT on investment management fees	**24**	20
Depreciation – property, plant and equipment	**164**	122
Amortisation – intangible assets	**76**	95
Operating leases – land and buildings	**1,330**	1,335
Foreign exchange	**(30)**	24
Auditors' remuneration	**132**	149

During the year, the group employed an average of 109 staff (2010: 109). All staff are engaged in the provision of independent fiduciary services. The Corporation has no employees.

Details of the terms of the investment management agreement are provided on page 21 of the directors' report.

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

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

	2011 £000	2010 £000
Audit services		
– fees payable to the Corporation's auditors for the audit of its financial statements*	**122**	137
– audit related regulatory	**5**	6
Tax services	**5**	6
Other services	**–**	–
	132	149

* Including the Corporation £35,000 (2010: £25,000).

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

A description of the work of the audit committee is set out in the corporate governance report on page 25 and includes an explanation of how auditor objectivity and independence is safeguarded when non-audit services are provided by the auditors.

4 | Remuneration of directors

	2011 £000	2010 £000
Directors' emoluments, which comprise the following, are included in administrative expenses:		
Non-executive directors' fees	**214**	214
Management remuneration	**602**	588
	816	802

The emoluments of the highest paid director totalled £602,000 (2010: £588,000) and included employer pension contributions of £ nil (2010: £ nil) and amounts under the terms of the employee profit share schemes of £242,000 (2010: £228,000). Her accrued pension entitlement is as follows:

	2011 £000	2010 £000
Change during year including effect of inflation	**–**	–
Accumulated total accrued pension per annum at 31 December	**8**	8
Transfer value of increase in accrued pension based on actuarial advice	**16**	10

Annual pension entitlements shown above are based upon service up to 31 December 2011 and do not include any Additional Voluntary Contributions. There are no other directors for whom there is an accrued pension entitlement.

Details of options held and the emoluments of each director are shown in the remuneration report starting on page 28.

5 | Interest

	2011 £000	2010 £000
Interest income		
Interest on bank deposits	**30**	46
Returns on money market funds	**78**	59
Returns on pension scheme (net)	**338**	191
	446	296
Interest payable		
Interest on debenture stock	**2,450**	2,450
Interest on bank overdrafts	**–**	2
	2,450	2,452
Interest (net)	**(2,004)**	(2,156)

6 | Segmental analysis

	Investment trust		Independent fiduciary services		Total	
	31 December 2011 £000	31 December 2010 £000	**31 December 2011 £000**	31 December 2010 £000	**31 December 2011 £000**	31 December 2010 £000
Revenue						
Segment income	**14,126**	12,449	**30,948**	30,381	**45,074**	42,830
Other income	**76**	87	**18**	31	**94**	118
Cost of sales	**–**	–	**(4,313)**	(6,184)	**(4,313)**	(6,184)
Administration costs	**(1,915)**	(1,679)	**(16,728)**	(15,689)	**(18,643)**	(17,368)
	12,287	10,857	**9,925**	8,539	**22,212**	19,396
Interest (net)	**(2,566)**	(2,565)	**562**	409	**(2,004)**	(2,156)
Return, including profit on ordinary activities before taxation	**9,721**	8,292	**10,487**	8,948	**20,208**	17,240
Taxation	**–**	–	**(1,977)**	(1,679)	**(1,977)**	(1,679)
Return, including profit attributable to shareholders	**9,721**	8,292	**8,510**	7,269	**18,231**	15,561
Revenue return per ordinary share	**8.27**	7.07	**7.25**	6.19	**15.52**	13.26
Assets	**434,325**	450,287	**22,121**	24,998	**456,446**	475,285
Liabilities	**(57,233)**	(51,665)	**(8,287)**	(11,054)	**(65,520)**	(62,719)
Total net assets	**377,092**	398,622	**13,834**	13,944	**390,926**	412,566

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

	Investment trust		Independent fiduciary services		Total	
	31 December 2011 £000	31 December 2010 £000	**31 December 2011 £000**	31 December 2010 £000	**31 December 2011 £000**	31 December 2010 £000
Other information						
Capital expenditure	**–**	–	**446**	144	**446**	144
Depreciation/amortisation	**–**	–	**240**	217	**240**	217

7 | Taxation

	2011 £000	2010 £000
Taxation based on revenue for the year comprises:		
UK Corporation tax at 26.5% (2010: 28.0%)	**1,340**	1,101
Adjustments in respect of prior years	**1**	(52)
	1,341	1,049
Overseas tax		
Current tax on income for the year	**383**	496
Total current tax charge	**1,724**	1,545
Deferred tax	**253**	134
	1,977	1,679

7 | Taxation continued

Taxation

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

	2011 £000	2010 £000
(Loss)/profit before taxation	**(2,190)**	85,570
Tax on ordinary activities at standard rate 26.5% (2010: 28.0%)	**(580)**	23,960
Effects of:		
Expenses not deductible for tax purposes	**10**	10
Higher rates of tax on overseas income	**83**	113
Non taxable capital losses/(gains)	**5,935**	(19,132)
Tax credit on dividend income	**(3,470)**	(2,963)
Adjustment in respect of prior periods	**1**	(52)
Recovery of overseas tax	**–**	(290)
Other differences	**(2)**	33
	1,977	1,679

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

Deferred tax

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

Deferred tax assets

	Accelerated tax depreciation £000	Retirement benefit obligations £000	Other employee benefits £000	Total £000
At 1 January 2010	486	540	57	1,083
Credit/(charge) to income	82	(216)	–	(134)
(Charge) to other comprehensive income	–	(79)	–	(79)
Foreign exchange	1	–	–	1
At 1 January 2011	569	245	57	871
(Charge) to income	(24)	(229)	–	(253)
Credit to other comprehensive income	–	800	–	800
Foreign exchange	(2)	–	–	(2)
At 31 December 2011	**543**	**816**	**57**	**1,416**

8 | Dividends on ordinary shares

	2011 £000	2010 £000
Dividends on ordinary shares comprise the following:		
2011 Interim 4.5p (2010: 4.2p)	**5,286**	4,930
2010 Final 8.5p (2009: 8.0p)	**9,984**	9,378
Total for year	**15,270**	14,308
Proposed final dividend for the year ended 31 December 2011	**10,573**	

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

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

	2011 £000	2010 £000
2011 Interim 4.5p (2010: 4.2p)	**5,286**	4,930
2011 Final 9.0p (2010: 8.5p)	**10,573**	9,979
	15,859	14,909

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

Dividends have been waived in respect of the 612,527 shares owned by the Employee Share Ownership Trust ('ESOT') (see note 17).

9 | Earnings per share from continuing operations

Revenue return is based on profits attributable of £18,231,000 (2010: £15,561,000).

Capital return per share is based on net capital loss for the year of £22,398,000 (2010: gain £68,330,000).

Total return per share is based on net loss for the year of £4,167,000 (2010: net gain £83,891,000).

The calculations of returns per share are based on 117,459,408 (2010: 117,366,347) shares, being the weighted average number of shares in issue during the year after adjusting for shares owned by the ESOT. In 2011 total, revenue and capital diluted returns per share were calculated using 117,544,561 shares (2010: 117,462,548 shares), being the diluted weighted average number of shares in issue assuming exercise of options at less than fair value. There were 16,110 (2010: 4,867) antidilutive shares.

10 | Goodwill

	2011 £000	2010 £000
Cost		
At 1 January	**2,211**	2,187
Foreign exchange	**7**	24
At 31 December	**2,218**	2,211

The goodwill is identifiable with separate operating companies (Safecall Limited: £1,419,000; and Delaware Corporate Services Inc.: £799,000). At 31 December 2011 the goodwill in relation to the operating companies was reviewed. The review assessed whether the carrying value of goodwill was supported by the net present value of future cash flows based on management forecasts for 2012, assumed annual growth based on current expectations of 5% and 8% and a discount rate of 5%. On this basis the goodwill is not considered to be impaired. If the assumed annual growth for both operating units were 5% then there would be an implied impairment of £ nil (2010: £ nil).

11 | Property, plant and equipment

Group

	2011			2010		
	Leasehold improvements £000	**Office furniture & equipment £000**	**Total £000**	Leasehold improvements £000	Office furniture & equipment £000	Total £000
Cost						
At 1 January	**777**	**1,030**	**1,807**	777	972	1,749
Additions at cost	**–**	**289**	**289**	–	58	58
At 31 December	**777**	**1,319**	**2,096**	777	1,030	1,807
Accumulated depreciation						
At 1 January	**700**	**917**	**1,617**	660	835	1,495
Foreign exchange	**–**	**(5)**	**(5)**	–	–	–
Charge	**21**	**143**	**164**	40	82	122
At 31 December	**721**	**1,055**	**1,776**	700	917	1,617
Net book value at 31 December	**56**	**264**	**320**	77	113	190

The Corporation holds no property, plant and equipment.

12 | Other intangible assets

Group

	Computer software 2011 £000	Computer software 2010 £000
Cost		
At 1 January	**859**	773
Additions at cost	**157**	86
At 31 December	**1,016**	859
Accumulated amortisation		
At 1 January	**741**	646
Charge	**76**	95
At 31 December	**817**	741
Net book value at 31 December	**199**	118

The Corporation holds no other intangible assets.

13 | Investments

Investments held at fair value through profit or loss

	2011			2010		
	Listed £000	**Unlisted £000**	**Total £000**	Listed £000	Unlisted £000	Total £000
Group						
Opening cost at 1 January	**315,944**	**265**	**316,209**	311,663	265	311,928
Gains at 1 January	**125,128**	**–**	**125,128**	61,138	–	61,138
Opening fair value at 1 January	**441,072**	**265**	**441,337**	372,801	265	373,066
Purchases at cost	**96,458**	**50**	**96,508**	36,262	–	36,262
Cost of acquisition	**(225)**	**–**	**(225)**	(138)	–	(138)
Sales – proceeds	**(92,275)**	**–**	**(92,275)**	(36,676)	–	(36,676)
– realised gains on sales	**15,837**	**–**	**15,837**	4,833	–	4,833
(Losses)/gains in the income statement	**(38,138)**	**–**	**(38,138)**	63,990	–	63,990
Closing fair value at 31 December	**422,729**	**315**	**423,044**	441,072	265	441,337
Closing cost at 31 December	**335,739**	**315**	**336,054**	315,944	265	316,209
Gains	**86,990**	**–**	**86,990**	125,128	–	125,128
Closing fair value at 31 December	**422,729**	**315**	**423,044**	441,072	265	441,337

	2011			2010		
	Listed £000	**Unlisted £000**	**Total £000**	Listed £000	Unlisted £000	Total £000
Corporation						
Opening cost at 1 January	**321,042**	**–**	**321,042**	316,761	–	316,761
Gains at 1 January	**120,030**	**–**	**120,030**	56,040	–	56,040
Opening fair value at 1 January	**441,072**	**–**	**441,072**	372,801	–	372,801
Purchases at cost	**96,458**	**–**	**96,458**	36,262	–	36,262
Cost of acquisition	**(225)**	**–**	**(225)**	(138)	–	(138)
Sales – proceeds	**(92,275)**	**–**	**(92,275)**	(36,676)	–	(36,676)
– realised gains on sales	**15,837**	**–**	**15,837**	4,833	–	4,833
(Losses)/gains in the income statement	**(38,138)**	**–**	**(38,138)**	63,990	–	63,990
Closing fair value at 31 December	**422,729**	**–**	**422,729**	441,072	–	441,072
Closing cost at 31 December	**340,837**	**–**	**340,837**	321,042	–	321,042
Gains	**81,892**	**–**	**81,892**	120,030	–	120,030
Closing fair value at 31 December	**422,729**	**–**	**422,729**	441,072	–	441,072

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

Included in unlisted investments in the group balance sheet are subsidiary undertakings which are held in connection with the group's fiduciary services business and in which the group holds all its voting rights. These undertakings have not been included in the group consolidation as the Corporation's ability to exercise its rights as a parent company over the assets and management of these undertakings is severely restricted by contractual agreements with other parties. The group received a fee of £225,002 (2010: £228,578) in respect of these undertakings.

There were no amounts outstanding with these undertakings at the year end (2010: £ nil).

13 | Investments continued

Investments in subsidiary undertakings – Corporation

	2011 £000	2010 £000
Cost		
At 1 January	**50**	58
Disposal	**–**	(8)
At 31 December	**50**	50

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

† Delaware Corporate Services Inc (incorporated in Delaware)

† L.D.C. Trust Management Limited

† Law Debenture Corporate Services Limited

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

Law Debenture Finance p.l.c.

† Law Debenture Governance Services Limited

† Law Debenture Guarantee Limited

† Law Debenture Holdings Inc. (incorporated in New York)

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

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

† Law Debenture Trustees Limited

† Law Debenture Agency Solutions Limited

† LDC (NCS) Limited

† The Law Debenture Corporation (Deutschland) Limited

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

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

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

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

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

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

† Safecall Limited

† Shares held by a subsidiary.

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

14 | Trade and other receivables

No allowance has been made during the year for the estimated irrecoverable amounts from the sale of services (2010: £212,000). Allowances are determined by reference to past experience.

15 | Cash and cash equivalents

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

16 | Trade and other payables

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

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

17 | Called up share capital

	2011 **£000**	2010 £000
Allotted, issued and fully paid share capital		
Value		
As at 1 January	**5,904**	5,903
Issued in year	**1**	1
As at 31 December	**5,905**	5,904
Shares		
As at 1 January	**118,079,737**	118,067,388
Issued in year	**14,840**	12,349
As at 31 December	**118,094,577**	118,079,737

During the year to 31 December 2011, 14,840 shares were allotted under the SAYE Scheme for a total consideration of £40,729 which includes a premium of £39,987.

During the year, 31,913 options were granted under the Corporation's SAYE scheme. At 31 December 2011, options under the SAYE Scheme and Executive Share Option Scheme exercisable from 2011 to 2015 at prices ranging from 211.50p to 357.51p per share were outstanding in respect of 266,362 ordinary shares (2010: 302,582 ordinary shares). During 2011, 16,843 options lapsed or were cancelled (2010: 20,161) and 238,383 (2010: 166,916) were exercised.

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

Own shares held

	2011 **£000**	2010 £000
Own shares held – cost	**1,684**	1,794

The own shares held represent the cost of 612,527 (2010: 680,395) ordinary shares of 5p each in the Corporation, acquired by the ESOT in the open market. The shares have been acquired to meet the requirements of the Executive Share Option Scheme and the Deferred Share Plan. The dividends relating to the shares have been waived. The market value of the shares at 31 December 2011 was £2,042,778 (2010: £2,426,289).

18 | Capital reserves

	2011			2010		
	Unrealised appreciation £000	**Realised reserves £000**	**Total £000**	Unrealised appreciation/ (depreciation) £000	Realised reserves £000	Total £000
Group						
At 1 January	**121,244**	**247,422**	**368,666**	57,747	242,589	300,336
Transfer on disposal of investments	**(20,847)**	**20,847**	**–**	(1,789)	1,789	–
Net (losses)/gains on investments	**(17,291)**	**(5,010)**	**(22,301)**	65,779	3,044	68,823
Cost of acquisition	**(225)**	**–**	**(225)**	(138)	–	(138)
Foreign exchange	**2**	**–**	**2**	(8)	–	(8)
Transfers to revenue	**126**	**–**	**126**	(347)	–	(347)
At 31 December	**83,009**	**263,259**	**346,268**	121,244	247,422	368,666

	2011			2010		
	Unrealised appreciation £000	**Realised reserves £000**	**Total £000**	Unrealised appreciation/ (depreciation) £000	Realised reserves £000	Total £000
Corporation						
At 1 January	**116,508**	**312,739**	**429,247**	53,011	307,543	360,554
Transfer on disposal of investments	**(20,847)**	**20,847**	**–**	(1,789)	1,789	–
Net (losses)/gains on investments	**(17,291)**	**(5,010)**	**(22,301)**	65,779	3,407	69,186
Cost of acquisition	**(225)**	**–**	**(225)**	(138)	–	(138)
Foreign exchange	**2**	**–**	**2**	(8)	–	(8)
Transfers to revenue	**126**	**–**	**126**	(347)	–	(347)
At 31 December	**78,273**	**328,576**	**406,849**	116,508	312,739	429,247

19 | Financial instruments

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

- Equities and fixed interest securities
- Cash, short term investments and deposits, and working capital arising from the group's operations
- Debentures, term loans and bank overdrafts to allow the group to raise finance
- Derivative transactions to manage any of the risks arising from the use of the above instruments

It remains the group's policy that no trading in derivatives is undertaken. Information in respect of the investment portfolio is included on pages 7 to 13.

Capital management

As an investment trust the Corporation is not allowed to distribute capital profits, even if realised. The Corporation is not allowed to retain more than 15% of its income from shares and securities each year and has a policy to increase dividends. However revenue profits are calculated after all expenses and distributions will not be made if they inhibit the investment strategy. The investment strategy of the Corporation is disclosed in the director's report on page 18 and includes a ceiling on effective gearing of 150%, with a typical range of 90% to 120%.

19 | Financial instruments continued

The group and Corporation held the following categories of financial assets and liabilities at 31 December 2011.

Group

	2011 £000	2010 £000
Assets		
Financial assets held at fair value through profit or loss (designated as such upon initial recognition):		
Equity investments	**370,200**	432,993
Debt investments	**52,844**	8,344
	423,044	441,337
Loans and receivables:		
Trade and other receivables	**4,940**	6,731
Cash and cash equivalents	**18,063**	20,030
	23,003	26,761
Total financial assets	**446,047**	468,098
Liabilities		
Financial liabilities measured at amortised cost:		
Loans and payables		
Trade and other payables	**11,674**	11,446
Short term borrowings	**–**	77
	11,674	11,523
Long term borrowings	**39,391**	39,364
Total financial liabilities	**51,065**	50,887

Corporation

	2011 £000	2010 £000
Assets		
Financial assets held at fair value through profit or loss (designated as such upon initial recognition):		
Equity investments	**369,885**	432,728
Debt investments	**52,844**	8,344
	422,729	441,072
Loans and receivables:		
Amounts due from subsidiary undertakings	**60,000**	60,000
Trade and other receivables	**182**	181
Cash and cash equivalents	**9,145**	7,311
	69,327	67,492
Total financial assets	**492,056**	508,564
Liabilities		
Financial liabilities measured at amortised cost:		
Loans and payables		
Amounts owed to subsidiary undertakings	**56,203**	50,240
Trade and other payables	**163**	125
Total financial liabilities	**56,366**	50,365

19 | Financial instruments continued

The principal risks facing the group in respect of its financial instruments remain unchanged from 2010 and are:

- **market price risk**, arising from uncertainty in the future value of financial instruments. The board maintains strategy guidelines whereby risk is spread over a range of investments, the number of holdings normally being between 70 and 150. In addition, the stock selections and transactions are actively monitored throughout the year by the investment manager, who reports to the board on a regular basis to review past performance and develop future strategy. The investment portfolio is exposed to market price fluctuation: if the valuation at 31 December 2011 fell or rose by 10%, the impact on the group's total profit or loss for the year would have been £42.3 million (2010: £44.1 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:

	2011			2010		
	Investments £m	**Net monetary assets £m**	**Total currency exposure £m**	Investments £m	Net monetary assets £m	Total currency exposure £m
Group						
US Dollar	**24.1**	**3.3**	**27.4**	28.5	3.8	32.3
Canadian Dollar	**3.8**	**–**	**3.8**	1.7	–	1.7
Euro	**18.4**	**0.4**	**18.8**	26.2	3.9	30.1
Danish Krone	**–**	**–**	**–**	0.8	–	0.8
Swedish Krona	**1.8**	**–**	**1.8**	1.1	–	1.1
Swiss Franc	**11.0**	**–**	**11.0**	13.3	–	13.3
Hong Kong Dollar	**–**	**0.4**	**0.4**	–	0.4	0.4
Japanese Yen	**1.5**	**–**	**1.5**	6.6	–	6.6
	60.6	**4.1**	**64.7**	78.2	8.1	86.3

	2011			2010		
	Investments £m	**Net monetary assets £m**	**Total currency exposure £m**	Investments £m	Net monetary assets £m	Total currency exposure £m
Corporation						
US Dollar	**24.1**	**0.3**	**24.4**	28.5	0.6	29.1
Canadian Dollar	**3.8**	**–**	**3.8**	1.7	–	1.7
Euro	**18.4**	**0.3**	**18.7**	26.2	3.8	30.0
Danish Krone	**–**	**–**	**–**	0.8	–	0.8
Swedish Krona	**1.8**	**–**	**1.8**	1.1	–	1.1
Swiss Franc	**11.0**	**–**	**11.0**	13.3	–	13.3
Japanese Yen	**1.5**	**–**	**1.5**	6.6	–	6.6
	60.6	**0.6**	**61.2**	78.2	4.4	82.6

The holdings in the Henderson Japan Capital Growth, Henderson Pacific Capital Growth, Baillie Gifford Pacific and First Asia Pacific OEICs and Scottish Oriental Smaller Companies Trust are denominated in sterling but have underlying assets in foreign currencies equivalent to £43.3 million (2010: £49.7 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 2011 rose or fell by 10% against sterling, the impact on the group's total profit or loss for the year would have been £10.4 million (2010: £12.8 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.

19 | Financial instruments continued

- **liquidity risk**, arising from any difficulty in realising assets or raising funds to meet commitments associated with any of the above financial instruments. To minimise this risk, the board's strategy guidelines only permit investment in equities and fixed interest securities quoted in major financial markets. In addition, cash balances and overdraft facilities are maintained commensurate with likely future settlements. The maturity of the group's existing borrowings is set out in note 20.

- **interest rate risk**, arising from movements in interest rates on borrowing, deposits and short term investments. The board reviews the mix of fixed and floating rate exposures and ensures that gearing levels are appropriate to the current and anticipated market environment. The group's interest rate profile at 31 December 2011 was:

	Group				Corporation		
	Sterling £m	HK Dollars £m	US Dollars £m	Euro £m	Sterling £m	US Dollars £m	Euro £m
Fixed rate assets	–	–	–	–	–	–	–
Floating rate assets	13.9	0.4	3.3	0.4	8.5	0.3	0.3
Fixed rate liabilities*	39.4	–	–	–	–	–	–
Weighted average fixed rate	6.125%						

*Fixed until 2034.

The group holds cash and cash equivalents on short term bank deposits and money market funds. 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 £140,000 (2010: £144,000). 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. Amounts due from subsidiary undertakings are for a term of five years and carry interest at a fixed rate (see note 13). 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 £60,000 (2010: £53,000). The calculations are based on the balances at the respective year end dates and are not representative of the year as a whole.

- **credit risk**, arising from the failure of another party to perform according to the terms of their contract. The group minimises credit risk through policies which restrict deposits to highly rated financial institutions and restrict the maximum exposure to any individual financial institution. The group's maximum exposure to credit risk arising from financial assets is £23.0 million (2010: £26.8 million). The Corporation's maximum exposure to credit risk arising from financial assets is £69.3 million (2010: £67.5 million).

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

	Group		Corporation	
	2011 £000	2010 £000	**2011 £000**	2010 £000
Between 31 and 60 days	**637**	737	**–**	7
Between 61 and 90 days	**240**	356	**–**	–
More than 91 days	**700**	678	**181**	174
Total	**1,577**	1,771	**181**	181

19 | Financial instruments continued

Trade and other payables

	Group		Corporation	
	2011 £000	2010 £000	**2011 £000**	2010 £000
Due in less than one month	**11,200**	10,873	**163**	125
Due in more than one month	**474**	573	**–**	–
	11,674	11,446	**163**	125

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.

20 | Bank overdrafts and loans

	2011 %	2010 %
The weighted average interest rates were as follows:		
Bank overdrafts	**1.50**	1.50

The directors estimate the fair value of the group's borrowings as follows and have been classified by the earliest date on which repayment can be required.

	Group		Corporation	
	2011 £000	2010 £000	**2011 £000**	2010 £000
Borrowings are repayable as follows:				
In one year or less	**–**	77	**–**	–
In more than five years				
Secured				
6.125% guaranteed secured bonds 2034	**39,391**	39,364	**–**	–

The sterling bank overdrafts of £nil (2010: £77,000) were incurred in connection with the independent fiduciary services business.

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.

Analysis of borrowings by currency

	2011		2010	
	Sterling £000	**Total £000**	Sterling £000	Total £000
Bank overdrafts	**–**	**–**	77	77

21 | Contingent liabilities

In order to facilitate the activities of one of its US subsidiaries, a UK subsidiary of the Corporation has provided a guarantee in the amount of US$50 million.

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

The Corporation has provided a guarantee to a subsidiary undertaking in respect of the ongoing liabilities of the group defined benefit pension scheme (see note 23).

22 | Lease commitments

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

	2011 £000	2010 £000
Less than one year	**1,262**	1,260
Two to five years	**4,738**	4,738
More than five years	**3,243**	4,426
	9,243	10,424

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

23 | Pension commitments

The group operates a funded, defined benefit pension plan ('The Law Debenture Pension Plan') with pension benefits related to final pensionable pay. The assets of the plan are held in a separate trustee administered fund.

Actuarial gains and losses are recognised in full in the period in which they occur. The liability recognised in the statement of financial position represents the present value of the defined benefit obligation, as reduced by the fair value of plan assets. The cost of providing benefits is determined using the Projected Unit Credit Method.

At 31 December 2011, the expected rate of return on assets is 5.5% pa (2010: 6.4% pa). This rate is derived by taking the weighted average of the long term expected rate of return on each of the asset classes that the plan was invested in at 31 December 2011.

The estimated employer and employee contributions expected to be paid to the plan during 2012 is £1.0 million. The next triennial actuarial valuation is due as at 31 December 2011.

23 | Pension commitments continued

The major assumptions in the 31 December 2011 disclosure under IAS19 are shown below and are applied to membership data supplied at that date. This shows the net pension assets and liabilities.

	2011 %	2010 %
Principal actuarial assumptions:		
Consumer Price Inflation	**2.5**	3.0
Discount rate	**4.9**	5.3
5% limited RPI pension increases in payment	**3.1**	3.4
General salary increases	**4.7**	5.0
Expected return on assets	**5.5**	6.4

	Years	Years
Life expectancy of male aged 65 in 2011	**23.3**	23.1
Life expectancy of male aged 65 in 2031	**26.3**	26.2

	2011 £000	2010 £000
Present value of defined benefit obligation	**35,906**	33,525
Fair value of plan assets	**(32,768)**	(32,649)
Deficit in statement of financial position	**3,138**	876

	2011 £000	2010 £000
The amounts recognised in profit or loss are as follows:		
Employer's part of current service cost	**426**	354
Interest cost	**1,767**	1,681
Expected return on plan assets	**(2,105)**	(1,872)
Total expense recognised in profit or loss	**88**	163

	2011		2010	
	Allocation %	**£000**	Allocation %	£000
The current allocation of plan assets is as follows:				
Equities	**60**	**19,736**	65	21,373
Bonds	**10**	**3,165**	9	2,877
Gilts	**28**	**9,126**	23	7,408
Pensioner annuities	**2**	**626**	3	847
Other	**–**	**115**	–	144
Total	**100**	**32,768**	100	32,649

23 | Pension commitments continued

	2011 £000	2010 £000
Reconciliation of present value of defined benefit obligation		
At 1 January	**33,525**	30,717
Employer's part of current service cost	**426**	354
Interest cost	**1,767**	1,681
Contributions by plan participants	**78**	69
Actuarial losses	**994**	1,451
Benefits paid	**(884)**	(747)
At 31 December	**35,906**	33,525

	2011 £000	2010 £000
Reconciliation of fair value of plan assets		
At 1 January	**32,649**	28,789
Expected return on plan assets	**2,105**	1,872
Actuarial (losses)/gains	**(2,151)**	1,734
Contributions by the employer	**971**	932
Contributions by plan participants	**78**	69
Benefits paid	**(884)**	(747)
At 31 December	**32,768**	32,649

	2011 £000	2010 £000	2009 £000	2008 £000	2007 £000
Principal actuarial assumptions					
Present value of defined benefit obligation	**35,906**	33,525	30,717	29,244	26,968
Fair value of plan assets	**(32,768)**	(32,649)	(28,789)	(23,766)	(26,711)
Deficit	**3,138**	876	1,928	5,478	257
Experience adjustments on plan assets					
Amount of (loss)/gain	**(2,151)**	1,734	3,083	(5,351)	(252)
Percentage of plan assets	**(7%)**	5%	11%	(23%)	(1%)
Experience adjustments on plan liabilities					
Amount of (loss)/gain	**(127)**	(61)	691	7	326
Percentage of the present value of the plan liabilities	**–**	–	2%	–	1%
Expense to be recognised immediately in comprehensive income					
Actuarial (losses)/gains	**(3,145)**	283	2,279	(6,032)	26

24 | Share based payments

The group operates a share option scheme for the executive director and senior members of staff, details of which are included in paragraph 5 of the remuneration report on page 30.

Details of the share options outstanding were:

	2011 Number of share options	2011 Weighted average price Pence	2010 Number of share options	2010 Weighted average price Pence
Outstanding at 1 January	**36,450**	**210.07**	191,017	197.04
Exercised during the year	**(26,710)**	**366.32**	(154,567)	291.62
Outstanding at 31 December	**9,740**	**228.20**	36,450	210.07
Exercisable at 31 December	**9,740**	**228.20**	36,450	210.07

	2011 Pence	2010 Pence
Weighted average share price at date of exercise	**366.32**	291.62

Details of the number of option holders is given on page 21 of the directors' report.

The group recognised total expenses of £nil (2010: £nil) in respect of share based payment transactions.

During the year the Deferred Share Plan made awards in respect of 181,117 shares with a market value of £636,988 which will be released to executives in March 2014. The shares are held in the ESOT. The cost of the shares is being charged to the income statement over the vesting period.

25 | Related party transactions

Group

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

Corporation

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

	2011 £000	2010 £000
Dividends from subsidiaries	**1,850**	500
Interest on intercompany balances charged by subsidiaries	**2,647**	2,627
Management charges from subsidiaries	**400**	400
Interest on intercompany balances charged to subsidiaries	**4,950**	4,930

The key management personnel are the directors of the Corporation, details of their compensation are included in note 4 to the accounts and in paragraphs 10 to 15 of the remuneration report on pages 32 and 33.

Investment trust status

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

Capital gains tax

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

Company share information

Information about the Corporation can be found on its web site **http://www.lawdeb.com**. The market price of its ordinary shares is published in the Financial Times, The Times, The Daily Telegraph, The Guardian, The Independent, and the Daily Mail.

Individual savings account ('ISA')

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

National Westminster Bank Plc,
FREEPOST,
Princess House,
27 Bush Lane,
London EC4R 0AA

Telephone – **0845 601 5600**

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

Registrars

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

Share dealing

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

Internet – www.computershare.com/dealing/uk

Telephone – **0870 703 0084**

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

The service is available only to those shareholders who hold their shares on the register and is not available to those who hold their shares via a nominee.

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

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

Dividend and interest payments

Ordinary shares:

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

Group results

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

Payment methods for dividends

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

Notice of annual general meeting

NOTICE IS HEREBY GIVEN that the 122nd annual general meeting of the Corporation will be held on 24 April 2012 at 11.00am at the Brewers Hall, Aldermanbury Square, London EC2V 7HR for the following purposes:

Ordinary business

1. **To receive the report of the directors and the audited accounts for the year ended 31 December 2011.**
2. **To receive and approve the directors' remuneration report for the year ended 31 December 2011.**
3. **To declare a final dividend of 9.0p per share in respect of the year ended 31 December 2011.**
4. **To re-elect Douglas McDougall as a director.**
5. **To re-elect Caroline Banszky as a director.**
6. **To re-elect John Kay as a director.**
7. **To re-elect Christopher Smith as a director.**
8. **To elect The Hon. Robert Laing as a director.**
9. **To re-appoint BDO LLP as auditors of the Corporation to hold office until the conclusion of the next general meeting at which accounts are laid and to authorise the directors to determine their remuneration.**

Special business

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

10. General authority to buy back shares

THAT the Corporation be and is generally and unconditionally authorised in accordance with sections 693 and 701 of the Companies Act 2006 (the 'Act') to make market purchases (within the meaning of section 693(4) of the Act) of any of its issued ordinary shares of 5p each in the capital of the Corporation, in such manner and upon such terms as the directors of the Corporation may from time to time determine, PROVIDED ALWAYS THAT:

(a) the maximum number hereby authorised to be purchased shall be limited to 17,702,377 shares, or if less, that number of shares which is equal to 14.99% of the Corporation's issued share capital as at the date of the passing of this resolution;

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

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

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

11. General authority to allot shares

THAT:

(a) the directors be generally and unconditionally authorised pursuant to and in accordance with section 551 of the Act to exercise for the period ending on the date of the Corporation's next annual general meeting, all the powers of the Corporation to allot shares in the Corporation or to grant rights to subscribe for or to convert any security into shares in the Corporation up to an aggregate nominal amount (within the meaning of sections 551(3) and (6) of the Act) of £295,236;

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

12. Disapplication of statutory pre-emption rights

THAT:

(a) in exercise of the authority given to the directors by resolution 11 above, the directors be empowered pursuant to section 570 of the Act to allot shares or grant rights to subscribe for or to convert any security into shares in the Corporation for the period ending on the date of the Corporation's next annual general meeting wholly for cash generally up to an aggregate nominal amount of £295,236 as if section 561 of the Act did not apply to such allotment, provided always that no more than 7.5% of the issued share capital shall be issued on a non pre-emptive basis within any three year period;

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

13. Authority to convene a general meeting – notice

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

To consider and, if thought fit, to pass the following resolution which will be proposed as an ordinary resolution:

14. The Law Debenture Sharesave Option Plan 2012

THAT: the rules of the Law Debenture Sharesave Option Plan 2012 (the 'Sharesave Plan'), a copy of which is produced to the AGM and initialled by the Chairman for the purposes of identification, be approved, subject to such modifications as the directors may consider necessary to obtain the approval of Her Majesty's Revenue and Customs and/or such other approvals as the directors may consider necessary or desirable and that the directors be authorised to do all acts and things as they may consider necessary and expedient to carry the Sharesave Plan into effect; and that the directors be authorised to modify the Sharesave Plan or establish further Plans based on the Sharesave Plan as may be necessary or desirable to take account of tax, exchange control or securities laws in any country, provided any shares made available under the Sharesave Plan are treated as counting against any limits on individual participation in any such modified or further Plans, and any new shares made available are treated as counting against the limits on overall participation in the Sharesave Plan.

By order of the board

Law Debenture Corporate Services Limited
Secretary
13 March 2012

Registered office:
Fifth Floor
100 Wood Street
London EC2V 7EX

Registered No. 30397

1. A member who holds ordinary shares on the register of members and is entitled to attend and vote at this meeting is entitled to appoint one or more proxies to attend and, on a poll, to vote in his or her place (or in the case of a corporation, to appoint one or more corporate representatives who may exercise on its behalf all of its powers as a member). A proxy need not be a member of the Corporation. Proxy rights do not apply to nominated persons although the nominated person may have a right under an agreement with the registered member to appoint a proxy. In addition to instructing a proxy to vote for or against a resolution, the form enables shareholders to instruct a 'vote withheld' if preferred. A vote withheld is not a vote in law and will not be counted in the calculation of votes. It may be used, for example, to convey a message of dissatisfaction on a particular issue, where the strength of feeling is not so great as to oppose the resolution, but supporting it is not appropriate either.
2. Shareholders who hold shares on the register of members (as opposed to holding them in a nominee) will find enclosed a form of proxy for use at the meeting. To be valid, forms of proxy must be lodged electronically by accessing www.eproxyappointment.com, or by post at the office of the Corporation's registrar, Computershare Investor Services PLC, Bristol BS99 6ZY. CREST members can register votes electronically by using the service provided by Euroclear. Proxies must be received not less than 48 hours before the time appointed for the holding of the meeting. This is also the voting record date by which a person must be entered on the register in order to have a right to attend and vote at the meeting. Lodgement of a form of proxy will not prevent a member from attending and voting in person.
3. The register of directors' interests will be available for inspection at the registered office of the Corporation during normal business hours and at the annual general meeting. No director has a service contract with the Corporation of more than one year's duration.
4. Subject to the dividend on the ordinary shares now recommended being approved at the annual general meeting, dividends will be paid on 27 April 2012 to shareholders on the register on the record date on 30 March 2012.
5. **Resolution 2** – is to receive and approve the directors' remuneration report for the year ended 31 December 2011. The remuneration report is set out at pages 28 to 33 of the annual report of the Corporation.
6. **Resolution 4** – Douglas McDougall offers himself for re-election. The board supports his re-election because he leads the board with skill and considerable success. He is highly regarded in the investment trust sector and makes a full contribution to the board, with particular expertise in overseeing investment strategy. His biography is included on page 5 of the annual report.
7. **Resolution 5** – Caroline Banszky offers herself for re-election. The board supports her re-election. She continues to be a very effective managing director, improving profitability of the independent fiduciary services business and thus enhancing shareholder value. Her biography is included on page 5 of the annual report.
8. **Resolution 6** – Professor John Kay offers himself for re-election. The board supports his re-election. He provides a valuable insight into economic events and trends. His biography is included on page 5 of the annual report.
9. **Resolution 7** – Christopher Smith offers himself for re-election. The board supports his re-election. He brings a wealth of corporate finance experience to the board along with a thorough knowledge of the investment trust sector and regulatory matters and is an effective audit committee chairman. He also chairs with skill the board of the principal holding company for the independent fiduciary services businesses. His biography is included on page 5 of the annual report.
10. **Resolution 8** – The Hon. Robert Laing offers himself for election. The board supports his election. The board believes that its effectiveness is greatly enhanced by having a non-executive director with a legal background and experience of one or more of the fiduciary services sectors where Law Debenture operates. Robert Laing matches this requirement and will be an excellent addition to the board in the place of Armel Cates. Robert Laing was admitted as a solicitor in England in 1977 and in Scotland in 1985. He worked for Slaughter and May from 1975 until 1983, when he joined Maclay Murray & Spens. He has been a partner in that firm (now Maclay Murray & Spens LLP) since 1985 and chairman since 1 June 2010. He is a non-executive director of The Independent Investment Trust.
11. **Resolution 9** – is to re-appoint BDO LLP as the Corporation's auditors. BDO LLP were first appointed on 31 October 2008.
12. **Special resolution 10** renews the authority given to directors at the last annual general meeting to purchase ordinary shares in the market for *cancellation*. Such purchases at appropriate times and prices could be a suitable method of enhancing shareholder value and would be applied within guidelines set from time to time by the board. It should be noted that no such purchases would be undertaken if shares were trading at a premium to net asset value.
13. **Special resolution 11** – renews the authority given to directors at the last annual general meeting to allot unissued capital not exceeding 5,904,728 shares, being 5% of the issued share capital. This authority is sought principally to allow the directors to satisfy demand for shares from participants in the Save as You Earn Scheme and Individual Savings Account, and would be exercised only at times when it would be advantageous to the Corporation's shareholders to do so. Shares would not be issued under this authority at a price lower than market price or net asset value at the time of the issue. If approved, the authority will continue to operate until the next annual general meeting.
14. **Special resolution 12** – is proposed because the directors consider that in order to allot shares in the circumstances described in resolution 11 it is in the best interests of the Corporation and its shareholders to allot a maximum of 5,904,728 shares other than on a pre-emptive basis. The board would not, however, issue more than 7.5% of the issued share capital on a non-pre-emptive basis within any three year period.
15. **Special resolution 13** – seeks authority to convene a general meeting (but not the annual general meeting) by giving not less than 14 clear days' notice. While the directors have no current intention to call a general meeting in the year ahead, circumstances might arise when such a meeting might become necessary and the directors deem it in the best interest of shareholders that it be held as quickly as possible. Such circumstances might include, for example, a decision to make a significant amendment to the investment strategy (shareholder approval for such a change being a regulatory stipulation).

16. **Ordinary resolution 14** – seeks authority to introduce a new Sharesave Option Plan. The Corporation has operated a plan of this kind for many years. The current Plan, approved by shareholders on 9 April 2002, expires on the tenth anniversary of that approval and the board is recommending that a replacement Sharesave Plan be adopted in its place. The 2012 Sharesave Plan is substantively the same as the 2002 Plan (unless indicated below) and its general features are as follows:

    General – under the Sharesave Plan, employees are granted an option to acquire shares in the future at a price determined at the date of grant of the option. Participating employees save monthly through a contractual savings arrangement over a period of five years. At the end of the savings contract, the employee may either exercise the option using the savings contributions and accrued interest or have the savings and accrued interest repaid.

    Eligibility – all UK employees may participate in the Sharesave Plan.

    Employee contributions – the maximum amount an employee may save monthly under an HMRC approved savings related plan is currently £250 per month. The minimum amount which may be saved is £5 per month.

    Option price – the directors set the option price, which will be the market price on the business day before the date of invitation or the latest published NAV, whichever is the higher (this represents a tightening of the rules – under the 2002 Plan, the price could not be less than 80% of the market value of a share on the business day before the date of invitation or the average market value over the three preceding business days).

    Exercise of options – options can normally only be exercised for six months starting five years after the start of the savings contract. The Sharesave Plan provides, however, for exercise early in certain circumstances including: an employee leaving due to injury, disability, redundancy or retirement; or where the company or business for which he works leaves the group. On cessation of employment for any other reason, options will normally lapse.

    Plan limits – in any ten year period, options may not be granted in respect of more than 10% of the issued ordinary share capital of the Corporation under the Sharesave Plan and all other employee share plans operated by the Corporation. In addition, in any ten year period, options may not be granted in respect of more than 5% of the issued ordinary share capital of the Corporation under all discretionary share option plans operated by the Corporation. These limits do not include options which have lapsed or been surrendered.

    Operation – options may normally be granted within 42 days of the announcement of results to the London Stock Exchange for any period. The Sharesave Plan may also be operated within 42 days of any AGM of the Corporation and in certain other limited circumstances.

    Other features – any shares issued under the Sharesave Plan will rank equally with shares of the same class in issue on the date of allotment. The rights under the Sharesave Plan may be adjusted following certain variations in share capital including a capitalisation, rights issue or sub-division, consolidation or reduction in the capital of the Corporation. Options may generally be exercised early on a takeover, scheme of arrangement, merger or other corporate reorganisation. Alternatively, participants may be allowed or required to exchange their options for options over shares in the acquiring company. Shareholder approval will be required to introduce any proposed change to the Sharesave Plan which might be to the advantage of present or future option holders. The directors may make other amendments as they consider appropriate (so long as they do not give advantage to participants), but in any event, any alteration to the Sharesave Plan is generally subject to the prior approval of HMRC. Following initial shareholder approval at this meeting, the directors can without seeking further approval: make amendments to the Sharesave Plan to obtain or maintain HMRC approval; make minor amendments to benefit the administration of the Sharesave Plan or which relate to any changes in legislation, or which will obtain or maintain favourable tax, exchange control or regulatory treatment for the Corporation or any of its subsidiaries. The directors also reserve the right up to the forthcoming AGM to make such amendments and additions to the Sharesave Plan as they consider appropriate, provided such amendments and additions do not conflict in any material respect with this summary of the Sharesave Plan. No new options may be granted under the Sharesave Plan after the 10th anniversary of the approval of the Plan by the shareholders. Options generated under the Plan are not transferable and benefits under the Plan are not pensionable.

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

Total voting rights and share information

The Corporation has an issued share capital at 13 March 2012 of 118,094,577 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 118,094,577.

AGM Venue

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