TEMPLE BAR INVESTMENT TRUST PLC
ANNUAL REPORT & ACCOUNTS 2012

temple bar
active investment working for you

Company summary

Temple Bar Investment Trust PLC's ('the Company') investment objective is to provide growth in income and capital to achieve a long-term total return greater than the benchmark FTSE All-Share Index, through investment primarily in UK securities. The Company's policy is to invest in a broad spread of securities with typically the majority of the portfolio selected from the constituents of the FTSE 100 Index.

The Company's full objective and policy is set out on page 16.

Benchmark
Performance is measured against the FTSE All-Share Index.

Total assets less current liabilities
£664,648,000

Total equity*
£601,191,000

Market capitalisation
£608,541,238

Capital structure

Ordinary shares	60,551,367 shares
5.5% Debenture Stock 2021	£38,000,000
9.875% Debenture Stock 2017	£25,000,000

Voting structure
Ordinary shares 100%.

Manager's fee
0.35% per annum based on the value of the investments (including cash) of the Company. There is no performance fee. References to "Manager" in this document mean Investec Asset Management Limited and references to "Portfolio Manager" mean Alastair Mundy.

ISA status
The Company's shares qualify to be held in an ISA.

Typical Investor
The shares are designed to be of interest to private investors in the UK, including retail investors, professionally advised private clients and institutional investors who seek income and the potential for capital growth from investment primarily in UK markets and who understand and are willing to accept the risks of exposure to equities. Private investors should consider consulting an independent financial adviser who specialises in advising on the acquisition of shares before acquiring them. Investors should be capable of evaluating the risks and merits of such an investment and should have sufficient resources to bear any loss that may result.

Association of Investment Companies (AIC): Member

www.templebarinvestments.co.uk

*with debenture stocks at book value.

Contents

Summary of results

Assets as at 31 December	**2012 £000**	2011 £000	% change
Net assets	601,191	522,040	15.2

Ordinary shares			
Net asset value per share with debt at book value	992.86p	874.42p	13.6
Net asset value per share with debt at market value	969.00p	849.54p	14.1
Market price	1005.00p	858.00p	17.1
Premium/(discount) with debt at book value	1.2%	(1.9%)	
Premium with debt at market value	3.7%	1.0%	

Revenue for the year ended 31 December	**£000**	£000	
Revenue return attributable to ordinary shareholders	24,873	22,552	
Revenue return per ordinary share	41.39p	38.08p	
Dividends per ordinary share – interim and proposed final	36.65p	35.23p	4.0

Capital for the year ended 31 December			
Capital return attributable to ordinary shareholders	67,903	(24,322)	
Capital return attributable per ordinary share	113.00p	(41.07p)	

Ongoing charges	0.51%	0.50%*	

Total returns for the year to 31 December 2012	%
Return on net assets	18.0
Return on gross assets	16.8
Return on share price	21.6
FTSE All-Share Index	12.3
Change in Retail Prices Index over year	3.1

Dividend yields (net) as at 31 December 2012	%
Yield on ordinary share price (1005p)	3.7
Yield on FTSE All-Share Index	3.6

* In May 2012 the Association of Investment Companies (AIC) published a paper setting out its recommended methodology for the calculation of ongoing charges. The prior year comparative figure has been restated using the AIC's recommended methodology.

Directors

John Reeve
John Reeve, Chairman, was appointed a director in 1992. He was formerly executive chairman of the Willis Group, group managing director of Sun Life Assurance Society and a member of the boards of the Association of British Insurers and the International Insurance Society. He is a director of a number of other companies.

Arthur Copple
Arthur Copple was appointed a director in 2011. He has specialised in the investment company sector for over 30 years. He was a partner at Kitcat & Aitken, an executive director of Smith New Court PLC and a managing director of Merrill Lynch. Currently, he acts as an adviser to investment management groups and is a director of a number of other companies.

Richard Jewson*
Richard Jewson was appointed a director in 2001. He first worked in the timber and building material supply industry, becoming managing director of Jewson, the builders' merchants, for twelve years from 1974, and then managing director and chairman of its parent company Meyer International PLC from which he retired in 1993. He is currently chairman of Raven Russia Limited and Archant Limited, and a non-executive director of Grafton Group PLC and other private companies.

June de Moller
June de Moller was appointed a director in 2005. She is a non-executive director of Derwent London PLC and a former managing director of Carlton Communications PLC. She was previously a non-executive director of J Sainsbury PLC, Cookson Group PLC and BT PLC.

Martin Riley
Martin Riley was appointed a director in 2004.
He had 30 years' experience in stockbroking and fund management in the City and is a former director of Henderson Crosthwaite Ltd, Guinness Mahon & Co Ltd and Barlows PLC. He is currently chairman of Howard Investment Company Ltd and a director of various private investment companies.

David Webster
David Webster was appointed a director in 2009. His career started in corporate finance at Samuel Montagu before becoming a founder and subsequently chairman of Safeway PLC from which he retired in 2004. He is currently a non-executive director of Amadeus IT Holdings SA. He has a wide range of other business interests including membership of the Appeals Committee of the Panel on Takeovers and Mergers. He was previously chairman of InterContinental Hotels Group PLC and a non-executive director of Reed Elsevier PLC.

All the directors are independent and members of the audit and nomination committees.
* Chairman of the audit committee and Senior Independent Director.

Below, left to right: John Reeve, Martin Riley, June de Moller.
Bottom, left to right: Richard Jewson, David Webster, Arthur Copple.






Management and administration

Manager
Investec Asset Management Limited
Authorised and Regulated by the Financial Services Authority
Portfolio Manager, Alastair Mundy
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25 Basinghall Street
London EC2V 5HA
Telephone No. 020 7597 2000
Facsimile No. 020 7597 1803

Registered office
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London EC2V 5HA
Secretary:
Investec Asset Management Limited, represented by
Martin Slade

Registered number
Registered in England No. 214601

Registrar and Savings Scheme administrator
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Aspect House
Spencer Road
Lancing
West Sussex BN99 6DA
Telephone No:
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0871 384 2432 (shareholder helpline)*
0906 559 6025 (broker helpline)

*Calls cost 8p per minute plus network extras.
Lines open 8.30 a.m. to 5.30 p.m., Monday to Friday.

Independent auditor
Ernst & Young LLP
1 More London Place
London SE1 2AF

Bankers and custodian
HSBC Bank plc
Poultry
London EC2P 2BX

Stockbrokers
JPMorgan Cazenove
25 Bank Street
Canary Wharf
London E14 5JP

Solicitors
Eversheds LLP
1 Wood Street
London EC2V 7WS

Right: Martin Slade (Secretary)
Far right: Alastair Mundy (Portfolio Manager)

Chairman's statement

Performance

The total return on the net assets of Temple Bar during 2012 was 18.0%, which compares with a total return on the FTSE All-Share Index of 12.3%. The share price total return was 21.6% reflecting an increase over the year in the premium at which the shares trade. Temple Bar continues significantly to outperform its benchmark over both five and ten year periods.

Revenue on the portfolio rose by 9.5%; however, virtually all of this increase was due to how the revenue on some bonds held on the portfolio has been recognized. The actual and anticipated early repayment of certain bonds necessitates the profit between the buy price and maturity price to be amortised over a significantly shorter period than previously forecast. Excluding this one-off effect, revenue was in line with the manager's forecasts a year earlier. Although most dividends across the portfolio rose, overall income was affected by Avon Products cutting its dividend, lower revenue generated from the fixed interest portfolio as some of the bonds reached maturity and a greater amount of cash being held on the portfolio. Post-tax earnings rose by 10.3%. Excluding the bond revenue recognition treatment previously referred to, post-tax earnings rose by 0.6%.

The Board is recommending a final dividend of 22.0p, to produce a total increase of 4.0% for the year. The dividend will be payable on 28 March 2013 to shareholders on the register at 15 March 2013. The shares become ex-dividend on 13 March 2013. This is the 29th consecutive year in which the dividend has been increased.

At the year-end gearing (calculated net of cash and related liquid assets) was 2.0%.

Equity markets performed well in 2012 and investors seemed reluctant to fight the Federal Reserve and other central banks. Time will tell how deep is this commitment to equities.

Investment Trust Tax Rules

New legislation was introduced last year which has resulted in the removal of the prohibition on the distribution of capital profits by way of dividend.

The board is therefore seeking shareholder approval at the Annual General Meeting to amend the Company's Articles of Association to permit the distribution of realised capital gains by way of dividend. I would emphasise that this does not in any way indicate that there will be a change in dividend policy. There is, at present, no intention to utilise the ability to make distributions from capital profits, but the directors believe that it is prudent to provide the flexibility to do so in the event of unforeseen changes, such as those to future taxation policies.

Further information is set out in the Report of the Directors on page 16.

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Chairman's statement continued

Investment Policies
The portfolio manager currently has the authority to invest up to 10% of the Company's investment portfolio in listed international equities in developed economies. The Board is requesting shareholder approval to increase this limit to 20%, principally to reflect the increasingly international nature of investment markets where the place of a company's listing often bears little resemblance to the countries in which it is active and where its profits are generated.

The Board is also seeking approval for a minor change to the Company's principal investment objective of providing growth in income and capital to achieve a long term total return greater than the benchmark FTSE All Share Index, through investment in a broad spread of (primarily UK) securities with typically the majority of the portfolio selected from the constituents of the FTSE 100 index. It is proposed that the majority of the portfolio be selected from the FTSE 350 index rather than just the FTSE 100 index, in order to provide greater flexibility in portfolio construction. The ability for the portfolio manager to select investments broadly from the companies within the FTSE 350 Index will bring the portfolio more in line with the benchmark FTSE All Share Index.

Resolutions will be proposed at the AGM to put the above changes into effect.

Industry Developments
There are a number of forthcoming changes which will impact the Company, including two of particular significance. The first relates to the implementation in the UK of the European Union's Alternative Investment Fund Managers Directive which will result in the introduction of further regulatory oversight for investment trusts, such as the requirement to appoint a Depositary that is, in turn, required to accept fairly onerous responsibilities. The changes are due to come into effect in 2014 and the Board is already considering the full implications of this legislation.

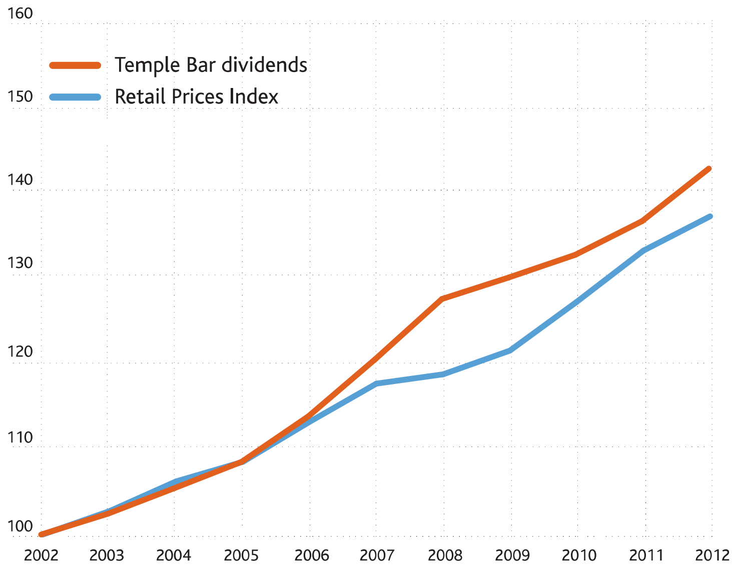
The second event of significance is the introduction in January this year of the Retail Distribution Review ('RDR') which, amongst other things, prevents commission payments to advisers. In general RDR is viewed as a positive development in the longer term for the investment trust industry, which has historically not paid commissions, through the creation of a level playing field in the provision of investment advice. The Board believes that the Company is relatively well placed to benefit from this development given its scale, performance, the liquidity of its shares and other attributes.

Annual General Meeting
Our AGM this year will be held at Woolgate Exchange, 25 Basinghall Street, London EC2V 5HA on 25 March 2013 at 11.00am. The Board encourages as many shareholders as possible to attend this meeting. In addition to the formal business of the meeting the portfolio manager, Alastair Mundy, will make a presentation reviewing the past year and commenting on the outlook. He will also be available to answer any questions alongside the directors.

Outlook
As the portfolio manager makes clear in his report, this is an environment where new investment opportunities are few and far between. Rather than make an unnecessarily bullish forecast, he prefers to tell it how it is and wait for better times before acting.

John Reeve
Chairman
19 February 2013

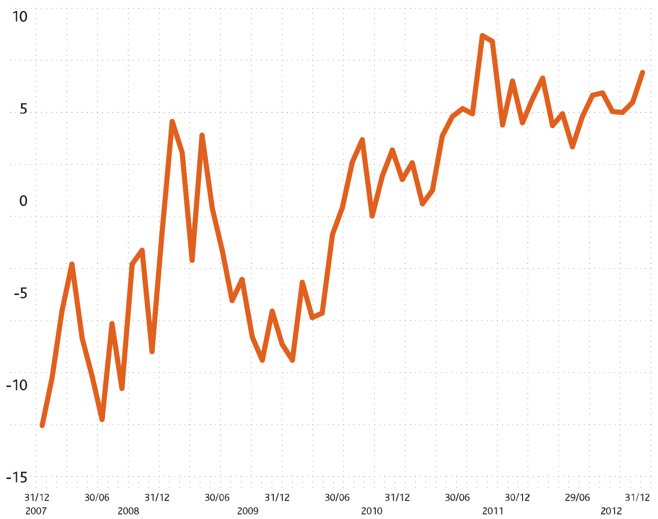
Comparative dividend growth
Source: Datastream



Performance summary

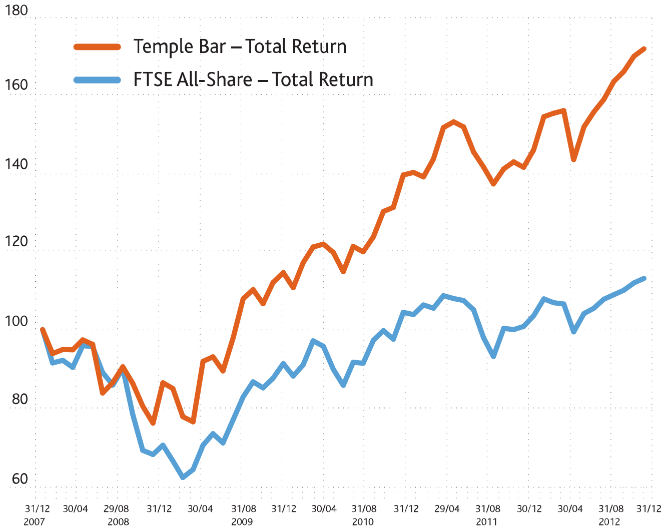
(Discount)/premium to net asset value (excluding current year revenue)

Source: Datastream



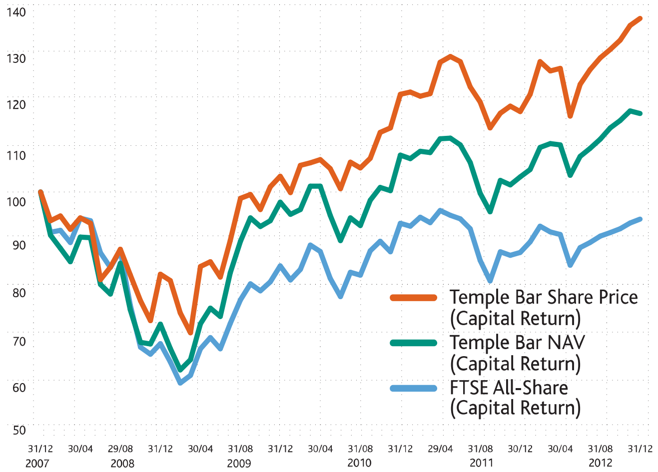
Share price total return

Source: Datastream



Net asset value capital return

Source: Datastream



Ten year record	2003	2004	2005[1]	2006	2007	2008	2009	2010	2011	**2012**
Total assets less current liabilities (£000)	395,341	462,254	532,965	598,485	557,712	422,408	553,392	603,444	585,480	664,648
Company net assets (£000)	332,341	398,880	469,621	535,128	494,340	359,020	489,988	540,022	522,040	601,191
Net assets per ordinary share (pence)	573.88	688.78	804.96	917.25	847.33	612.76	831.03	915.89	874.42	992.86
Revenue return to ordinary shareholders (£000)	16,483	15,851	17,076	17,620	19,361	20,614	20,017	18,915	22,552	24,873
Revenue return per share (pence)	28.46	27.37	29.35	30.20	33.19	35.33	33.98	32.08	38.08	41.39
Net dividends per share* (pence)	26.23	27.02	27.83	29.23	30.98	32.84	33.50	34.20	35.23	36.65

Notes

[1] In 2005 the Company adopted International Financial Reporting Standards. As a result the 2004 data has been restated but no prior years have been restated.

* Interim and proposed final for the year.

Manager's report

Standards of financial journalism may have hit all-time lows last year with virtually any share price move attributed to investors' desires to add or reduce the risk on their portfolios ('risk on, risk off'). At times investors such as ourselves, wishing to discuss the merits of long-term investing and ignore the short-term noise however important it seemed to others, were treated with a combination of amazement and pity. As ever, we believed it futile to second guess politicians' decisions or other investors' short-term actions and remained committed to simply uncovering stocks offering excellent long-term value.

Despite a significant amount of negative commentary, most equity markets around the world produced good returns last year, not least the UK market. The FTSE100 index rose 10.0% and the FTSE250 index (the largest 250 stocks by market capitalisation outside the FTSE100) rose by 26.1%. It is never easy to attribute market movements to particular causes, but with government bond yields at multi-year lows, investors apparently concluded that equities were a superior investment to any mainstream alternatives.

We never claim to possess deep macro-economic insights, but our knowledge of economic history is sufficient to assert that we are observing - and participating in - one of the largest financial experiments ever undertaken. It may end in success (less debt, controlled inflation, higher employment and decent economic growth) or failure – pick your own economic nightmare - but we know that, however high the confidence of forecasters, the future remains uncertain. It is impossible to identify how much money invested in equities last year is committed for the long term and how much is 'hot' and therefore likely to be withdrawn as the first punch is thrown. It is certainly intriguing that some investors who wouldn't touch the market with a bargepole in 2009 – and were highly vocal in that belief - have had a Damascene conversion to bullishness.

If they are genuine long-term investors, those who are more bullish now than they were three years ago must have changed their assumptions about either long-term interest rates (lower for longer) or corporate profitability (higher for longer). Alternatively, if they are more positive on equities because of the gap between equity yields and interest rates, then this is a relative view which could be corrected by long-term bond yields rising (gilt prices falling) rather than equity dividend yields falling (equity prices rising).

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Manager's report continued

We cannot be as optimistic about our portfolio as we were at the depths of the financial crisis in 2008/9 (and reading our reports of the time, we weren't that bullish!). Some stocks in the portfolio have risen significantly whilst many of our fair values are little changed. We focus on the average level of operating profits a company can generate through an economic cycle and value each company we research on that basis. Even in the dark days of 2009 we assumed that the deep recession would end at some point and happily opposed those investors waiting for better news or who believed the end of the world was nigh.

With investors rediscovering their animal spirits, we are not surprised that our universe of potential buy ideas has shrunk.

With investors rediscovering their animal spirits, we are not surprised that our universe of potential buy ideas has shrunk. We feed off the scraps of other investors and particularly devour the most out of favour stocks. In times when equities are strong, our opportunity set typically diminishes in both size and quality and this was the case in 2012. We have long appreciated the importance of patience and know great opportunities will arise intermittently. However, we have no method that will accurately forecast their occurrence. History also informs us that if, while we are waiting, we settle for investments we regard as second best, they inevitably disappoint.

We recognize our patience could be tested in this market as our major opposition is central banks eager to reduce the attractions of bonds and cash and consequently increase the relative attractions of equities. As these banks each have printing presses at their disposal, the odds may appear heavily skewed against us, but we will take our chances. Being bullied into purchasing stocks in historically unattractive periods is something which sits uncomfortably with our investment philosophy.

Our slothful dealing activity in the first half of 2012 was detailed in the interim report and the slothfulness actually increased in the second half. Amongst other things this provided us with some time to consider the pharmaceutical sector in more detail.

We have held a longstanding overweight position in the pharmaceutical sector. The strong balance sheets and high dividend yields of most of the sector's large constituents provide investors with assurance that they will be paid to wait for the better times. However, we are unconvinced the better times will be that good. Although investors are encouraged by companies to believe the pipeline for new drugs is under their control, our analysis suggests drug discoveries are driven by serendipity as much as good management. The consolidation in the industry over the last twenty years has failed to generate the promised

Portfolio distribution %

	Temple Bar portfolio %	FTSE All-Share Index %
Industrials	**16.71**	8.89
Financials	**14.77**	23.34
Health Care	**10.02**	7.03
Oil & Gas	**9.65**	16.13
Telecommunications	**7.98**	5.87
Consumer Services	**9.83**	9.57
Consumer Goods	**13.32**	13.78
Utilities	**2.21**	3.74
Technology	**1.85**	1.57
Basic Materials	**1.52**	10.08
Total Equities	**87.86**	100.00
Fixed Interest	**7.91**	0.00
Cash	**4.23**	0.00
	100.00	100.00

Manager's report continued

returns and our conclusion is that size is a barrier, not an aid, in driving improved productivity. In an industry which operates on very long cycles – the typical drug takes longer than 10 years to bring to the market – it is logical that continually changing working practices can alienate or dis-incentivise employees. Perhaps even worse, as a result of its efficiency drive, the industry seems to have created a structure that reduces luck's involvement in the drug discovery process.

Consequently, we decided to reduce the portfolio's exposure to the sector and sold the holding in Pfizer. Although current valuations for pharmaceutical companies are not stretched, they lose much of their lustre over the medium term as some branded drugs reach the end of their patent protection period and become fully exposed to competition from generic equivalents. With the new drug pipeline offering little medium term excitement, companies such as Pfizer have their hands full just maintaining current levels of profitability.

Our ears pricked up in the summer when many investors claimed the UK retail banks were 'uninvestable'. Typically, investors make this claim only after they have lost substantial sums in a sector; until then a sector's complexity often attracts those eager to demonstrate their intellectual superiority. It is curious to aver that the bank sector is uninvestable now given we know that the all-time worst period for investing in banks was in the mid-2000s when they were highly geared, had low capital ratios, rich valuations, were run by management teams with little interest in, or awareness of, risk and overseen by regulators apparently dozing in the corner. Of course, at that time, many bank shares were hitting all-time highs and were clearly considered very investable.

Many banks now have new management, stronger capital ratios, lower valuations and greater (although potentially onerous) regulation. The new management teams have been swift to sell their most unattractive assets during a period of good liquidity in the market and there is a clearer vision of how the remaining businesses will be structured in a few years' time. Retail banking has historically been a high return business because of the combination of customer inertia and naivety and the oligopolistic nature of the industry. Regulators are keen to counter the naivety with stricter regulation, but the other two factors are harder to break down.

Our confidence in the long term future of profitable banking franchises encouraged us to purchase shares in Royal Bank of Scotland at an approximate 60% discount to their net asset value. Admittedly, the net asset value is a difference between two very large and variable numbers (with the liabilities, in the form of customer and wholesale deposits, subtracted from the value of customer loans and other assets) and therefore the discount can be narrowed by a small reduction in gross assets – to the detriment of shareholders - instead of a large increase in share price. However, RBS has already recognized and impaired those assets most unlikely to repay in full and while there may be some new nasties still to be uncovered we believe the current valuation sufficiently compensates us for the risks we are taking.

Royal Bank of Scotland was forced to sell its insurance subsidiary, Direct Line Group, by the EU as a consequence of the British Government's assistance in bailing out the bank during the financial crisis. Direct Line has lost its way in recent years due to external circumstances such as the extraordinary increase in claims resulting from whiplash injuries in motor accidents and internal management problems. As the biggest player in both motor and household insurance in the UK, we believe Direct Line can generate market leading returns and, if successful, will trade at a much higher valuation. Programmes to cut costs, make claims management more efficient and to

Our slothful dealing activity in the first half of 2012 was detailed in the interim report and the slothfulness actually increased in the second half.

Manager's report continued

improve the pricing of insurance risk should all aid the recovery programme.

In some years performance relative to a benchmark is dependent on what is held on the portfolio while in other years what is not held is more important. Last year's performance was generated predominantly by stocks we did hold and, in general, we benefitted from a favourable mix of winners and losers. The bar chart below shows the top and bottom contributors to performance during the year and includes the impact of stocks not held on the portfolio. Some of the winners have been held on the portfolio for some years and blossomed nicely: Grafton, QinetiQ, Games Workshop, Travis Perkins and Signet responded to improving earnings despite exposure to areas which were far from buoyant such as defence, retailing and home improvement. Fortunately, losers were reasonably thin on the ground although Avon Products was unsuccessful yet again and the Market Vectors Gold Miners ETF and GlaxoSmithKline also disappointed.

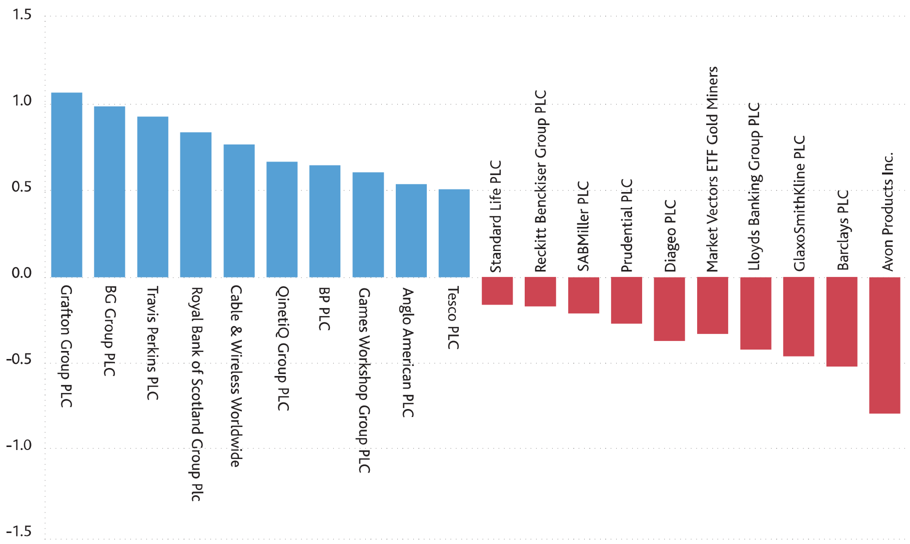
We strive to learn continually from our mistakes and our better judgements. Ideally, instant feedback on the quality of decisions would be most valuable (weather forecasters receive this constantly; probably a humbling yet rewarding experience), but sometimes in fund management it can take years for events fully to play out. Ironically, what might be regarded as our best decisions in the last five years are possibly our worst. We have made excellent returns from the bottom of the market in Signet and Travis Perkins. Both have more than quintupled from their lows and we have maintained our full holdings. While this has undoubtedly benefited shareholders it is revealing to return to the lows in 2009. We believed both shares were very significantly undervalued and, despite their subsequent large share price falls, it is interesting that our assessment of fair value was unchanged through the bear market. It is therefore a little puzzling how timid we were in adding to our positions.

Some may claim this 'lesson' is meaningless as it requires hindsight, but this is not so. The stability of our fair value assessment was a strong indication of either genuine cheapness or mind-blowing levels of hubris (a nasty affliction which we try to keep at bay by constantly challenging our investment thesis). These examples compare with other stocks of which we were, initially, equally bullish, but because of the debt within the companies or the weakness of the business models, the fair value subsequently proved less secure.

We will probably receive few opportunities similar to those we received in 2009, but should be more prepared to act when they do arise. In our defence, investment conditions were extraordinary at the time and maintaining rational behaviour was difficult. As Warren Buffett later observed, "By year end [2008], investors of all stripes were bloodied and confused, much as if they were small birds that had strayed into a badminton game".

Towards the end of 2008 we purchased a number of reasonably short-dated investment grade corporate bonds. Despite their strong credit ratings, these bonds were purchased at distressed levels when the credit markets were fairly dysfunctional. They have produced excellent returns, but a number matured during the year. Clearly corporate bond yields are now significantly lower than when these bonds were purchased and are too

Attribution analysis by stock %
Source: Datastream



Manager's report continued

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unattractive to encourage reinvestment. Therefore, the redemptions will reduce the income on the whole portfolio whilst the proceeds are held in cash and very short-dated bonds.

As highlighted earlier, we can find few equities trading at bargain basement levels and consequently the portfolio is fairly conservatively invested. Given the many subjects with which investors are currently wrestling, we expect there will be bouts of specific stock volatility that will throw up interesting candidates for the portfolio.

Alastair Mundy
For Investec Asset Management Limited
19 February 2013

Portfolio of investments

Company	Supersector	Place of listing	**Valuation £000**	% of portfolio
HSBC HSBC Holdings, Europe's largest banking company and the third largest in the world, is the leading international banking group in Asia (ex Japan) with a strong presence in the Middle East, North and South America and the UK. Its regional banking franchises are largely focused on retail banking and consumer finance, but the group also has strong foreign exchange and treasury capabilities based on trade finance skills. Approximately half its assets are in Europe, a quarter in the Americas and a quarter in Asia.	Financials	UK	**51,242**	8.08
Royal Dutch Shell Royal Dutch Shell is a global oil and gas company. It is the largest energy company in the world measured by revenues and is one of the six oil and gas “supermajors”. It is vertically-integrated and is active in every area of the oil and gas industry, including exploration and production, refining, distribution and marketing, petrochemicals, power generation and trading.	Oil & Gas	UK	**48,563**	7.65
Signet Jewelers Signet is the world’s largest specialist jewellery retailer and is the clear market leader in both the UK and the US. The group operates over 500 stores in the UK, where it trades under the Ernest Jones, Leslie Davies and H Samuel brands. The US operations are larger, accounting for more than 80% of sales and profits, with a total of about 1,300 stores. In the US, Signet operates the largest mall-based chain, Kay, and also the leading off-mall jewellery superstore concept, Jared. Offering best-in-class store standards and an increasingly differentiated product range, Signet continues to win market share in the US and retains significant scope for further growth.	Consumer Services	UK/USA	**48,438**	7.63
Unilever Unilever is one of the world’s leading companies in food manufacturing, household products and personal care. The group’s activities cover a number of categories including detergents, deodorants, hair care, ice cream, frozen food, spreads and culinary. Unilever operates a range of global and regional brands including Dove, Axe, Ben & Jerry’s, Cif and Domestos throughout the developed and developing world.	Consumer Goods	UK	**41,491**	6.54
GlaxoSmithKline GlaxoSmithKline is a global, and increasingly diversified, health care company with leading positions in large therapeutic areas such as respiratory, anti-infectives, diabetes and central nervous system disorders. The company has a consumer health division that markets a number of over-the-counter, oral health and nutritional health care products. GlaxoSmithKline has one of the largest pipelines of new drugs and innovative vaccines in the industry. Its pipeline is now beginning to deliver a number of drugs and emphasis is increasingly placed on innovation.	Health Care	UK	**38,462**	6.06

Portfolio of investments continued

Company	Supersector	Place of listing	**Valuation £000**	% of portfolio
Travis Perkins Travis Perkins is the UK's leading builder's merchant and, through its 200-strong Wickes chain, also the third largest DIY retailer. The builder's merchanting operations comprise the core Travis Perkins chain (over 600 branches) and a variety of specialist merchanting businesses including the Keyline heavyside business, Benchmarx kitchens and CCF, an insulation products distributor. Travis Perkins is also the largest distributor of plumbing and heating products. In addition to Wickes, the retail operations also include Tile Giant, which is the UK's second largest specialist tile seller and Toolstation, a tools and hardware retailer with over 100 branches. Builder's merchanting is an attractive sector, offering high returns, good cash generation and significant barriers to entry. Travis Perkins is widely acknowledged to be the best operator in the business and has massively outperformed all its peers through the downturn, leaving it well placed for the recovery, whenever it comes.	Industrials	UK	**27,119**	4.27
Vodafone Vodafone Group is one of the world's leading mobile telecommunications companies by revenue, with a significant presence in Europe, the Middle East, Africa, Asia Pacific and the United States (through its partnership with Verizon on Verizon Wireless).	Telecommunications	UK	**26,687**	4.21
UK Treasury 4.5% 2013 Held in the portfolio in lieu of cash	Fixed Interest	UK	**25,892**	4.08
BT Group BT is one of the largest telecommunications services companies in the world and is the UK incumbent operator for fixed line telecom services.Through its BT Global Services division it is a leading supplier of telecommunications services to corporate and government customers worldwide and its BT Retail division is a leading supplier of telephony, broadband and subscription television services in the UK, with over 18 million customers.	Telecommunications	UK	**25,776**	4.06
Grafton Group Grafton is a distributor of building products that operates across the British Isles and also has a small Belgian and a very small Polish business. The group operates from about 500 sites in the UK, and this is by far the group's most important market, accounting for 75% of sales and almost all of current profits. The group's origins lie in Ireland, where it is very clearly the largest builder's merchant, with its 100 sites and estimated 30% market share making it four times the size of the next largest operator. Grafton also has a significant presence in the Irish DIY market, where it is even more dominant, accounting for over 60% of big box DIY space. Builder's merchants operate in a structurally attractive market, with deep economic "moats" existing and there are no obvious threats to the business model. Therefore, whilst the group's profitability in the UK and, especially, Ireland is currently depressed, there is no reason to believe that the far higher profits generated in better economic times will not be revisited, once the economic cycle begins to turn.	Industrials	UK/IRE	**24,922**	3.93
Top Ten Investments			**358,592**	**56.51**

Portfolio of investments continued

Company	Supersector	Place of listing	Valuation £000	% of portfolio
AstraZeneca	Health Care	UK	**23,626**	3.72
QinetiQ Group	Industrials	UK	**19,888**	3.13
Royal Bank of Scotland Group	Financials	UK	**19,211**	3.03
SIG	Industrials	UK	**16,166**	2.55
BP	Oil & Gas	UK	**15,392**	2.43
Centrica	Utilities	UK	**14,636**	2.31
British American Tobacco	Consumer Goods	UK	**14,368**	2.26
Avon Products	Consumer Goods	USA	**12,651**	1.99
Games Workshop Group	Consumer Goods	UK	**10,483**	1.65
CRH	Industrials	UK/IRE	**9,744**	1.54
Top Twenty Investments			**514,757**	**81.12**
Market Vectors - ETF Gold Miners	Basic Materials	USA	**9,540**	1.50
Computacenter	Technology	UK	**9,352**	1.47
Kingspan Group	Industrials	UK/IRE	**8,753**	1.38
UK Commercial Property	Financials	UK	**8,534**	1.35
Carrefour	Consumer Goods	France	**7,633**	1.20
Carnival	Consumer Services	UK	**7,369**	1.16
British Land REIT	Financials	UK	**6,966**	1.10
Go Ahead Group	Consumer Goods	UK	**6,847**	1.08
Land Securities REIT	Financials	UK	**6,795**	1.07
Nationwide 2015 Variable Perpetual	Fixed Interest	UK	**5,713**	0.90
Top Thirty Investments			**592,259**	**93.33**
Direct Line Insurance Group	Financials	UK	**4,453**	0.70
Medtronic Inc	Health Care	USA	**4,294**	0.68
Hammerson 6.875% 2020	Fixed Interest	UK	**3,062**	0.48
Invensys	Technology	UK	**2,876**	0.45
Nationwide 2016 Variable Perpetual	Fixed Interest	UK	**2,670**	0.42
Compass 7% 2014	Fixed Interest	UK	**2,216**	0.35
Vodafone Group 4.625% 2014	Fixed Interest	UK	**2,111**	0.33
Santander 2015 FRN	Fixed Interest	UK	**2,075**	0.33
Future	Consumer Services	UK	**2,071**	0.33
Next 5.25% 2013	Fixed Interest	UK	**2,052**	0.33
Top Forty Investments			**620,139**	**97.73**

Portfolio of investments continued

Company	Supersector	Place of listing	**Valuation £000**	% of portfolio
Daily Mail & General Trust 7.5% 2013	Fixed Interest	UK	**2,021**	0.32
Devro	Consumer Goods	UK	**1,619**	0.26
Nationwide 2026 Variable Perpetual	Fixed Interest	UK	**1,603**	0.25
Rentokil Initial	Industrials	UK	**1,249**	0.20
Morgan Sindall Group	Industrials	UK	**1,215**	0.19
HSBC 2015 Variable	Fixed Interest	UK	**1,102**	0.18
RSA Insurance Group 2017 Variable Perpetual	Fixed Interest	UK	**1,037**	0.16
Aviva 2020 - FRN Perpetual	Fixed Interest	UK	**850**	0.13
Lloyds Banking Group	Financials	UK	**687**	0.11
St. Ives	Industrials	UK	**630**	0.10
Top Fifty Investments			**632,152**	**99.63**
Vesuvius	Industrials	UK	**627**	0.10
Alent	Basic Materials	UK	**560**	0.09
Colt Group SA	Telecommunications	UK	**404**	0.06
Smiths Group	Industrials	UK	**382**	0.06
Johnson Press	Consumer Services	UK	**378**	0.06
Total Valuation of Portfolio			**634,503**	**100.00**

Report of the directors

The directors present their report and accounts for the year ended 31 December 2012.

BUSINESS REVIEW

Introduction

This business review forms part of the Report of the Directors. Its function is to provide a balanced and comprehensive review of the Company's performance and development during the year and its position at the year-end. The review also covers the principal risks and uncertainties faced by the Company and sets out key performance indicators used to measure, monitor and manage the Company's business.

Temple Bar Investment Trust PLC was incorporated in 1926 with the registered number 214601.

Business of the Company

The Company carries on business as an investment company under Section 833 of the Companies Act 2006 and has been approved by HM Revenue & Customs as an investment trust in accordance with Section 1158 of the Corporation Tax Act 2010.

The Company's principal business activity of investment management is sub-contracted to Investec Asset Management Limited ('IAM') under the ultimate supervision of the board of directors. The Company's only subsidiary, Temple Bar Securities Ltd, was dissolved during the year.

A review of the business is given in the Chairman's Statement and the Manager's Report. The results of the Company are shown on page 28.

Going concern

The directors have reviewed the going concern basis of accounting for the Company. The Company's assets consist substantially of equity shares in listed companies and in most circumstances are realisable within a short timescale. The use of the going concern basis of accounting is appropriate because there are no material uncertainties related to events or conditions that may cast significant doubt about the ability of the Company to continue as a going concern. After making enquiries, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the directors continue to adopt the going concern basis in preparing the accounts.

Investment objective and policy

The Company's investment objective is to provide growth in income and capital to achieve a long-term total return greater than the benchmark FTSE All-Share Index, through investment primarily in UK securities. The Company's policy is to invest in a broad spread of securities with typically the majority of the portfolio selected from the constituents of the FTSE 100 Index. The directors are proposing that in future the majority of the portfolio should be selected from the constituents of the FTSE 350 Index.

The UK equity element of the portfolio will be mostly invested in the FTSE All-Share Index; however, exceptional positions may be sanctioned by the Board and up to 10% of the portfolio may be held in listed international equities in developed economies. Shareholders are being asked to approve an increase in the international investment limit to 20% at the forthcoming AGM. The Company may continue to hold securities that cease to be quoted or listed if the Manager considers this to be appropriate. There is an absolute limit of 10% on individual stocks with a maximum exposure to a specific industrial or commercial sector of 25%, in each case irrespective of their weightings in the benchmark index.

It is the Company's policy to invest no more than 15% of its gross assets in other listed investment companies (including listed investment trusts).

The Company maintains a diversified portfolio of investments, typically comprising 70-80 holdings, but without restricting the Company from holding a more or less concentrated portfolio from time to time as circumstances require.

The Company's long-term investment strategy emphasises:

- Achieving a portfolio yield of between 120-140% of that of the FTSE All-Share Index.
- Stocks of companies that are out of favour and whose share prices do not match the Manager's assessment of their longer term value.

From time to time fixed interest holdings or non equity interests may be held for yield enhancement and other purposes. Derivative instruments are used in certain circumstances, and with the prior approval of the Board, for hedging purposes or to exploit a specific investment opportunity.

Liquidity and borrowings are managed with the aim of increasing returns to shareholders. The Company's net gearing range may fluctuate between 0% and 30%, based on the current balance sheet structure, with an absolute limit of 50%.

As a general rule it is the Board's intention that the portfolio should be reasonably fully invested. An investment level of 90% of shareholder funds is regarded as a guideline minimum investment level dependent on market conditions.

Risk is managed through diversification of holdings, investment limits set by the Board and appropriate financial and other controls relating to the administration of assets.

Investment approach

The investment approach of the Manager is premised on a contrarian view on the timing of buy and sell decisions, buying the shares of companies when sentiment towards them is thought to be near its worst and selling them as fundamental profit improvement and/or re-evaluation of their long-term prospects takes place.

The belief is that repeated investor behaviour in driving

Report of the directors continued

down the prices of 'out of favour' companies to below their fair value will offer investment opportunities. This will allow the Company to purchase shares at significant discounts to their fair value and to sell them as they become more fully valued, principally as a result of predictable patterns in human psychology.

The Manager's process is designed to produce 'best ideas' to drive active fund management within a rigorous control framework. The framework begins through narrowing down the universe of stocks by passing those companies with a market capitalisation above £100 million through a screening process which highlights the weakest performing stocks. This isolates opportunities with attractive sentiment characteristics which are then in turn scrutinised in greater detail to identify investment opportunities.

The process is very much bottom up and can result in large sector positions being taken if enough stocks of sufficient interest are found within a single sector. However, top down risk analysis is undertaken to identify potential concentration of risk and to factor this awareness into portfolio construction. The portfolio comprises stocks which have been purchased for different reasons and at different times. In general, because of the bottom up approach to stockpicking, each of these reasons is independent of the other and the portfolio, therefore, is not excessively vulnerable to longer term macro trends. Cash is a residual of the process and normally will not exceed 5% of the portfolio value.

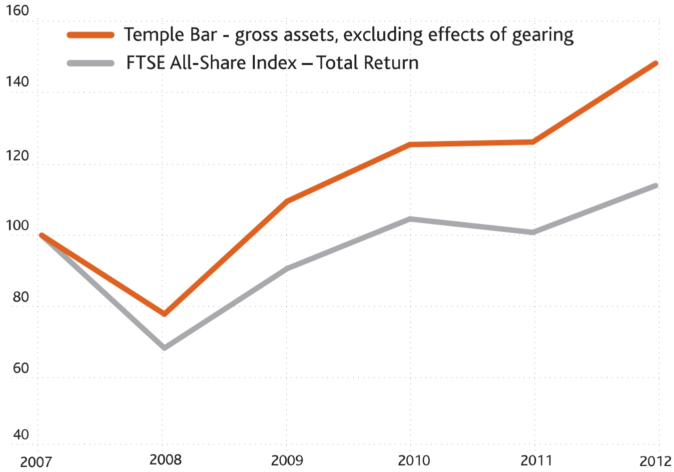
The approach to stock selection and portfolio construction is driven by four core beliefs:

1. Markets overreact to news on the upside and the downside. The Manager aims to be sceptical of the crowd and aware of investor psychology, which often causes overvaluation of those stocks that are deemed to have good prospects and an undervaluation of those which are out of favour.
2. There are few companies which sustain below normal profits over the longer term. Weaker companies tend to leave an industry, thus improving the balance of supply and demand, are bid for or management is changed. Similarly, there are few companies which can sustain supernormal profits over the longer term. Such profits tend to be competed or regulated away.
3. Fundamental valuation is the key determinant of stock prices over the long term. In other words 'cheap' stocks will outperform 'expensive' stocks.
4. Diversification is an important control. Particular companies or sectors can be out of favour for a considerable time.

Performance

In the year to 31 December 2012 the net asset value total return of the Company was 18.0% compared with a total return of the Company's benchmark index of 12.3%. In addition, the following graph shows the ungeared investment performance over a five year period compared with the FTSE All-Share Index. The Chairman's Statement on pages 4 to 5 and the Manager's Report on pages 7 to 11 include a review of developments during the year together with information on investment activity within the Company's portfolio and an assessment of future developments.

Ungeared 5 year performance



Key performance indicators

The principal key performance indicators ('KPIs') used to determine the progress and performance of the Company over time, and which are comparable to those reported by other investment trusts, are:

- Net asset value total return relative to the FTSE All-Share Index
- Discount/premium on net asset value
- Earnings and dividends per share
- Ongoing charges

While some elements of performance against KPIs are beyond management control they provide measures of the Company's absolute and relative performance and are, therefore, monitored by the Board on a regular basis.

Net asset value ('NAV') total return

In reviewing the performance of the assets of the Company's portfolio the Board monitors the net asset value in relation to the FTSE All-Share Index. During the year the net asset value total return of the Company was 18.0% compared with a total return of 12.3% by the FTSE All-Share Index.

Discount on net asset value

The Board monitors the premium/discount at which the Company's shares trade in relation to the net assets. During the year the shares traded at an average premium to NAV of 4.6%. This compares with an average premium of 3.8% in the previous year. The Board and Manager closely monitor both movements in the Company's share price and significant dealings in the shares. In order to avoid substantial overhangs or shortages of shares in the

Report of the directors continued

market the Board asks shareholders to approve resolutions which allow for the buy back of shares and their issuance which can assist in the management of the discount. Regular demand generated by monthly investment in the Savings Scheme and the use of marketing and promotional activity also assist in keeping the discount at an acceptable level.

Earnings and dividend per share
It remains the directors' intention to distribute over time by way of dividends substantially all of the Company's net revenue income after expenses and taxation. The Manager aims to maximise total returns from the portfolio and attaches great importance to dividends in achieving total return.

The portfolio will typically provide a yield premium to the market. The final dividend recommended for the year is 22.0p per ordinary share which brings the total for the year to 36.65p per ordinary share, an increase of 4.0%. This will be the 29th consecutive year in which the Company has increased the overall level of its dividend payment.

Ongoing charges
Ongoing charges is an expression of the Company's management fees and all other operating expenses as a percentage of average daily net assets over the year. The ongoing charges for the year ended 31 December 2012 were 0.51% (2011: 0.50%). The Board reviews each year a comparison of the Company's ongoing charges with those of its peers. At the present time the Company has one of the lowest ongoing charges in the growth and income sector of investment trust companies.

Principal risks and uncertainties
With the assistance of the Manager the Board has drawn up a risk matrix which identifies the key risks to the Company. The Board reviews and agrees policies, which have remained unchanged since the beginning of the accounting period, for managing these risks, as summarised below.

Investment strategy
An inappropriate investment strategy on matters such as asset allocation or the level of gearing may lead to underperformance against the Company's benchmark index or peer companies, resulting in the Company's shares trading on a wider discount. The Board manages such risks by diversification of investments through its investment restrictions and guidelines, which are monitored and reported on by the Manager. The Manager provides the directors with regular and accurate management information including absolute and relative performance data, attribution analysis, revenue estimates, liquidity reports, risk profile and shareholder analysis. The Board monitors the implementation and results of the investment process with the Portfolio Manager, who attends Board meetings. Periodically the Board holds a separate meeting devoted to strategy, the most recent one being in September 2010. A further strategy meeting has been arranged for March 2013.

Income risk – dividends
Generating the necessary level of income from portfolio investments to meet the Company's expenses and to provide adequate reserves from which to base a sustainable programme of increasing dividend payments to shareholders is subject to the risk that income generation from investments fails to meet the level required. The Board monitors this risk through the receipt of detailed income reports and forecasts which are considered at each meeting. As at 31 December 2012 the Company had distributable revenue reserves of £33.535 million before declaration of the final dividend for 2012 of £13.321 million.

Share price risk
The Company's share price and discount to NAV are monitored by the Manager and considered by the Board at each meeting. Some short-term influences over the discount may be exercised by the use of share repurchases at acceptable prices; however, market sentiment is beyond the absolute control of the Manager and Board.

Accounting, legal & regulatory
In order to qualify as an investment trust the Company must comply with Section 1158 of the Corporation Tax Act 2010. Were the Company to breach Section 1158 it might lose investment trust status and, as a consequence, gains within the Company's portfolio would be subject to capital gains tax. The Section 1158 qualification criteria are, therefore, monitored by the Board at each meeting.

The Company must also comply with the provisions of the Companies Act and, since its shares are listed on the London Stock Exchange, the UKLA Listing Rules. A breach of the Companies Act could result in the Company being fined or subject to criminal proceedings. Breach of the UKLA Listing Rules could result in the Company's shares being suspended from Listing which in turn would breach Section 1158. The Board relies on the services of its Company Secretary, IAM, and its professional advisers to ensure compliance with the Companies Act and the UKLA Listing Rules and is satisfied that they are able to provide an appropriate service in this regard.

Corporate governance and shareholder relations
Details of the Company's compliance with corporate governance best practice including information on relations with shareholders, are set out in the corporate governance report on pages 23 to 25 which forms part of this directors' report.

Control systems risk
Disruption to, or failure of, IAM's accounting, dealing or payments systems or the custodian's records could prevent

Report of the directors continued

accurate reporting and monitoring of the Company's financial position or adversely impact the ability to trade. Details of how the Board monitors the services provided by IAM and its associates and the key elements designed to provide effective internal control are included within the internal control section of the corporate governance report on pages 23 to 25.

Other risks

Other risks to which the Company is exposed and which form part of the market risks referred to above are included in note 22 to the financial statements together with summaries of the policies for managing these risks. These comprise; market price risk, interest rate risk, liquidity risk, credit risk and currency risk.

The Board confirms that there is an ongoing process for identifying, evaluating and managing strategic and operational risks. This process is regularly reviewed by the Board in accordance with the Turnbull guidance on internal controls.

ORDINARY DIVIDENDS

An interim dividend of 14.65p per ordinary share was paid on 28 September 2012 (2011: 14.0p) and the directors are recommending a final dividend of 22.00p per ordinary share (2011: 21.23p), a total for the year of 36.65p (2011: 35.23p). Subject to shareholders' approval, the final dividend will be paid on 28 March 2013 to shareholders on the register on 15 March 2013.

ISAs

The Company has conducted its investment policy so as to remain a qualifying investment trust under the ISA regulations. It is the intention of the Board to continue to satisfy these regulations.

SHARE CAPITAL

During the year 850,000 ordinary shares of 25p were allotted fully paid for a total consideration of £7.876 million at prices representing a premium to the prevailing net asset value.

Section 992 of the Companies Act 2006

The following information is disclosed in accordance with Section 992 of the Companies Act 2006.

Capital Structure

The Company's capital structure is summarised on page 38. There have been no changes since the year-end.

Voting Rights in the Company's Shares

The voting rights at 31 December 2012 were:

Share class	Number of shares issued	Voting rights per share	Total voting rights
Ordinary shares of 25p each	60,551,367	1	60,551,367

As at 19 February 2013, the share capital of the Company and total voting rights was 60,551,367. Deadlines for the exercise of voting rights and details of arrangements by which someone other than the registered shareholder can exercise voting rights are detailed in the Notes to the Notice of Meeting on page 42. The Company's ordinary shares have a premium listing on the London Stock Exchange.

DIRECTORS

The directors of the Company during the year were as stated below and their interests in the ordinary share capital of the Company are as follows. Each of the directors held office throughout the year.

	31 December 2012	1 January 2012
A T Copple	12,644	6,250
J F de Moller	6,931	6,051
R W Jewson	8,214	7,654
J Reeve	49,596	46,580
M R Riley	15,000	15,000
D G C Webster	3,739	3,601

All the above interests are beneficial. None of the directors had at any date any interest in either of the Company's debenture stocks.

On 10 January 2013 Mr Reeve acquired a further 94 ordinary shares in the Company through his regular monthly saving in an ISA and on 12 February 2013 he acquired a further 91 ordinary shares. On 22 January 2013 Mr Copple, Mr Jewson and Mrs de Moller acquired a further 463, 23 and 46 ordinary shares respectively in the Company through their regular monthly savings in the Temple Bar Investment Trust Savings Scheme. No other changes in the interests shown above occurred between 31 December 2012 and 19 February 2013.

No other person was a director during any part of the year.

All the directors will be retiring in compliance with the provisions of the AIC Code. Each of the directors being eligible, the Board recommends their re-election. In making these recommendations the Board has carefully reviewed the composition of the Board as a whole and borne in mind the need for a proper balance of skills and experience. The Board does not believe that length of service of itself detracts from the independence of a director, particularly in relation to an investment trust, and on that basis considers that all directors standing for re-election are independent. It is confirmed that, following formal evaluation, the performance of each director continues to be effective and each continues to demonstrate commitment to the role.

There were no contracts subsisting during or at the end of the year in which a director of the Company is or was interested and which are or were significant in relation to the Company's business. No director has a service contract with the Company.

PAYMENT OF SUPPLIERS

The Company's policy is to obtain the best possible terms of payment from suppliers for all forms of business. All terms agreed with suppliers have been complied with during the year. There were no trade creditors at the year-end (2011: nil).

Report of the directors continued

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2012 and 19 February 2013 the following had indicated an interest in 3% or more of the issued ordinary shares of the Company.

	%
Brewin Dolphin Ltd	10.48
Speirs & Jeffrey Ltd	6.02
Investec Wealth & Investment Ltd	4.77
AXA SA	3.12

MANAGEMENT CONTRACT

The Company has a management agreement with IAM for the provision of investment management, secretarial, accounting and administrative services. The agreement is subject to one year's notice of termination by either party.

IAM receives an investment management fee of 0.35% per annum, payable quarterly, based on the value of the investments (including cash) of the Company. Investments in funds managed by IAM are wholly excluded from this charge.

The investment management fee charged for the year ended 31 December 2012 amounted to £2,224,000 (2011: £2,040,000).

IAM's performance under the contract and the contract terms are reviewed at least annually. This covers, inter alia, the performance of the Manager, their management processes, investment style, resources and risk controls. The Board endorses the investment approach adopted by the Manager, recognising that while the contrarian style can sometimes lead to short-term periods of underperformance it usually delivers good investment returns over a longer term. The Company's performance over three and five year periods relative to both its benchmark and its peer group has been excellent. In addition, the portfolio has produced high and growing dividend income to shareholders. In the opinion of the directors the continued appointment of the Manager on the terms set out above is, therefore, in the best interests of shareholders.

DISCLOSURE OF INFORMATION TO AUDITOR

The directors are not aware of any relevant information of which the auditor is unaware and have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

AUDITOR

A resolution to re-appoint Ernst & Young LLP as auditor to the Company will be proposed at the Annual General Meeting ('AGM') on 25 March 2013.

ANNUAL GENERAL MEETING

The notice of the Annual General Meeting of the Company to be held on 25 March 2013 is on pages 42 to 46. In addition to the ordinary business six resolutions are proposed as special business.

Amendment to Articles

In 2012 certain of the statutory rules governing investment limits were amended. In particular, the rule which prohibited an investment trust from distributing any net gains arising from the realisation of its investments was repealed. In order to comply with the previous statutory regime the Company had a provision in its Articles expressly prohibiting the distribution of any net gains arising from the realisation of its investments. The Board no longer considers it appropriate to have such a prohibition in the Articles and therefore proposes that this is deleted. Resolution 16 will, if passed, remove this prohibition.

It should be noted that the proposal to amend the Articles will not result in a change in how the Company's net revenue is generated or calculated. The Company will continue to pursue its policy of paying increasing dividends from net revenue profits but the Board believes that the removal of the restriction will give the Company greater flexibility in the longer term, for example in the event of a change in tax policy.

Investment policies

Ordinary resolutions are being proposed at the AGM to enable the portfolio manager to have more flexibility in constructing the investment portfolio. The first change will increase the permissable investment level in listed international equities in developed economies from 10% to 20% of the portfolio. The second change relates to the current requirement for the majority of the portfolio to be comprised of constituents of the FTSE 100 Index; it is proposed that this be changed to the FTSE 350 Index.

Authority to allot shares and disapplication of pre-emption rights

It is proposed that the directors be authorised to allot up to £1,513,784 of relevant securities in the Company (equivalent to 6,055,136 ordinary shares of 25p each, representing 10.0% of its ordinary shares in issue as at 19 February 2013).

When shares are to be allotted for cash, the Companies Act 2006 requires such new shares to be offered first to existing shareholders in proportion to their existing holdings of ordinary shares. However, in certain circumstances, it is beneficial to allot shares for cash otherwise than pro rata to existing shareholders and the ordinary shareholders can by special resolution waive their pre-emption rights. Therefore, a special resolution will be proposed at the AGM which, if passed, will give the directors the power to allot for cash equity securities up to an

Report of the directors continued

aggregate nominal amount of £1,513,784 (equivalent to 6,055,136 ordinary shares of 25p each or 10.0% of the Company's existing issued ordinary share capital).

The directors intend to use this authority to issue new shares to participants in the Temple Bar Investment Trust Savings Scheme or to other prospective purchasers whenever they believe it may be advantageous to shareholders to do so. Any such issues would only be made at prices greater than net asset value, as adjusted for the market value of the Company's debt and would, therefore, increase the assets underlying each share. The issue proceeds would be available for investment in line with the Company's investment policy.

No issues of shares will be made which would alter the control of the Company without the prior approval of shareholders in general meeting.

The appropriate resolutions are set out in the Notice of Meeting on page 42.

Directors' authority to purchase the Company's own shares

The directors consider it desirable to give the Company the opportunity to buy back shares in circumstances where the shares may be bought for a price which is below the net asset value per share of the Company. The purchase of ordinary shares is intended to reduce the discount at which ordinary shares trade in the market through the Company becoming a new source of demand for ordinary shares. The rules of the UK Listing Authority provide that the maximum price which can be paid by the Company is 5% above the average of the market value of the ordinary shares for the five business days before the purchase is made.

Recommendation

The Board considers the resolutions to be proposed at the AGM to be in the best interests of the Company and its members as a whole. Accordingly, the directors unanimously recommend that shareholders should vote in favour of the resolutions to be proposed at the AGM, as they intend to do so in respect of their own beneficial holdings, amounting to 96,841 ordinary shares.

By order of the Board of Directors
M K Slade
For Investec Asset Management Limited
Secretary
19 February 2013

Report on directors' remuneration

This report has been prepared in accordance with Section 421 of the Companies Act 2006 in respect of the year ended 31 December 2012. An ordinary resolution will be proposed at the AGM to approve this report, but the directors' remuneration is not conditional upon the resolution being passed. The law requires the Company's auditor to audit certain parts of the disclosures provided. Where disclosures have been audited, they are indicated as such. The auditor's opinion is included in their report on page 27.

The Company does not have any executive directors and, as permitted under the Listing Rules, has not, therefore, established a remuneration committee. Remuneration of non-executive directors is viewed as a decision of the Board, subject to any shareholder approvals which may be necessary. In effect, therefore, the Board as a whole fulfils the function of a remuneration committee. The Company's Articles of Association currently state that the Board shall determine the rate at which directors shall be paid, provided that the aggregate of all such fees shall not exceed £250,000 p.a. This does not include any sums paid to directors that are not classed as remuneration, e.g. expense reimbursements. The limit on the aggregate amount of directors' fees paid is subject to the approval of shareholders by an ordinary resolution.

POLICY ON DIRECTORS' REMUNERATION

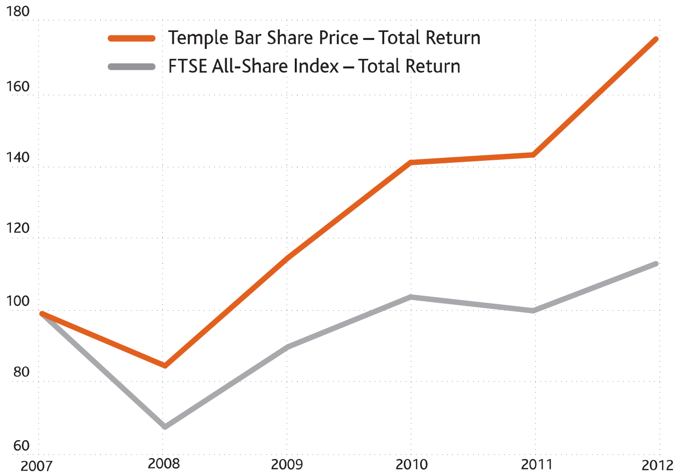
The level of directors' fees is determined with reference to a review of the remuneration paid to the directors of a range of other investment trusts, comparable in terms of both size and investment characteristics. The Manager of the Company compiles such analysis as part of the management and secretarial services provided to the Company. No other external advice is taken in considering such fees. It is expected that the level of directors' fees will continue to be assessed on this basis in forthcoming years.

Following the most recent review the Board concluded that the remuneration be increased by 2.6% to £31,800 p.a. for the Chairman and by 2.4% to £21,500 p.a. for the other directors with effect from 1 January 2013. In addition, the Chairman of the Audit Committee, currently Mr Jewson, will receive an annual remuneration of £24,200, an increase of 2.6%.

PERFORMANCE GRAPH

The directors consider that the most appropriate measure of the Company's performance is its share price total return compared with the total return on the FTSE All-Share Index. A graph illustrating this relative performance over a five year period is shown opposite.

Share price total return
Source: Datastream



DIRECTORS' EMOLUMENTS

The fee level for directors is shown below. There is no performance related fee. There is a formal letter of appointment for each director.

Directors are initially appointed until the following AGM when, under the Company's Articles of Association, it is required that they are offered for re-election by shareholders. Thereafter, a director's continuing appointment is subject to annual re-election by shareholders.

Audited

Director	**2012** £	2011 £
John Reeve	**31,000**	29,500
Arthur Copple	**21,000**	18,051
June de Moller	**21,000**	20,000
Richard Jewson	**23,600**	22,500
Martin Riley	**21,000**	20,000
David Webster	**21,000**	20,000
	138,600	130,051

The fees disclosed above exclude employers' national insurance contributions and VAT where applicable.

No director received any other benefits (2011: Nil).

By order of the Board of Directors
M K Slade
For Investec Asset Management Limited
Secretary
19 February 2013

Corporate governance

APPLICATION OF AIC CODE PRINCIPLES

The Board attaches great importance to ensuring that the Company operates to high ethical and compliance standards. In addition, the Board seeks to observe the principles set out in the AIC Code of Corporate Governance, established specifically for investment trust companies and endorsed by the Financial Reporting Council. By following the Code, the Company continues to meet its obligations in relation to the FRC's UK Corporate Governance Code.

The Code provides a guide to best practice in certain areas of governance where the specific characteristics of investment trusts suggest that alternative approaches to those set out in the UK Corporate Governance Code may be preferable.

COMPLIANCE WITH THE PRINCIPLES OF THE AIC CODE OF CORPORATE GOVERNANCE

Operation of the Board

Each of the directors is independent of any association with the Manager which might interfere with the exercise of independent judgement. There is a formal schedule of matters to be specifically approved by the Board and individual directors may seek independent advice at the expense of the Company within certain limits. The Board has delegated the investment management, within clearly defined parameters and dealing limits, and the administration of the business to Investec Asset Management Limited ('IAM'). The Board makes all strategic decisions, reviews the performance of the Company at Board meetings and sets the objectives for the Manager. The directors have a range of business and financial skills or experience relevant to the direction of the Company. Mr R W Jewson is the Senior Independent Director.

The Corporate Company Secretary ('the Company Secretary') is responsible to the Board, inter alia, for ensuring that Board procedures are followed and for compliance with applicable rules and regulations including the AIC Code. Appointment or removal of the nominated representative of the Company Secretary is a matter for the Board as a whole.

The content and presentation of Board papers circulated before each meeting contain sufficient information on the financial condition of the Company. Key representatives of IAM attend each Board meeting enabling directors to probe on matters of concern or seek clarification on certain issues.

There were seven Board meetings, two audit committee meetings and one nomination committee meeting held during the year and the attendance by the directors was as follows:

	Number of meetings attended		
	Board	Audit Committee	Nomination Committee
John Reeve	7	2	1
Arthur Copple	7	2	1
June de Moller	7	2	1
Richard Jewson	7	2	1
Martin Riley	6	2	1
David Webster	7	2	1

Independence of the directors

Each of the directors is independent of any association with the Manager and has no other relationships or circumstances which might be perceived to interfere with the exercise of independent judgement. Two of the six directors (Mr Reeve and Mr Jewson) have served on the Board for more than nine years from the date of their first election, but given the nature of the Company as an investment trust and the strongly independent mindset of the individuals involved, the Board is firmly of the view that all of the directors can be considered to be independent. In arriving at this conclusion the Board makes a clear distinction between the activities of an investment trust and a conventional trading company. An investment trust has no employees or executive directors, the only significant relationship being with the Manager. In overseeing this relationship it is the view of the Board that long service aids the understanding, judgement, objectivity and independence of the directors and in no way detracts from any of these qualities.

Re-election of directors

Directors are subject to re-election by shareholders at the first AGM following their appointment and, thereafter, are subject to retirement on an annual basis. In addition, the appointment of each director is reviewed by other members of the Board every year. Directors are not, therefore, subject to automatic re-appointment. Non-executive directors are not appointed for specified terms. Because of the nature of an investment trust the Board believes that the contribution and independence of a director is not diminished by long service and, conversely, that a more detailed knowledge of the Company and its business has a beneficial impact.

The Board has carefully considered the position of each of the directors and believes it would be appropriate for them to be proposed for re-election. Each of the directors continues to be effective and to display an undiminished enthusiasm and commitment to the role.

Corporate governance continued

Audit committee

The audit committee is a formally constituted committee of the Board with defined terms of reference which are available for inspection at the AGM and can be inspected at the registered office of the Company. It normally meets twice yearly and among its specific responsibilities are a review of the audit plan for the year, the review of the Company's annual and half yearly results, together with associated documentation, and the review of the internal and financial controls applicable to the management company. The committee also reviews the cost effectiveness, independence and objectivity of the auditor with particular regard to non-audit fees, of which there were £6,600 in the current financial year (2011: nil). All of the directors are members of the audit committee and the Chairman is Mr Jewson. The Board believes that it is appropriate for the Company Chairman to be a member of the audit committee as it is important for him to be conversant with the detailed discussion related to the annual and interim report processes, including his own Statements to shareholders. The Board is satisfied that members of the audit committee have relevant and recent financial experience to fulfil their role effectively. The auditor, who the Board has identified as being independent, is invited to attend the audit committee meeting at which the annual accounts are considered and any other meetings that the committee deems necessary.

Nomination committee

A nomination committee has been established to oversee a formal review procedure governing the appointment of new directors and to evaluate the overall composition of the Board from time to time, taking into account the existing balance of skills and knowledge.

The committee is also responsible for assessing the individual performance of directors and for making recommendations as to whether they should remain in office. This committee is chaired by Mr Reeve.

Management engagement committee

As all the directors are fully independent of the management company, the Board as a whole fulfils the function of a management engagement committee.

Board/audit committee/nomination committee/director ongoing evaluation

On an annual basis the Board formally reviews its performance, together with that of the audit and nomination committees and the effectiveness and contribution of the individual directors, including the Chairman, within the context of service on those bodies. The review encompasses an assessment of how cohesively these bodies work as a whole as well as the performance of the individuals within them. On the basis of these reviews the Board has concluded that it has a proper balance of skills and is operating effectively.

Relations with shareholders

Shareholder relations are given high priority by both the Board and the Manager. The principal medium by which the Company communicates with shareholders is through the half yearly reports, annual reports and interim management statements. The information contained therein is supplemented by daily NAV announcements and by a monthly fact sheet available on the Company's website.

The Board largely delegates responsibility for communication with shareholders to the management company and, through feedback, expects to be able to develop an understanding of their views. Members of the Board are willing to meet with shareholders for the purpose of discussing matters in relation to the operation and prospects of the Company.

The Board encourages investors to attend the AGM and welcomes questions and discussion on issues of concern or areas of uncertainty. In addition, special arrangements have been established to allow Temple Bar Savings Scheme investors to participate fully at AGMs. A separate resolution will be proposed at the AGM in respect of each substantially separate issue. Following the formal AGM proceedings the Manager makes a presentation to the meeting outlining the key investment issues that face the Company.

Corporate governance continued

Accountability, internal controls and audit
The Board pays careful attention to ensuring that all documents released by the Company, including the Annual Report, present a fair and accurate assessment of the Company's position and prospects.

The directors are responsible for the Company's system of internal control and for reviewing its effectiveness. In order to facilitate the control process the Board has requested the Manager to confirm annually that it has conducted the Company's affairs in compliance with the legal and regulatory obligations which apply to the Company and to report on the systems and procedures within IAM which are applicable to the management of Temple Bar's affairs. The Board meets on seven scheduled occasions in each year and at each meeting receives sufficient financial and statistical information to enable it to monitor adequately the investment performance and status of the business.

The Board has also established a series of investment parameters, which are reviewed annually, designed to limit the risk inherent in managing a portfolio of investments. The safeguarding of assets is entrusted to an independent reputable custodian with whom the holdings are regularly reconciled.

The effectiveness of the overall system of internal control is reviewed on an annual basis by the Board. Such a system can provide only reasonable and not absolute assurance against material misstatement or loss. The Board believes that there is a robust framework of internal controls in place to meet the requirements of the AIC Code.

The Board receives reports from its advisers on internal control matters and does not believe that there is scope or necessity for an internal audit function in addition to that employed by the Manager. Based on the foregoing the Company has a continuing process for identifying, evaluating and managing the risks it faces. This process has been in place for the reporting period and to the date of this report and is regularly reviewed by the Board in accordance with the Turnbull Guidance and the UK Corporate Governance Code.

Stewardship/engagement
The Manager recognises its wider stewardship responsibilities to its clients as a major asset owner. To this end, it supports the FRC Stewardship Code, which sets out the responsibilities of institutional shareholders in respect of investee companies. Under the Code, managers should:

- publicly disclose their policy on how they will discharge their stewardship responsibilities to their clients;
- disclose their policy on managing conflicts of interest;
- monitor their investee companies;
- establish clear guidelines on how they escalate engagement;
- be willing to act collectively with other investors where appropriate;
- have a clear policy on proxy voting and disclose their voting record; and
- report to clients.

The Manager endorses the Stewardship Code for its UK investments and supports the principles as best practice elsewhere. The Manager believes that regular contact with the companies in which it invests is central to its investment process and it also recognises the importance of being an 'active' owner on behalf of its clients.

The Manager believes that companies should act in a socially responsible manner. Although its priority at all times is the best economic interests of its clients, it recognises that, increasingly, non-financial issues such as social and environmental factors have the potential to impact the share price, as well as the reputation of companies. Specialists within IAM's environmental, social and governance team are tasked with assessing how companies deal with and report on social and environmental risks and issues specific to their industry.

The Manager's Voting Policy and Corporate Governance Guidelines are available on request from the Company Secretary or can be downloaded from its website.

Statement of directors' responsibilities
in respect of the financial statements

The directors are responsible for preparing the Report of the Directors and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors are required to prepare the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies in accordance with IAS8: Accounting Policies, Changes in Accounting Estimates and Errors and then apply them consistently;
- 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 IFRS 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
- state that the Company has complied with IFRS, subject to any material departures disclosed and explained in the financial statements.

The directors are responsible for keeping adequate accounting records which are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006 and Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for ensuring that the Report of the Directors includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties it faces.

The directors confirm that to the best of their knowledge:

- the financial statements, prepared in accordance with the applicable accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company; and
- the Report of the Directors includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that the Company faces.

On behalf of the Board
John Reeve
Chairman
19 February 2013

Independent auditor's report

to the members of Temple Bar Investment Trust PLC

We have audited the financial statements of Temple Bar Investment Trust PLC for the year ended 31 December 2012 which comprise the Statement of Comprehensive Income, the Statement of Changes in Equity, the Statement of Financial Position, the Statement of Cash Flows and the related notes 1 to 22. 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.

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 set out on page 26, 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') Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report and Accounts to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2012 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Report on Directors' Remuneration to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Report of the Directors 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 Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements and the part of the Report on Directors' Remuneration 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 16, in relation to going concern;
- the part of the Corporate Governance Statement on pages 23 to 25 relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to shareholders by the Board on directors' remuneration.

Ashley Coups (Senior statutory auditor)
for and on behalf of
Ernst & Young LLP, Statutory Auditor
London
19 February 2013

Statement of Comprehensive Income
for the year ended 31 December 2012

		2012			2011		
	Notes	**Revenue return £000**	**Capital return £000**	**Total £000**	Revenue return £000	Capital return £000	Total £000
Investment income	4	**28,164**	**–**	**28,164**	25,640	–	25,640
Other operating income	4	**3**	**–**	**3**	79	–	79
		28,167	**–**	**28,167**	25,719	–	25,719
Gains/(losses) on investments							
Gains/(losses) on investments held at fair value through profit or loss	12(b)	**–**	**72,438**	**72,438**	–	(19,776)	(19,776)
Total income/(loss)		**28,167**	**72,438**	**100,605**	25,719	(19,776)	5,943
Expenses							
Management fees	6	**(890)**	**(1,334)**	**(2,224)**	(816)	(1,224)	(2,040)
Other expenses	7	**(580)**	**(448)**	**(1,028)**	(527)	(569)	(1,096)
Profit before finance costs and tax		**26,697**	**70,656**	**97,353**	24,376	(21,569)	2,807
Finance costs	8	**(1,824)**	**(2,753)**	**(4,577)**	(1,824)	(2,753)	(4,577)
Profit/(loss) before tax		**24,873**	**67,903**	**92,776**	22,552	(24,322)	(1,770)
Tax	9	–	–	–	–	–	–
Profit/(loss) for the year		**24,873**	**67,903**	**92,776**	22,552	(24,322)	(1,770)
Earnings/(loss) per share (basic and diluted)	11	**41.39p**	**113.00p**	**154.39p**	38.08p	(41.07)p	(2.99)p

The total column of this statement represents the Statement of Comprehensive Income prepared in accordance with IFRS. The supplementary revenue return and capital return columns are both prepared under guidance issued by the Association of Investment Companies. All items in the above statement derive from continuing operations.
No operations were acquired or discontinued during the year.

There are no minority interests.

The notes on pages 32-41 form an integral part of the financial statements.

Statement of Changes in Equity
for the year ended 31 December 2012

	Ordinary share capital £000	Share premium account £000	Capital reserves £000	Retained earnings £000	Total equity £000
Balance at 1 January 2011	14,740	8,507	486,832	29,943	540,022
Loss for the year	–	–	(24,322)	22,552	(1,770)
Issue of share capital	185	5,935	–	–	6,120
Dividends paid to equity shareholders	–	–	–	(22,332)	(22,332)
Balance at 31 December 2011	14,925	14,442	462,510	30,163	522,040
Profit for the year	–	–	67,903	24,873	92,776
Issue of share capital	213	7,663	–	–	7,876
Dividends paid to equity shareholders	–	–	–	(21,501)	(21,501)
Balance at 31 December 2012	**15,138**	**22,105**	**530,413**	**33,535**	**601,191**

Statement of Financial Position
as at 31 December 2012

	Notes	31 December 2012 £000	31 December 2012 £000	31 December 2011 £000	31 December 2011 £000
Non-current assets					
Investments held at fair value through profit or loss	12(a)		**634,503**		578,048
			634,503		578,048
Current assets					
Other receivables	13	**2,826**		4,634	
Cash and cash equivalents		**28,063**		3,883	
			30,889		8,517
Total assets			**665,392**		586,565
Current liabilities					
Other payables	14		**(744)**		(1,085)
Total assets less current liabilities			**664,648**		585,480
Non-current liabilities					
Interest bearing borrowings	15		**(63,457)**		(63,440)
Net assets			**601,191**		522,040
Equity attributable to equity holders					
Ordinary share capital	16	**15,138**		14,925	
Share premium	17	**22,105**		14,442	
Capital reserves	18	**530,413**		462,510	
Retained earnings	18	**33,535**		30,163	
			601,191		522,040
Total equity			**601,191**		522,040
Net asset value per share	20		**992.86p**		874.42p

The financial statements on pages 28 to 41 were approved by the board of directors and authorised for issue on 19 February 2013. They were signed on its behalf by:

J Reeve
Chairman

Statement of Cash Flows
for the year ended 31 December 2012

	Notes	2012 £000	2012 £000	2011 £000	2011 £000
Cash flows from operating activities					
Profit/(loss) before tax			**92,776**		(1,770)
Adjustments for:					
Purchases of investments[1]		**(120,275)**		(162,877)	
Sales of investments[1]		**136,258**		163,921	
			15,983		1,044
(Gains)/loss on investments			**(72,438)**		19,776
Financing costs	8		**4,577**		4,577
Operating cash flows before movements in working capital			**40,898**		23,627
Increase in accrued income			**(1)**		(4)
Decrease/(increase) in receivables			**1,327**		(1,428)
Increase in payables			**140**		485
Net cash flows from operating activities before and after income tax			**42,364**		22,680
Cash flows from financing activities					
Proceeds from issue of new shares			**7,876**		6,120
Interest paid on borrowings			**(4,559)**		(4,559)
Equity dividends paid	10		**(21,501)**		(22,332)
Net cash used in financing activities			**(18,184)**		(20,771)
Net increase in cash and cash equivalents			**24,180**		1,909
Cash and cash equivalents at the start of the year			**3,883**		1,974
Cash and cash equivalents at the end of the year			**28,063**		3,883

[1] Purchases and sales of investments are considered to be operating activities of the Company, given its purpose, rather than investing activities.

Notes to the Financial Statements

1 PRINCIPAL ACCOUNTING POLICIES

Basis of accounting

The financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS'), which comprise standards and interpretations approved by the International Accounting Standards Board ('IASB'), and International Accounting Standards and Standing Interpretations Committee interpretations approved by the International Accounting Standards Committee ('IASC') that remain in effect, and to the extent that they have been adopted by the European Union.

The principal accounting policies adopted by the Company are set out below. Where presentational guidance set out in the Statement of Recommended Practice ('SORP') for investment trusts issued by the Association of Investment Companies ('AIC') in January 2009 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.

All values are rounded to the nearest thousand pounds unless otherwise indicated.

Presentation of Statement of Comprehensive Income

In order better to reflect the activities of an investment trust company and in accordance with guidance issued by the AIC, supplementary information which analyses the Statement of Comprehensive Income between items of a revenue and capital nature has been presented alongside the Statement of Comprehensive Income.

Income

Dividend income from investments is recognised when the Company's right to receive payment has been established, normally the ex-dividend date.

Where the Company has elected to receive its dividends in the form of additional shares rather than cash, the amount of cash dividend foregone is recognised as income. Any excess in the value of shares received over the amount of cash dividend foregone is recognised as a gain in the Statement of Comprehensive Income.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Foreign Currency

The financial statements are prepared in Pounds Sterling because that is the currency of the primary economic environment in which the Company operates.

The primary objective of the Company is to generate returns in Pounds Sterling, its capital-raising currency. The liquidity of the Company is managed on a day-to-day basis in Sterling as the Company's performance is evaluated in that currency. Therefore, the directors consider Pounds Sterling as the currency that most faithfully represents the economic effects of the underlying transactions, events and conditions.

Transactions involving foreign currencies are converted at the exchange rate ruling at the date of the transaction. Foreign currency monetary assets and liabilities are translated into Pounds Sterling at the exchange rate ruling on the year-end date. Foreign exchange differences arising on translation are recognised in the Statement of Comprehensive Income.

Expenses

All expenses are accounted for on the accruals basis. In respect of the analysis between revenue and capital items presented within the Statement of Comprehensive Income, all expenses have been presented as revenue items except as follows:

- Transaction costs which are incurred on the purchases or sales of investments designated as fair value through profit or loss are expensed to capital in the Statement of Comprehensive Income.
- Expenses are split and presented partly as capital items where a connection with the maintenance or enhancement of the value of the investments held can be demonstrated and, accordingly, the investment management fee and finance costs have been allocated 40% to revenue and 60% to capital, in order to reflect the directors' long-term view of the nature of the expected investment returns of the Company.

Notes to the Financial Statements continued

1 PRINCIPAL ACCOUNTING POLICIES CONTINUED

Taxation

The tax expense represents the sum of the tax currently payable and deferred tax. The tax currently payable is based on the taxable profit for the year. The taxable profit differs from profit before tax as reported in the Statement of Comprehensive Income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using a blended rate as applicable throughout the year.

In line with the recommendations of the SORP, the allocation method used to calculate tax relief on expenses presented against capital returns in the supplementary information in the Statement of Comprehensive Income is the 'marginal basis'. Under this basis, if taxable income is capable of being entirely offset by expenses in the revenue column of the income statement, then no tax relief is transferred to the capital return column.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit and is accounted for using the balance sheet liability method. 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 is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the revenue return column of the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Investment trusts which have approval under Section 1158 of the Corporation Tax Act 2010 are not liable for taxation on capital gains.

Financial instruments

Financial assets and financial liabilities are recognised on the Statement of Financial Position when the Company becomes a party to the contractual provisions of the instrument. The Company shall offset financial assets and financial liabilities if the Company has a legally enforceable right to set off the recognised amounts and interests and intends to settle on a net basis. Financial assets and liabilities are derecognised when the Company settles its obligations relating to the instrument.

Other receivables

Other receivables do not carry any interest, are short-term in nature and are accordingly stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts.

Investments

Investments held at fair value through profit or loss are initially recognised at fair value, being the consideration given and excluding transaction or other dealing costs associated with the investment.

After initial recognition, investments are measured at fair value through profit or loss. Gains or losses on investments measured at fair value through profit or loss are included in net profit or loss as a capital item and transaction costs on acquisition or disposal of investments are expensed. For investments that are actively traded in organised financial markets, fair value is determined by reference to stock exchange quoted market bid prices at the close of business on the year-end date.

All purchases and sales of investments are recognised on the trade date i.e. the date that the Company commits to purchase or sell an asset.

Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities.

Interest bearing borrowings

Interest bearing borrowings, being the debenture stocks issued by the Company, are initially recognised at cost, being the proceeds received net of issue costs associated with the borrowings. After initial recognition, interest bearing borrowings are subsequently measured at amortised cost using the effective interest method.

Other payables

Other payables are non interest bearing and are stated at their nominal value.

Equity dividends payable

Equity dividends payable are recognised when the shareholders' right to receive payment is established.

Finance costs

Interest payable on debentures in issue is accrued at the effective interest rate. In accordance with the expected long-term division of returns, 40% of the interest for the year is charged to revenue, and the other 60% is charged to capital, net of any incremental corporation tax relief.

Notes to the Financial Statements continued

1 PRINCIPAL ACCOUNTING POLICIES CONTINUED

Cash and cash equivalents

Cash and cash equivalents (which are presented as a single class of asset on the Statement of Financial Position) comprise cash at bank and in hand and deposits with an original maturity of three months or less.

The carrying value of these assets approximates their fair value.

2 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Company's financial statements requires the directors to make judgements, estimates and assumptions that affect the reported amounts recognised in the financial statements and disclosure of contingent liabilities. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in future periods. There have been no significant judgements, estimates or assumptions for the current or preceding financial year.

3 STANDARDS, INTERPRETATIONS AND AMENDMENTS ISSUED BUT NOT YET EFFECTIVE

Standards issued but not yet effective at the date of issuance of the Company's financial statements are listed below.

IAS/IFRS

IFRS 7 – (Amendment) Disclosures – Transfer of Financial Assets 1 January 2013
IFRS 9 – Financial Instruments 1 January 2015
IFRS 13 – Fair Value Measurements 1 January 2013
IAS 1 – (Amendment) Presentation of Items of Other Comprehensive Income 1 July 2012
IAS 32 – Financial Instruments Presentation 1 January 2014

*The effective dates stated are those given in the original IASB standards and interpretations.

The Directors anticipate that the adoption of the above Standards and interpretations in future periods will have no material impact on the financial statements of the Company. The Company intends to adopt the Standards in the reporting period when they become effective.

4 INCOME

	2012 £000	2011 £000
Income from investments		
UK dividends	**19,159**	18,144
UK REITs	**530**	533
Overseas dividends	**2,243**	2,382
Interest from fixed interest securities	**6,232**	4,581
	28,164	25,640
Other income		
Deposit interest	**3**	79
	3	79
Total income	**28,167**	25,719
Investment income comprises:		
Listed investments	**28,164**	25,640
Unlisted investments	**–**	–
	28,164	25,640

5 SEGMENTAL REPORTING

The directors are of the opinion that the Company is engaged in a single segment of business being investment business.

Notes to the Financial Statements continued

6 INVESTMENT MANAGEMENT FEE

	2012			2011		
	Revenue return £000	**Capital return £000**	**Total £000**	Revenue return £000	Capital return £000	Total £000
Investment management fee	**890**	**1,334**	**2,224**	816	1,224	2,040
	890	**1,334**	**2,224**	816	1,224	2,040

As at 31 December 2012 an amount of £584,812 (2011: £510,000) was payable to the Manager in relation to the management fees for the quarter ended 31 December 2012.

Details of the terms of the investment management agreement are provided on page 20.

7 OTHER EXPENSES

	2012			2011		
	Revenue return £000	**Capital return £000**	**Total £000**	Revenue return £000	Capital return £000	Total £000
Transaction costs on fair value through profit or loss assets[1]	**–**	**448**	**448**	–	569	569
Directors' fees (see Report on Directors' Remuneration on page 22)	**150**	**–**	**150**	141	–	141
Registrars' fees	**148**	**–**	**148**	120	–	120
AIC membership costs	**26**	**–**	**26**	30	–	30
Advertising & marketing costs	**9**	**–**	**9**	8	–	8
Printing & postage	**86**	**–**	**86**	72	–	72
Directors' liability insurance	**17**	**–**	**17**	21	–	21
Auditor's remuneration – annual audit[2]	**28**	**–**	**28**	25	–	25
Stock exchange fees	**14**	**–**	**14**	13	–	13
Safe custody fees	**17**	**–**	**17**	17	–	17
Other expenses	**85**	**–**	**85**	80	–	80
	580	**448**	**1,028**	527	569	1,096

All expenses are inclusive of VAT where applicable.

[1] Transaction costs on fair value through profit or loss assets represent such costs incurred on both the purchase and sale of those assets. Transaction costs on purchases amounted to £374,000 (2011: £460,000) and on sales amounted to £74,000 (2011: £109,000).

[2] During the year there were non-audit fees of £6,600 paid to the Auditor.

8 FINANCE COSTS

	2012			2011		
	Revenue return £000	**Capital return £000**	**Total £000**	Revenue return £000	Capital return £000	Total £000
Interest on borrowings						
9.875% debenture stock 2017	**988**	**1,481**	**2,469**	988	1,481	2,469
5.5% debenture stock 2021	**836**	**1,272**	**2,108**	836	1,272	2,108
	1,824	**2,753**	**4,577**	1,824	2,753	4,577

The amortisation of the debenture issue costs is calculated using the effective interest method.

Notes to the Financial Statements continued

9 TAXATION

(a) There is no corporation tax payable (2011: nil).

(b) The charge for the year can be reconciled to the profit per the Statement of Comprehensive Income as follows:

	2012			2011		
	Revenue return £000	**Capital return £000**	**Total £000**	Revenue return £000	Capital return £000	Total £000
Profit before taxation	**24,873**	**67,903**	**92,776**	22,552	(24,322)	(1,770)
Tax at UK corporation tax rate of 24.5% (2011: 26.5%)	**6,094**	**16,636**	**22,730**	5,974	(6,443)	(469)
Tax effects of:						
Non-taxable gains on investments	**–**	**(17,638)**	**(17,638)**	–	5,394	5,394
Income not chargeable to tax:						
UK and overseas dividends[1]	**(5,243)**	**–**	**(5,243)**	(5,430)	–	(5,430)
Movement in excess management expenses[2]	**(851)**	**1,002**	**151**	(544)	1,049	505
Tax expense for the year	**–**	**–**	**–**	–	–	–

[1] Investment trusts are not subject to corporation tax on these items.

[2] The Company has not recognised a deferred tax asset of £12,653,000 (2011: £13,176,000) arising as a result of having unutilised management expenses since, under current tax legislation, it is unlikely that the Company will obtain any benefit for the asset.

10 DIVIDENDS

	2012 £000	2011 £000
Amounts recognised as distributions to equity holders in the year		
Final dividend for the year ended 31 December 2011 of 21.23p (2010: 23.70p) per share	**12,675**	13,974
Interim dividend for the year ended 31 December 2012 of 14.65p (2011: 14.0p) per share	**8,826**	8,358
	21,501	22,332
Proposed final dividend for the year ended 31 December 2012 of 22.0p (2011: 21.23p) per share	**13,321**	12,675

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.

Also set out below is the total dividend payable in respect of these financial years, which is the basis on which the requirements of Section 1158 of the Corporation Tax Act 2010 are considered.

	2012 £000	2011 £000
Interim dividend for the year ended 31 December 2012 of 14.65p (2011: 14.0p) per share	**8,826**	8,358
Proposed final dividend for the year ended 31 December 2012 of 22.0p (2011: 21.23p) per share	**13,321**	12,675
	22,147	21,033

11 EARNINGS/(LOSS) PER SHARE

	2012			2011		
	Revenue return Pence	**Capital return Pence**	**Total Pence**	Revenue return Pence	Capital return Pence	Total Pence
Earnings/(loss) per ordinary share	**41.39**	**113.00**	**154.39**	38.08	(41.07)	(2.99)

The calculation of the above is based on revenue returns of £24,873,000 (2011: £22,552,000), capital returns of £67,903,000 (2011: £(24,322,000)) and total returns of £92,776,000 (2011: £(1,770,000)) and a weighted average number of ordinary shares of 60,092,351 (2011: 59,224,928).

Notes to the Financial Statements continued

12 INVESTMENTS HELD AT FAIR VALUE THROUGH PROFIT OR LOSS

	2012 £000	2011 £000
(a) Movements in the year		
Opening cost at 1 January	**481,611**	467,450
Investment holding gains at 1 January	**96,437**	132,428
Opening fair value	**578,048**	599,878
Purchases at cost	**120,275**	161,867
Sales – proceeds	**(136,258)**	(163,921)
– realised gains on sales	**18,313**	16,215
Increase/(decrease) in investment holding gains	**54,125**	(35,991)
Closing fair value at 31 December	**634,503**	578,048
Closing cost at 31 December	**483,941**	481,611
Investment holding gains at 31 December	**150,562**	96,437
	634,503	578,048
(b) Gains/(losses) on investments		
Gains on sales of investments	**18,313**	16,215
Increase/(decrease) in investment holding gains	**54,125**	(35,991)
	72,438	(19,776)

All investments are listed.

(c) Fair value of financial instruments

The following table shows financial assets recognised at fair value, analysed between those whose fair value is based on:

- Level 1 – quoted prices in active markets for identical investments.
- Level 2 – other significant observable inputs (including quoted prices for similar investments, interest rates, prepayments, credit risk, etc).
- Level 3 – significant unobservable inputs (including the Company's own assumptions in determining the fair value of investments). There are no level 3 investments (2011: £nil).

The following is a summary of the classifications used as at 31 December 2012 in valuing the Company's financial instruments:

	2012			2011		
	Level 1 £000	**Level 2 £000**	**Total £000**	Level 1 £000	Level 2 £000	Total £000
Financial assets						
Other financial assets held for trading:						
Quoted equities	**582,098**	**–**	**582,098**	526,156	–	526,156
Debt securities	**52,405**	**–**	**52,405**	51,892	–	51,892
	634,503	**–**	**634,503**	578,048	–	578,048

13 OTHER RECEIVABLES

	2012 £000	2011 £000
Accrued income	**2,780**	4,589
Other receivables	**46**	45
	2,826	4,634

Other receivables do not carry any interest and are short-term in nature. The directors consider that the carrying values of other receivables approximate their fair value.

Notes to the Financial Statements continued

14 OTHER PAYABLES

	2012 £000	2011 £000
Accruals and deferred income	**744**	1,085
	744	1,085

Other payables do not carry any interest and are short-term in nature. The directors consider that the carrying values of other payables approximate their fair value.

15 NON-CURRENT LIABILITIES

Interest bearing borrowings	2012 £000	2011 £000
Amounts payable in more than five years:		
9.875% Debenture stock 2017	**25,000**	25,000
5.5% Debenture stock 2021	**38,457**	38,440
	63,457	63,440

The 9.875% Debenture stock 2017 is secured by a floating charge over the assets of the Company. The stock is repayable at par on 31 December 2017. No issue costs were capitalised on the issue of this debenture.
The 5.5% Debenture stock 2021 is secured by a floating charge over the assets of the Company. The stock is repayable at par on 8 March 2021.

16 ORDINARY SHARE CAPITAL

	Shares 2012 Number	Shares 2011 Number	2012 £	2011 £
Issued, allotted and fully paid				
Ordinary shares of 25p each	**60,551,367**	59,701,367	**15,137,841**	14,925,341

850,000 shares were issued during the year for a total consideration of £7,876,500 at a premium to the prevailing net asset value due to investor demand (2011: 740,000 shares, £6,119,800).

17 SHARE PREMIUM

	2012 £000	2011 £000
Balance at 1 January 2012	**14,442**	8,507
Premium arising on issue of new shares	**7,663**	5,935
Balance at 31 December 2012	**22,105**	14,442

18 RETAINED EARNINGS AND CAPITAL RESERVES

	2012 Retained earnings £000	2012 Capital reserves £000	2011 Retained earnings £000	2011 Capital reserves £000
Balance at 1 January 2012	**30,163**	**462,510**	29,943	486,832
Dividends paid	**(21,501)**	**–**	(22,332)	–
Net gain/(loss) for the year	**92,776**	**–**	(1,770)	–
	101,438	**462,510**	5,841	486,832
Transfer from retained earnings to capital reserves	**(67,903)**	**67,903**	24,322	(24,322)
Balance at 31 December 2012	**33,535**	**530,413**	30,163	462,510

The capital reserves shown above comprise both realised and investment holding gains. A summary of the split is shown below:

	2012 £000	2011 £000
Capital reserves realised	**379,851**	366,073
Capital reserves – investment holding gains	**150,562**	96,437
	530,413	462,510

Notes to the Financial Statements continued

19 CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS
As at 31 December 2012 there were no contingent liabilities or capital commitments for the Company (2011: £nil).

20 NET ASSET VALUES

	Net asset value per ordinary share Pence	Net assets attributable £000
Ordinary shares of 25p each	992.86	601,191

The net asset value per ordinary share is based on net assets at the year-end of £601,191,000 (2011: £522,040,000) and on 60,551,367 (2011: 59,701,367) ordinary shares in issue at the year-end.

21 RELATED PARTY TRANSACTIONS
IAS 24 'Related party disclosures' requires the disclosure of the details of material transactions between the Company and any related parties. Accordingly, the disclosures required are set out below:
Directors – The remuneration of the directors is set out in the Report on Directors' Remuneration on page 22. There were no contracts subsisting during or at the end of the year in which a director of the Company is or was interested and which are or were significant in relation to the Company's business. There were no other material transactions during the year with the directors of the Company.

22 RISK MANAGEMENT AND FINANCIAL INSTRUMENTS
The Company's investing activities undertaken in pursuit of its investment objective, as set out on page 16, involve certain inherent risks. The main risks arising from the Company's financial instruments are market price risk, interest rate risk, liquidity risk, credit risk and currency risk. The Board reviews and agrees policies for managing each of these risks as summarised below. These policies have remained substantially unchanged during the current and preceding periods.

Market price risk
Market price risk arises mainly from uncertainty about future prices of financial instruments used in the Company's business. It represents the potential loss the Company might suffer through holding market positions in the face of price movements. The Board meets on seven scheduled occasions in each year and at each meeting it receives sufficient financial and statistical information to enable it to monitor adequately the investment performance and status of the business. In addition, financial information is circulated to the directors on a monthly basis. The Board has also established a series of investment parameters, which are reviewed annually, designed to limit the risk inherent in managing a portfolio of investments. The Company's borrowings have the effect of increasing the risk faced by shareholders. This gearing effect is such that, for example, for a 10% movement in the valuation of the Company's investments, the net assets attributable to shareholders would move by approximately 11.1%.

Interest rate risk
Interest rate risk is the risk of movements in the value of financial instruments that arise as a result of fluctuations in interest rates. The Company finances its operations through retained profits including capital profits, and additional financing is obtained through the two debenture stocks in issue, on which interest is paid at a fixed rate.

Liquidity risk
The Company's assets comprise mainly readily realisable securities, which can be sold to meet funding commitments if necessary. Short-term flexibility is achieved through the use of cash balances and short-term bank deposits.

Credit risk
Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. This is mitigated by the Manager reviewing the credit ratings of broker counterparties. The risk attached to dividend flows is mitigated by the Manager's research of potential investee companies. The Company's custodian bank is responsible for the collection of income on behalf of the Company. Cash is held either with reputable banks with high quality external credit enhancements or in liquidity/cash funds providing a spread of exposures to various underlying banks in order to diversify risk.

Notes to the Financial Statements continued

22 RISK MANAGEMENT AND FINANCIAL INSTRUMENTS CONTINUED

Currency risk

The income and capital value of the Company's investments and liabilities can be affected by exchange rate movements as some of the Company's assets and income are denominated in currencies other than Pounds Sterling which is the Company's reporting currency. The key areas where foreign currency risk could have an impact on the Company are:

- movements in rates that would affect the value of investments and liabilities; and
- movements in rates that would affect the income received.

The Company had the following currency exposures all of which are included in the Statement of Financial Position at fair value based on the exchange rates ruling at the respective year-ends.

31 December 2012

	Investments £000	Cash £000	Receivables £000	Payables £000	Non-current liabilities £000	Total £000
Euro	51,051	40	–	–	–	51,091
US Dollar	62,848	2	–	–	–	62,850
Pounds Sterling	520,604	28,021	2,826	(744)	(63,457)	487,250
	634,503	28,063	2,826	(744)	(63,457)	601,191

31 December 2011

	Investments £000	Cash £000	Receivables £000	Payables £000	Non-current liabilities £000	Total £000
Euro	35,115	1	–	–	–	35,116
US Dollar	64,695	1	441	–	–	65,137
Pounds Sterling	478,238	3,881	4,193	(1,085)	(63,440)	421,787
	578,048	3,883	4,634	(1,085)	(63,440)	522,040

Foreign currency sensitivity

The following table illustrates the sensitivity of the profit after tax for the year and the net assets for the year with regards to foreign exchange movements in Euro and US Dollar. The Company mitigates some of the currency risk through the use of forward currency contracts. The analysis below assumes that the Euro and US Dollar exchange rates may move +/-2% against Pounds Sterling.

	£000	£000
Projected movement	+2%	-2%
Effect on net assets for the year	2,279	(2,279)
Effect on capital return	2,278	(2,278)

Financial assets – Interest rate risk

The majority of the Company's financial assets are equity shares and other investments which neither pay interest nor have a maturity date. The Company's fixed interest holdings have a market value of £52,405,000, representing 8.7% of net assets of £601,191,000 (2011: £51,892,000; 9.9%). The weighted average running yield as at 31 December 2012 was 5.7% (2011: 6.4%) and the weighted average remaining life was 5.7 years (2011: 6.2 years). The Company's cash balance of £28,063,000 (2011: £3,883,000) earns interest, calculated on a tiered basis, depending on the balance held, by reference to the base rate.

If the bank base rate had increased by 0.5%, the impact on the profit or loss and net assets would have been a positive £140,315 (2011: £19,415). If the bank base rate had decreased by 0.5%, the impact on the profit or loss and net assets would have been a negative £140,315 (2011: negative £19,415). The calculations are based on the cash balances at the respective balance sheet dates and are not representative of the year as a whole.

Financial liabilities – Interest rate risk

All of the Company's financial liabilities of £64,201,000 (2011: £64,525,000) are denominated in Pounds Sterling. All current liabilities have no interest rate and are repayable within one year. The 9.875% debenture stock and the 5.5% debenture stock, which are repayable in 2017 and 2021 respectively, pay interest at fixed rates. The weighted average period until maturity of the debenture stocks is 7 years (2011: 8 years) and the weighted average interest rate payable is 7.2% (2011: 7.2%) p.a.

Notes to the Financial Statements continued

22 RISK MANAGEMENT AND FINANCIAL INSTRUMENTS CONTINUED

Other price risk exposure

If the investment valuation fell by 10% at 31 December 2012, the impact on profit or loss and net assets would have been negative £63.5 million (2011: negative £57.8 million). If the investment portfolio valuation rose by 10% at 31 December 2012, the impact on profit or loss and net assets would have been positive £63.5 million (2011: positive £57.8 million). The calculations are based on the portfolio valuations as at the respective year-end dates and are not representative of the year as a whole.

The Company held the following categories of financial instruments, all of which are included in the Statement of Financial Position at fair value, with the exception of interest bearing borrowings which are shown at book value at 31 December 2012.

	2012 Book value £000	2012 Fair value £000	2011 Book value £000	2011 Fair value £000
Assets at fair value through profit or loss	**634,503**	**634,503**	578,048	578,048
Cash	**28,063**	**28,063**	3,883	3,883
Loans and receivables				
Investment income receivable	**2,780**	**2,780**	4,589	4,589
Other receivables	**46**	**46**	45	45
Other payables	**(744)**	**(744)**	(1,085)	(1,085)
Interest bearing borrowings				
9.875% Debenture Stock[1]	**(25,000)**	**(32,973)**	(25,000)	(33,900)
5.5% Debenture Stock[2]	**(38,457)**	**(44,475)**	(38,440)	(43,955)
	601,191	**587,200**	522,040	507,625

[1] Effective rate is 9.875%

[2] Effective rate is 5.583%

Liquidity risk exposure

This is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities.

Contractual maturities of the financial liabilities at the year end, based on the earliest date on which payment can be required, are as follows:

	2012 Three months or less £000	2012 Not more than one year £000	2012 More than one year £000	2012 Total £000	2011 Three months or less £000	2011 Not more than one year £000	2011 More than one year £000	2011 Total £000
Creditors: amounts falling due after more than one year								
Debenture stocks	**1,045**	**3,324**	**89,258**	**93,627**	1,045	3,324	93,816	98,185
Creditors: amounts falling due within one year								
Accruals and deferred income	**585**	**159**	**–**	**744**	510	575	–	1,085
	1,630	**3,483**	**89,258**	**94,371**	1,555	3,899	93,816	99,270

Capital management policies and procedures

The Company's capital management objectives are to ensure that it will be able to continue as a going concern, and to provide long-term growth in revenue and capital, principally by investment in UK securities.

The Company's capital is its equity share capital and reserves that are shown in the Statement of Financial Position and debentures (see note 15) at a total of £664,648,000 (2011: £585,480,000).

The Company is subject to several externally imposed capital requirements:

– as a public company, the Company has a minimum share capital of £50,000.
– in order to be able to pay dividends out of profits available for distribution by way of dividends, the Company has to be able to meet one of the two capital restriction tests imposed on investment companies by company law.
– the terms of the debenture trust deeds have various covenants that prescribe that moneys borrowed should not exceed the adjusted total capital and reserves as defined in the debenture trust deeds. These are measured in accordance with the policies used in the annual financial statements.

The Company has complied with all of the above requirements.

Notice of meeting

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt as to the action you should take you should consult your stockbroker, bank manager, solicitor, accountant or other independent financial adviser authorised under the Financial Services and Markets Act 2000 immediately.

If you have sold or otherwise transferred all of your ordinary shares in Temple Bar Investment Trust PLC, please forward this document and the accompanying form of proxy as soon as possible to the purchaser or transferee or to the stockbroker, bank or other agent through whom the sale or transfer was or is being effected for delivery to the purchaser or transferee.

NOTICE IS HEREBY GIVEN that the eighty-seventh Annual General Meeting of Temple Bar Investment Trust PLC will be held at 11.00am on Monday 25 March 2013 at Woolgate Exchange, 25 Basinghall Street, London EC2V 5HA for the following purposes:

ORDINARY BUSINESS:

1. To approve the Company's accounts for the year ended 31 December 2012 together with the reports of the directors and auditor thereon.
2. To approve the report on directors' remuneration for the year ended 31 December 2012.
3. To declare a final dividend of 22.0p per ordinary share.
4. To re-elect Mr A T Copple as a director.
5. To re-elect Mrs J F de Moller as a director.
6. To re-elect Mr R W Jewson as a director.
7. To re-elect Mr J Reeve as a director.
8. To re-elect Mr M R Riley as a director.
9. To re-elect Mr D G C Webster as a director.
10. To re-appoint the auditor and to authorise the directors to determine their remuneration.

SPECIAL BUSINESS:

To consider and, if thought fit, pass the following resolutions:

ORDINARY RESOLUTIONS:

11. That the Company's investment policy be amended so that the Company may increase the level of its portfolio investments in listed international equities in developed economies from 10% of the portfolio to 20% of the portfolio.

12. That the Company may typically invest the majority of the portfolio in constituents of the FTSE 350 Index rather than the FTSE 100 Index.

13. That the directors be and are hereby generally and unconditionally authorised in accordance with Section 551 of the Companies Act 2006 to allot shares or grant rights to subscribe for or to convert any security into shares ('Rights') up to an aggregate maximum nominal amount of £1,513,784, being approximately 10% of the issued share capital of the Company as at 19 February 2013, provided that:
    (i) the authority granted shall expire at the conclusion of the Annual General Meeting of the Company in 2014 but may be revoked or varied by the Company in general meeting and may be renewed by the Company in general meeting; and
    (ii) the said authority shall allow and enable the directors to make an offer or agreement before the expiry of that authority which would or might require shares to be allotted or Rights to be granted after such expiry and the directors may allot shares and grant Rights in pursuance of any such offer or agreement as if that authority had not expired.

Notice of meeting continued

SPECIAL RESOLUTIONS:

14. That, subject to the passing of resolution 13 set out above, the directors be and they are hereby empowered pursuant to Section 570-573 of the Companies Act 2006 to allot equity securities (as defined in Section 570-573 of that Act) for cash, in accordance with the authority conferred on them by this meeting to allot shares, as if Section 561(i) of that Act did not apply to the allotment, provided that the power conferred by this resolution shall be limited to:
    (i) the allotment of equity securities in connection with a rights issue in favour of ordinary shareholders where the equity securities respectively attributable to the interests of all ordinary shareholders are proportionate to the respective numbers of ordinary shares held by them on the record date of such allotment (but subject to such exclusions or other arrangements as the directors may deem necessary or expedient in relation to fractional entitlements or legal problems under the law of or the requirements of any recognised regulatory body or any stock exchange in any territory); and
    (ii) the allotment (otherwise than pursuant to sub paragraph (i) above) of equity securities up to an aggregate nominal value not exceeding £1,513,784; and

    shall expire at the conclusion of the Annual General Meeting of the Company in 2014 save that the Company may make an offer or agreement before this power has expired, which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities in pursuance of such offer or agreement as if the authority conferred hereby had not expired.

15. That the Company generally be and is hereby authorised for the purpose of Section 701 of the Companies Act 2006 to make market purchases (as defined in Section 693 of the Act) of ordinary shares of 25p each in the capital of the Company ('ordinary shares') provided that:
    (i) the maximum number of ordinary shares hereby authorised to be purchased is 14.99% of the issued share capital of the Company as at the date of the passing of this resolution;
    (ii) the minimum price which may be paid for such shares is 25p per share;
    (iii) the maximum price (exclusive of expenses payable by the Company) which may be paid for such shares shall be 5% above the average of the market value of the share quotations taken from the London Stock Exchange Daily Official List for the five business days before the purchase is made;
    (iv) the authority hereby conferred shall (unless previously renewed or revoked) expire at the end of the Annual General Meeting of the Company in 2014, or, if earlier, the date falling fifteen months from the date of this resolution;
    (v) the Company may make a contract to purchase its own shares under the authority hereby conferred prior to the expiry of such authority which will or may be executed wholly or partly after the expiry of such authority, and may make a purchase of its own shares in pursuance of any such contract.

16. That the Memorandum and Articles of Association of the Company be amended by deleting from Articles 153 the sentence beginning "The Capital Reserve referred to in...", deleting Article 157 in its entirety, together with the renumbering of Articles and the amendment of cross-references necessary as a result of the removal of Article 157, and deleting the words "Capital Reserve or" beginning on the third line of Article 158.

By order of the Board of Directors
M K Slade
For Investec Asset Management Limited
Secretary
19 February 2013

Woolgate Exchange
25 Basinghall Street
London EC2V 5HA

Notice of meeting continued

Shown is a plan of the location of Investec Asset Management Limited, Woolgate Exchange, 25 Basinghall Street, London EC2V 5HA where the Annual General Meeting will be held on Monday 25 March 2013 at 11.00am.

Please note that this is a different location to where Temple Bar's AGMs have been held in recent years.

Notice of meeting continued

NOTES

1. A member entitled to attend and vote at the above meeting is entitled to appoint a proxy to attend the meeting to speak and vote on a show of hands and, on a poll, to vote instead of him. A proxy need not be a member of the Company. A member wishing to appoint more than one proxy must appoint each proxy in respect of a specified number of shares within his holding. For this purpose, a member may photocopy the enclosed Form of Proxy before completion and must indicate the number of shares in respect of which each proxy is appointed.

2. Instruments of proxy should be sent to Equiniti Limited, Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA so as to arrive no later than 11.00am on 21 March 2013. Completion and return of the form of proxy will not preclude shareholders from attending and voting at the meeting in person should they wish to do so.

3. Members who hold ordinary shares in the Company in uncertificated form must have been entered on the Company's register of members by 6.00pm on 21 March 2013 in order to be able to attend and vote at the meeting, or if the meeting is adjourned, 6.00pm on the day two business days before the time fixed for the adjourned meeting. Such members may only vote at the meeting in respect of ordinary shares held at the time.

4. In accordance with Section 325 of the Companies Act 2006, the right to appoint proxies does not apply to persons nominated to receive information rights under Section 146 of the Act. Persons nominated to receive information rights under Section 146 of the Act who have been sent a copy of this notice of meeting are hereby informed, in accordance with Section 149 (2) of the Act, that they may have a right under an agreement with the registered member by whom they were nominated to be appointed, or to have someone else appointed, as a proxy for this meeting. If they have no such right, or do not wish to exercise it, they may have a right under such an agreement to give instructions to the member as to the exercise of voting rights. Nominated persons should contact the registered member by whom they were nominated in respect of these arrangements.

5. CREST members who wish to appoint a proxy or proxies by utilising the CREST electronic proxy appointment service may do so for the meeting and any adjournment(s) thereof by using the procedures described in the CREST Manual. CREST personal members or other CREST sponsored members and those CREST members who have appointed a voting service provider(s) should refer to their CREST sponsor or voting service provider(s) who will be able to take the appropriate action on their behalf.

In order for a proxy appointment made using the CREST service to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear's specifications and must contain the information required for such instructions, as described in the CREST Manual (available via www.euroclear.com/CREST). The CREST message must be transmitted so as to be received by the issuer's agent (ID RA19) by not later than 48 hours (excluding non-working days) before the time appointed for the holding of the meeting or the adjourned meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the CREST message by the CREST Applications Host) from which the issuer's agent is able to retrieve the CREST message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

CREST members and, where applicable, their CREST sponsors or voting service provider(s), should note that Euroclear does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member(s) is/are a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that the CREST sponsor or voting service provider takes) such action as shall be necessary to ensure that a CREST message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service provider(s) is/are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

The Company may treat as invalid a CREST Proxy instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

Notice of meeting continued

NOTES CONTINUED

6. Shareholders should note that, under Section 527 of the Companies Act 2006 members meeting the threshold requirements set out in that section have the right to require the Company to publish on a website a statement setting out any matter relating to:
   (i) the audit of the Company's accounts (including the auditor's report and the conduct of the audit) that are to be laid before the Annual General Meeting for the financial year beginning 1 January 2012; or
   (ii) any circumstance connected with an auditor of the Company appointed for the financial year 1 January 2012 ceasing to hold office since the previous meeting at which annual accounts and reports were laid. The Company may not require the shareholders requesting any such website publication to pay its expenses in complying with Sections 527 or 528 (requirements as to website availability) of the Companies Act 2006. Where the Company is required to place a statement on a website under Section 527 of the Companies Act 2006, it must forward the statement to the Company's auditor not later than the time when it makes the statement available on the website. The business which may be dealt with at the Annual General Meeting for the relevant financial year includes any statement that the Company has been required under Section 527 of the Companies Act 2006 to publish on a website.

7. A member of the Company which is a corporation may authorise a person or persons to act as its representative(s) at the AGM. In accordance with the provisions of the Companies Act 2006, each such representative may exercise (on behalf of the corporation) the same powers as the corporation could exercise if it were an individual member of the Company, provided that they do not do so in relation to the same shares. It is no longer necessary to nominate a designated corporate representative.

8. You may not use any electronic address provided in this notice of meeting to communicate with the Company for any purposes other than those expressly stated.

9. Any member attending the meeting has the right to ask questions. The Company must cause to be answered any such question relating to the business being dealt with at the meeting but no such answer need be given if (a) to do so would interfere unduly with the preparation for the meeting or involve the disclosure of confidential information, (b) the answer has already been given on a website in the form of an answer to a question, or (c) it is undesirable in the interests of the Company or the good order of the meeting that the question be answered.

10. None of the directors has a service contract with the Company.

11. As at 19 February 2013, the latest practicable date prior to publication of this document, the Company had 60,551,367 ordinary shares in issue with a total of 60,551,367 voting rights.

12. In accordance with Section 311A of the Companies Act 2006, the contents of this notice of meeting, details of the total number of shares in respect of which members are entitled to exercise voting rights at the AGM and, if applicable, any members' statements, members' resolutions or members' matters of business received by the Company after the date of this notice will be available on the Company's website: www.templebarinvestments.co.uk.

Useful information for shareholders

ANNUAL GENERAL MEETING

The Annual General Meeting will be held at Woolgate Exchange, 25 Basinghall Street, London EC2V 5HA (see map on page 44), on 25 March 2013 at 11.00am.

FINANCIAL CALENDAR

The financial calendar for 2013 is set out below:

Ordinary shares	
Final dividend, 2012 – payable	28 March 2013
– ex-dividend	13 March 2013
– record date	15 March 2013
Interim dividend, 2013	30 September 2013
Final dividend, 2013	End of March 2014
9.875% Debenture Stock 2017	
Interest payments	30 June and 31 December
5.5% Debenture Stock 2021	
Interest payments	8 March and 8 September

PAYMENT OF DIVIDENDS

Cash dividends will be sent by cheque to the first-named shareholder on the Register at his or her registered address together with a tax voucher. At shareholders' request, dividends may instead be paid direct into the shareholder's bank account through the Bankers' Automated Clearing System ('BACS'). This may be arranged by contacting the Company's Registrar on 0871 384 2432 (calls to this number cost 8p per minute plus network extras).

PRICE AND PERFORMANCE INFORMATION

The Company's ordinary shares and debenture stocks are traded on the London Stock Exchange. The market price of the ordinary shares is shown daily in the Financial Times, other leading newspapers and on the Company's website.

SHARE REGISTER ENQUIRIES

The Company's Registrar, Equiniti, maintains the share register. In the event of queries regarding your holding, please contact the Registrar on 0871 384 2432 (overseas +44 (0)121 415 7047). Lines are open from 8.30am to 5.30pm Monday to Friday. Calls to this number cost 8p per minute plus network extras. Changes of name or address must be notified in writing to the Registrar.

SEDOL CODES FOR ORDINARY SHARES AND DEBENTURE STOCKS

Ordinary shares – 0882532
9.875% Debenture Stock 2017 – 0882640
5.5% Debenture Stock 2021 – 0530529

TEMPLE BAR INVESTMENT TRUST SAVINGS SCHEME

Details of the Temple Bar Savings Scheme are set out on page 48 of this report. This enables individuals to buy shares in the Company in a straightforward and accessible way.

ASSOCIATION OF INVESTMENT COMPANIES

The Company is a member of the Association of Investment Companies, which produces monthly publications of detailed information on the majority of investment trusts. The Association of Investment Companies can be contacted by telephone on 020 7282 5555.

TEMPLE BAR WEBSITE

The Company's own website can be found at www.templebarinvestments.co.uk and includes useful background information on the Company together with helpful downloads of published documentation such as previous Annual Reports and Savings Scheme application forms.

Temple Bar Investment Trust Savings Scheme

Temple Bar offers an inexpensive way of investing in your Company.

The Temple Bar Investment Trust Savings Scheme offers:
- monthly savings from as little as £50 a month
- a daily dealing facility for lump sum investments or sales
- income reinvestment

If you would like to receive information about the Savings Scheme, call the Investor Services Department on 020 7597 1800 or visit our website **www.templebarinvestments.co.uk**. Alternatively please write to:
Investor Services Department
Investec Asset Management Limited
Woolgate Exchange
25 Basinghall Street
London EC2V 5HA

Past performance will not necessarily be repeated. You are not certain to make a profit; you may lose money and any income is not fixed – it can go up or down. Tax benefits detailed are those currently applicable and will vary from one investor to another and may change in the future. The government's 0.5% stamp duty is payable on all share purchases. Shares will be purchased at Temple Bar's buying price and will be sold at Temple Bar's selling price. Phone calls may be recorded to confirm your instructions.

The above information has been issued by Investec Asset Management Limited, authorised and regulated by the Financial Services Authority, the investment manager of Temple Bar Investment Trust PLC.

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The Association of
Investment Companies

A member of the Association of Investment Companies

Perivan Financial Print 227457

temple bar

active investment working for you

Temple Bar Investment Trust PLC

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Telephone No. 020 7597 2000