C. Hoare & Co.

Capital and Risk Management
Pillar 3 Disclosures
Year ended 31 March 2014

Issued 29 July 2014

Company Number: 240822

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1. Introduction

C. Hoare & Co. ("the Bank") is an unlimited liability company with a share capital which is incorporated and domiciled in the United Kingdom. The Bank's principal activity, together with its subsidiaries, Messrs Hoare Trustees, Mitre Court Property Holding Company, Hoares Bank Nominees Limited, Hoare's Bank Pension Trustees Limited and C. Hoare & Co. EIG Management Limited, is the provision of a wide range of banking, investment and financial advice services to a predominantly high net worth customer base. Additional information on the Bank's activities and the review of its financial year ended 31 March 2014 can be found in the Annual Report and Consolidated Financial Statements available on the Bank's website: www.hoaresbank.co.uk or from Companies House.

Capital requirements and regulation

The Bank is supervised and authorised in the United Kingdom ("UK") by the Prudential Regulatory Authority ("PRA") and regulated by the Financial Conduct Authority (together "the Regulators") and regularly reports its capital adequacy position to them. The Bank calculates its capital requirements at a consolidated level using the Standardised Approach to both credit risk and operational risk from the Basel III framework of the Basel Committee on Banking Supervision as implemented by the Capital Requirements Regulation ("CRR") and Directive, collectively known as CRD IV. CRD IV took legal effect from 1 January 2014 with transitional arrangements until full implementation in 2019. The PRA issued final rules implementing CRD IV in the UK, in December 2013.

The Basel III capital framework consists of three 'pillars':

- Pillar 1 sets the minimum regulatory capital requirements for credit, market and operational risk;
- Pillar 2 requires an assessment by firms of the additional regulatory capital, over and above Pillar 1, required to cover specific risks related to the firm. This process is covered as part of the Internal Capital Adequacy Assessment Process ("ICAAP"), and is assessed by the PRA during its Supervisory Review and Evaluation Process ("SREP"). The PRA sets a firm's Individual Capital Guidance ("ICG") based on its ICAAP;
- Pillar 3 complements Pillar 1 and Pillar 2 and aims to encourage market discipline by developing a set of disclosure requirements which allow market participants to assess the scope of application of Basel III, capital, risk exposures and risk assessment processes, and hence the capital adequacy of the firm. Banks are required to disclose all their material risks as part of the Pillar 3 framework. Certain disclosures are already made in the Bank's Annual Report and Consolidated Financial Statements: 'Risk Management' is disclosed in the Directors' Report (pages 7 to 10) and further detail is provided in Note 36 'Financial Risk Management' (pages 56 to 67).

The computation of regulatory capital and risk weighted assets ("RWAs") is undertaken on a 'Solo Consolidated' basis (waiver obtained) for the same legal entities by applying the same accounting conventions as for the Financial Statements. No exemptions have been applied and there are no unconsolidated subsidiaries, nor are there any current or foreseen material practical or legal impediments to the disclosures made. Disclosures have been omitted in respect of immaterial items which include the legacy investment portfolio and foreign exchange deposits, and loans which are immaterial in relation to the size of the balance sheet.

Pillar 3 Disclosures are prepared annually based upon the financial information prepared for the Financial Statements to the 31 March each year and are published in July along with the corresponding Financial Statements, following the Bank's Annual General Meeting ("AGM") at which those Financial Statements are presented. This disclosure document is available on the Bank's website: www.hoaresbank.co.uk.

Transition from Basel II to Basel III

In Europe, the Basel III framework superseded Basel II on 1 January 2014. The three pillar framework described above is broadly similar to that which existed under Basel II, but there have been changes to the detailed requirements of each pillar. Basel III also strengthened the rules on the quality of capital and liquidity, with the objective to improve the banking sector's ability to absorb shocks arising from financial and economic stress.

This document reflects the Basel III position as at 31 March 2014, with the prior two years (as at 31 March 2013 and 31 March 2012), remaining on the Basel II basis.

2. Summary Key Measures & Ratios

The key capital measures and ratios for the Bank are:

Table 1: Summary Capital & Ratios

	31 Mar 14 £000	31 Mar 13 £000	*31 Mar 12 £000*
Regulatory Capital			
Core Equity Tier 1 ("CET1")	**219,667**	160,886	*145,008*
Tier 2	**1,062**	34,469	*27,271*
Total Capital	**220,729**	195,355	*172,279*
Risk Weighted Assets	**1,070,362**	1,041,744	*913,499*
Minimum Capital Requirement	**85,629**	83,340	*73,080*
Tier 1 Ratio (and CET1 Ratio in 2014) %	**20.52%**	15.44%	*15.87%*
Total Capital Ratio %	**20.62%**	18.75%	*18.86%*

The regulatory capital and its ratios as at 31 March 2014 are shown on a Basel III basis, while those capital ratios as at 31 March 2013 and 31 March 2012 are shown on a Basel II basis. The Bank's Tier 1 capital is wholly comprised of Core Equity Tier 1 ("CET1") which is regarded as the highest quality of capital under Basel III. The significant increase from the Tier 1 ratio under Basel II of 15.44% on 31 March 2013 to 20.52% under Basel III on 31 March 2014 is principally due to the reclassification of the Bank's revaluation reserves as CET1 capital under Basel III rules. See Section 3 Composition of Regulatory Capital for further details.

Internal Capital Adequacy Assessment

The Bank computes the RWAs each month end under the Standardised Approach and determines the minimum capital requirement in accordance with CRD IV. This figure is presented to the Bank's Asset & Liability Committee ("ALCo"), which monitors it against the required regulatory capital after allowing for any supervisory adjustment as advised by the PRA and any internal reserve that it is thought prudent to hold. Capital adequacy is also reported to the Bank's Board as part of the monthly reporting cycle.

Annually, or more frequently if deemed necessary, the Bank undertakes a review of its ICAAP when all risks are individually assessed and compared to the elements as computed under the Standardised Approach. This assessment takes account of the unique business attributes of the Bank and its customer base which are not reflected in the simplified standard calculations. The ICAAP is approved by the Board and may be sent to the PRA on request whereupon it forms the basis for their supervisory review and setting of any capital requirements in addition to the minimum requirements.

The Bank's intention is to maintain a regulatory capital base that is comfortably in excess of both the minimum requirements and the supervisory levels. Should action need to be taken to achieve this, and if modifying the capital base would not be effective or possible, then one action the Bank could take would be to alter the mix of assets, particularly in the treasury book, in favour of those with lower risk weights.

Risk Management

The Bank has developed a risk management framework as described in the Directors' Report (pages 7 to 10) and in Note 36 (pages 56 to 67) of the Financial Statements. The Board continually assesses the Bank's risk profile and risk management procedures and is satisfied that the Bank's overall business profile continues to be well managed from a risk perspective. The Bank mitigates interest rate risk on its fixed rate lending portfolio by matching the term and values of loans with interest rate swaps to lock in the interest cost and margin on these advances.

3. Composition of Regulatory Capital

The Bank's regulatory capital for the last three financial year ends is detailed below:

Table 2: Capital Structure

31 March	**2014 £000**	2013 £000	*2012 £000*
Core Tier 1 Capital			
Ordinary share capital	**120**	120	*120*
Reserve Fund	**22,598**	22,598	*22,598*
Profit and loss account	**163,562**	138,168	*122,290*
Property revaluation reserve	**22,534**	-	-
Investment property revaluation reserve	**(128)**	-	-
Heritage assets revaluation reserve	**9,600**	-	-
Available-for-sale reserve gains	**1,381**	-	-
Total Core Tier 1 Capital	**219,667**	160,886	*145,008*
Tier 2 Capital			
Collective impairment allowance	**1,062**	2,185	*1,600*
Property revaluation reserve	**-**	20,765	*14,279*
Investment property revaluation reserve	**-**	1,641	*866*
Heritage assets revaluation reserve	**-**	9,600	*9,600*
Available-for-sale reserve gains	**-**	278	*926*
Total Tier 2 Capital	**1,062**	34,469	*27,271*
Total Regulatory Capital	**220,729**	195,355	*172,279*

Reconciliation to Shareholders' Funds as reported in the Financial Statements:

31 March	**2014 £000**	2013 £000	*2012 £000*
Total Regulatory Capital	**220,729**	195,355	*172,279*
Collective impairment allowance	**(1,062)**	(2,185)	*(1,600)*
Available for sale reserve gains/ (losses) (debt instruments)	**-**	1,338	*(1,535)*
Shareholders' Funds	**219,667**	194,508	*169,144*

The composition of Tier 1 and Tier 2 capital has been amended from Basel II to Basel III. The Bank's Tier 1 capital is wholly comprised of CET1 which is regarded as the highest quality of capital. Revaluation reserves for property, investment property and heritage assets were reclassified from Tier 2 to CET1 under CRR and under Article 35 of the CRR, unrealised gains and losses on available for sale assets are classified as CET1.

The Bank's regulatory capital under Basel III is analysed into two tiers:

- *Core Equity Tier 1 capital,* which includes the share capital (being Ordinary fully participating shares, which carry unlimited liability); property, investment property, heritage assets and available for sale revaluation reserves; the reserve fund (see below); the audited retained profits and losses of previous years; and any regulatory adjustments.

- *Tier 2 capital,* under Basel III, comprises the collective allowance for impairment.

Various limits are applied to elements of the Bank's regulatory capital; the Bank is not constrained by any of these limits and there are no other deductions applied to the computations.

The Reserve Fund is an apportionment out of the Profit and Loss Account. Under the Articles of Association, the Directors are authorised to set aside such profits as they think proper in the form of a Reserve Fund. This Reserve Fund can be applied in any purpose to which the retained profits of the Bank may be properly applied.

The revaluation reserves against tangible assets in Core Equity Tier 1 are separated into surpluses arising on the Bank's premises (occupied and used in its business), investment properties and heritage assets.

The Bank's heritage assets have been accumulated over the 300+ years that the Bank has been in business and comprise a number of artefacts mostly in the form of paintings, an extensive coin collection and the Bank's own ledgers. These artefacts are no longer used in the day to day running of the Bank but remain in the Bank as part of the Bank's museum. They are subject to periodic valuation with any net increase in value forming part of the Bank's capital.

Regulatory developments

The minimum capital ratio under Basel III and CRD IV remains at 8%, with the main limits on the composition of this being:

- at least 4.5% of RWAs met by CET1;
- an additional 1.5% by Tier 1 or better; and
- the aggregate of Tier 1 and Tier 2 capital must exceed 8% of RWAs.

Over the transition period, Basel III will introduce two new capital buffers: a capital conservation buffer of 2.5% of RWAs and a countercyclical buffer of up to 2.5% of RWAs, which can be applied by regulators depending on macroeconomic conditions. In addition, globally systemically important banks are expected to hold a buffer of up to 2.5% of RWAs. This is not expected to be applicable to the Bank. The regulatory capital requirements will be phased in and are expected to apply in full from 1 January 2019.

Currently the Pillar 2 requirement must be met by total capital; however, the PRA has stated that institutions will be required to meet at least 56% of its Pillar 2A capital requirement with CET1 capital and the balance with additional Tier 1 capital (or better), by 1 January 2015. The PRA will also introduce a PRA buffer to replace the current capital planning add on (currently known as Pillar 2B), to be held in the form of CET1 capital.

4. Pillar 1 Capital Requirements

The Bank submits quarterly capital adequacy returns to the Regulators. The Bank calculates its capital at a consolidated level using the Standardised Approach to both credit risk and operational risk from the Basel III framework. These Standardised Approaches are virtually unchanged from those under Basel II.

The Bank's on-balance sheet assets and off-balance sheet contingent liabilities are allocated to seventeen exposure classes under the Standardised Approach to which credit conversion factors and standardised risk weights are applied in order to determine a figure for total RWAs. The minimum capital requirement is calculated at the standard rate of 8% of RWAs. The Bank does not hold a trading book for capital purposes.

Table 3 below shows the credit risk exposures and the associated RWAs for the last three financial years ended 31 March. The RWAs as at 31 March 2014 are shown on a Basel III basis, while those as at 31 March 2013 and 31 March 2012 are shown on a Basel II basis. Basel III has introduced a new lower risk weight to exposure to SME lending (small and medium sized enterprises) where a factor of 0.7619 can be applied to the risk weighting, resulting in lower capital requirements. The impact of this has been to reduce RWAs at 31 March 2014 by £69m.

The Bank has three classes of exposure to credit risk: wholesale money market, customer lending and a residual group comprising: 'high risk categories'; Collective Investment Undertakings; and other assets. See Section 5 Credit Risk Analysis for further analysis of these exposure classes.

Table 3: Exposure Classes and Minimum Capital Requirements

Exposure Class	**Exposure 31 Mar 14 £000**	**Risk Weighted 31 Mar 14 £000**	**Capital Requirement 31 Mar 14 £000**	Exposure 31 Mar 13 £000	Risk Weighted 31 Mar 13 £000	Capital Requirement 31 Mar 13 £000	*Exposure 31 Mar 12 £000*	*Risk Weighted 31 Mar 12 £000*	*Capital Requirement 31 Mar 12 £000*
Wholesale Money Market									
Central Governments and Central Banks	**666,957**	**-**	**-**	543,002	-	-	*631,821*	*-*	*-*
Multilateral Development Banks	**100,000**	**-**	**-**	105,000	-	-	*130,000*	*-*	*-*
Long & Short term claims on Institutions	**688,145**	**200,223**	**16,018**	595,523	197,747	15,820	*472,328*	*131,966*	*10,557*
Covered Bonds	**158,405**	**31,680**	**2,534**	123,051	24,609	1,969	*36,968*	*6,393*	*511*
	1,613,507	**231,903**	**18,552**	1,366,576	222,356	17,789	*1,271,117*	*138,359*	*11,068*
Customer Lending									
Real Estate Property	**858,099**	**401,376**	**32,110**	927,170	401,146	32,092	*720,955*	*295,186*	*23,615*
Customer Lending over €1million	**417,770**	**154,002**	**12,320**	407,532	156,860	12,549	*441,075*	*181,380*	*14,510*
Retail Claims under €1million	**37,031**	**27,623**	**2,210**	49,774	37,331	2,986	*54,268*	*40,701*	*3,256*
Past due Items	**18,620**	**24,448**	**1,956**	26,125	29,601	2,368	*63,532*	*82,423*	*6,594*
	1,331,520	**607,449**	**48,596**	1,410,601	624,938	49,995	*1,279,830*	*599,690*	*47,975*
Other Assets									
High Risk Categories	**1,539**	**2,309**	**185**	2,571	3,856	308	*3,271*	*4,907*	*392*
Collective Investment Undertakings	**24,900**	**24,900**	**1,992**	-	-	-	*-*	*-*	*-*
Other assets	**79,296**	**76,969**	**6,157**	77,187	72,764	5,822	*62,491*	*57,983*	*4,640*
	105,735	**104,178**	**8,334**	79,758	76,620	6,130	*65,762*	*62,890*	*5,032*
Total Exposure Value & Minimum Capital Requirement (Credit risk)	**3,050,762**	**943,530**	**75,482**	2,856,935	923,914	73,914	*2,616,709*	*800,939*	*64,075*
Operational Risk (Risk Weighted Asset equivalent and Capital Requirement - see below)		**126,832**	**10,147**		117,830	9,426		*112,560*	*9,005*
Total Risk Weighted Assets & Minimum Capital Requirement		**1,070,362**	**85,629**		1,041,744	83,340		*913,499*	*73,080*

In addition to the computation for credit risk, there is a separate calculation of a capital requirement to support operational risk. The Bank has adopted the Standardised Approach which, in accordance with the requirements of Article 317 of the CRR, applies risk percentages to the average annual income by business line. The basis of the calculation remains unchanged from Basel II. Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. The calculation as at 31 March 2014 below is based on the preceding three years' audited income (i.e. 3 years to 31 March 2013) and was computed as follows:

Table 4: Operational Risk Business Lines and Capital Requirement

Business Line	**Average Income 31 Mar 14 £000**	**Capital Requirement 31 Mar 14 £000**	Average Income 31 Mar 13 £000	Capital Requirement 31 Mar 13 £000	*Average Income 31 Mar 12 £000*	*Capital Requirement 31 Mar 12 £000*
Asset Management	**7,826**	**939**	6,274	753	*4,757*	*571*
Retail Banking	**65,122**	**8,193**	60,545	7,612	*57,613*	*7,249*
Retail Brokerage	**565**	**68**	683	82	*696*	*84*
Trading & Sales	**5,115**	**921**	5,217	939	*5,847*	*1,052*
Agency Services	**163**	**26**	265	40	*324*	*49*
Total Average Income & Capital Requirement	**78,791**	**10,146**	72,984	9,426	*69,237*	*9,005*

5. Credit Risk Analysis

The table below shows the average credit risk exposures and the average RWAs for the last three financial year ends to 31 March. This section provides additional analysis of exposure classes to credit risk.

Table 5: Average Exposures by Exposure Class

Average Balances by Exposure Class	**Exposure 2013/14 £000**	**Risk Weighted 2013/14 £000**	**Capital Requirement 2013/14 £000**	Exposure 2012/13 £000	Risk Weighted 2012/13 £000	Capital Requirement 2012/13 £000	*Exposure 2011/12 £000*	*Risk Weighted 2011/12 £000*	*Capital Requirement 2011/12 £000*
Wholesale Money Market									
Central Governments and Central Banks	**600,852**	**-**	**-**	453,900	-	-	*381,939*	*-*	*-*
Multilateral Development Banks	**104,615**	**-**	**-**	104,615	-	-	*125,385*	*-*	*-*
Long & Short term claims on Institutions	**655,165**	**216,390**	**17,311**	576,657	173,589	13,887	*678,259*	*179,818*	*14,385*
Covered Bonds	**132,016**	**26,403**	**2,112**	66,955	14,624	1,170	*21,318*	*1,982*	*159*
	1,492,648	**242,793**	**19,423**	1,202,127	188,213	15,057	*1,206,901*	*181,800*	*14,544*
Customer Lending									
Real Estate Property	**914,471**	**426,009**	**34,081**	809,443	325,134	26,011	*603,528*	*205,917*	*16,473*
Customer Lending over €1million	**421,498**	**159,068**	**12,725**	428,522	173,448	13,876	*494,369*	*246,020*	*19,682*
Retail Claims under €1million	**47,323**	**35,457**	**2,837**	52,351	39,082	3,127	*55,167*	*41,375*	*3,310*
Past due Items	**20,216**	**23,900**	**1,912**	37,659	46,254	3,700	*60,908*	*80,126*	*6,410*
	1,403,508	**644,434**	**51,555**	1,327,975	583,918	46,714	*1,213,972*	*573,438*	*45,875*
Other Assets									
High Risk Categories	**2,064**	**3,096**	**248**	2,997	4,495	360	*4,470*	*6,705*	*536*
Collective Investment Undertakings	**5,762**	**5,762**	**461**	-	-	-	*-*	*-*	*-*
Other assets	**74,876**	**72,544**	**5,803**	62,619	59,819	4,786	*55,710*	*52,849*	*4,228*
	82,702	**81,402**	**6,512**	65,616	64,314	5,146	*60,180*	*59,554*	*4,764*
Total Exposure Value & Minimum Capital Requirement (Credit risk)	**2,978,858**	**968,629**	**77,490**	2,595,718	836,445	66,917	*2,481,053*	*814,792*	*65,183*

Wholesale Money Markets

This exposure class captures the Bank's liquid assets together with surplus deposits not required to meet customer lending. These deposits are held in highly liquid central bank deposits but may also be deposited with other financial institutions or used to purchase financial instruments in the money markets. There are five exposure classes that cover this portfolio:

(i) Central Governments and Central Banks
This exposure includes deposits with central banks and government issued securities. The Bank will only place funds with central banks or governments of the highest rating; usually limited to the United Kingdom Government and the Bank of England, which attract a 0% risk weighting. As at 31 March 2014 the Bank's exposure was in deposits held with the Bank of England under its reserve asset scheme and the cash ratio deposit scheme, in addition to holdings in UK Gilts.

(ii) Multilateral Developments Banks ("MLDBs")
This exposure class includes loans to, or instruments issued by, approved MLDBs such as the European Investment Bank. These are institutions with a high credit rating which attract a 0% risk weighting.

(iii) Long Term Claims on Institutions & Short Term Claims on Institutions
These two exposure classes are divided according to the residual term of the deposit: short term being under three months; long term being longer dated instruments. The risk weighting depends upon the 'Credit Quality Step' which is determined by credit rating; the Bank uses Moody's as its reference credit rating agency for this purpose. The Bank prefers to deal with counterparties in Credit Quality Steps 1 and 2 which attract a maximum weighting of 50% for longer term exposures; 20% for shorter term. These exposures are mainly term deposits, certificates of deposit and floating rate notes deposited with, or issued by, selected UK and foreign banks. The Bank maintains a counterparty list to manage individual exposure limits whilst monitoring credit agency ratings and market indicators, such as spreads on credit default swaps, capital ratios and loan to deposit ratios.

(iv) Other wholesale money market counterparty credit risk

The Bank uses derivative instruments to hedge its exposure to interest rate risk and foreign exchange. The Bank uses interest rate swaps to hedge fixed rate loans or investments; these are subject to collateral deposit to or from the counterparty or clearing house, which render any associated credit risk immaterial. The Bank trades forward foreign currency deals to match customer requirements.

(v) Covered bonds

During the year, the Bank held exposures to covered bonds issued by UK banks and building societies. There is a preferential regulatory capital treatment with covered bonds: the risk weight is 10% for Credit Quality Step 1 and 20% for Credit Quality Step 2.

Table 6: Wholesale Money Market - Analysis by Credit Quality Step

Moody's Ratings	**Weighting**		**Exposure Short Term 31 Mar 14 £000**	**Exposure Long Term 31 Mar 14 £000**	Exposure Short Term 31 Mar 13 £000	Exposure Long Term 31 Mar 13 £000	*Exposure Short Term 31 Mar 12 £000*	*Exposure Long Term 31 Mar 12 £000*
	Short Term < 3 months	**Long Term** > 3 months						
Credit Quality Step:								
Step 1: Sovereign	0%	0%	**565,000**	**252,774**	542,000	161,002	*631,000*	*130,821*
Step 1: Aaa to Aa3	20%	20%	**128,218**	**240,000**	71,336	43,935	*47,137*	*97,075*
Step 2: A1 to A3	20%	50%	**172,113**	**245,315**	126,711	421,405	*263,115*	*84,969*
Step 3: Baa1 to Baa3	20%	50%	**9,768**	**319**	187	-	-	*2,000*
Step 4: Ba1 to Ba3	50%	100%	-	-	-	-	-	-
Step 5: B1 to B3	50%	100%	-	-	-	-	-	-
Step 6: Caa1 & below	150%	150%	-	-	-	-	*15,000*	-
Total Exposure			**875,099**	**738,408**	740,234	626,342	*956,252*	*314,865*

Table 6 shows the spread of exposures over the Credit Quality Steps applied within the Basel framework:

- *Credit Quality Step 1 (Sovereign)* includes placements with central banks, multilateral development banks and institutions underwritten by a guarantee of their national governments following the global financial crisis in 2008.
- *Credit Quality Step 1 (Credit Institutions)* includes the majority of the Bank's money market deposits and debt instruments, which are placed with institutions rated Aa3 or better.
- *Credit Quality Step 2* includes instruments with a residual maturity of more than three months and lower, but still acceptable credit ratings.
- *Credit Quality Steps 3 to 6* are exposures to counterparties whose credit rating is lower than the Bank would normally prefer but where certain holdings have become more poorly rated since the original investments were made. The £15m exposure in Credit Quality Step 6 at 31 March 2012 matured and repaid in full in June 2012.

Table 7: Wholesale Money Market - Analysis by Residual Maturity

Table 7 shows the residual maturity by instrument type. The Bank's largest exposure is to short term instruments (less than 3 months maturity).

31 March 2014	**Up to 3 months £000**	**3 months to 1 yr £000**	**Over 1 yr to 5 yrs £000**	**Over 5 yrs £000**	**Total £000**
Central Governments and Central Banks					
BoE Cash Deposits	**565,000**	**-**	**-**	**1,957**	**566,957**
Gilts				**100,000**	**100,000**
Multilateral Development Banks					
Floating Rate Notes	**-**	**5,000**	**55,000**	**40,000**	**100,000**
Long & Short term claims on Institutions					
Certificates of Deposit	**188,211**	**273,545**	**-**	**-**	**461,756**
Cash Deposits	**45,860**	**-**	**-**	**-**	**45,860**
Term Deposits	**74,369**	**318**	**-**	**-**	**74,687**
Floating Rate Notes	**-**	**-**	**105,842**	**-**	**105,842**
	308,440	**273,863**	**105,842**	**-**	**688,145**
Covered Bonds	**-**	**27,612**	**68,600**	**62,193**	**158,405**
Total Exposure	**873,440**	**306,475**	**229,442**	**204,150**	**1,613,507**

31 March 2013	Up to 3 months £000	3 months to 1 yr £000	Over 1 yr to yrs £000	Over 5 yrs £000	Total £000
Central Governments and Central Banks					
BoE Cash Deposits	542,000	-	-	1,002	543,002
Multilateral Development Banks					
Floating Rate Notes	-	12,000	93,000	-	105,000
Long & Short term claims on Institutions					
Certificates of Deposit	82,942	275,000	-	-	357,942
Cash Deposits	59,214	-	-	-	59,214
Term Deposits	54,432	25,000	-	-	79,432
Floating Rate Notes	-	18,935	80,000	-	98,935
	196,588	318,935	80,000	-	595,523
Covered Bonds	1,646	-	58,464	62,941	123,051
Total Exposure	740,234	330,935	231,464	63,943	1,366,576

31 March 2012	*Up to 3 months £000*	*3 months to 1 yr £000*	*Over 1 yr to yrs £000*	*Over 5 yrs £000*	*Total £000*
Central Governments and Central Banks					
BoE Cash Deposits	*631,000*	*-*	*-*	*821*	*631,821*
Multilateral Development Banks					
Floating Rate Notes	*-*	*-*	*130,000*	*-*	*130,000*
Long & Short term claims on Institutions					
Certificates of Deposit	*157,000*	*80,000*	*-*	*-*	*237,000*
Cash Deposits	*45,278*	*-*	*-*	*-*	*45,278*
Term Deposits	*107,975*	*-*	*-*	*-*	*107,975*
Floating Rate Notes	*15,000*	*39,925*	*27,150*	*-*	*82,075*
	325,253	*119,925*	*27,150*	*-*	*472,328*
Covered Bonds	*-*	*-*	*24,968*	*12,000*	*36,968*
Total Exposure	*956,253*	*119,925*	*182,118*	*12,821*	*1,271,117*

Table 8: Wholesale Money Market - Analysis by Geographical Region

Table 8 below shows the Bank's material wholesale money market exposures by geographical region, the UK being the core region.

31 March 2014	**Certificates of Deposit £000**	**Cash Deposits £000**	**Term Deposits £000**	**Floating Rate Notes £000**	**Covered Bonds £000**	**Total £000**
Region						
United Kingdom	**351,485**	**691,119**	**48,988**	**75,817**	**158,405**	**1,325,814**
Rest of Europe	**110,271**	**17,061**	**-**	**110,012**	**-**	**237,344**
North America	**-**	**3,632**	**25,699**	**10,002**	**-**	**39,333**
Rest of the World	**-**	**1,005**	**-**	**10,011**	**-**	**11,016**
Total Exposure	**461,756**	**712,817**	**74,687**	**205,842**	**158,405**	**1,613,507**
31 March 2013	Certificates of Deposit £000	Cash Deposits £000	Term Deposits £000	Floating Rate Notes £000	Covered Bonds £000	Total £000
Region						
United Kingdom	332,942	591,358	46,490	66,785	123,051	1,160,626
Rest of Europe	25,000	3,561	-	115,000	-	143,561
North America	-	5,510	32,942	5,000	-	43,452
Rest of the World	-	1,787	-	17,150	-	18,937
Total Exposure	357,942	602,216	79,432	203,935	123,051	1,366,576
31 March 2012	*Certificates of Deposit £000*	*Cash Deposits £000*	*Term Deposits £000*	*Floating Rate Notes £000*	*Covered Bonds £000*	*Total £000*
Region						
United Kingdom	*237,000*	*667,007*	*3,769*	*41,799*	*36,968*	*986,543*
Rest of Europe	*-*	*7,295*	*-*	*140,000*	*-*	*147,295*
North America	*-*	*2,525*	*104,206*	*8,126*	*-*	*114,857*
Rest of the World	*-*	*272*	*-*	*22,150*	*-*	*22,422*
Total Exposure	*237,000*	*677,099*	*107,975*	*212,075*	*36,968*	*1,271,117*

Customer Lending

The second segment of credit risk is Customer Lending which is categorised into three main types with a further category for 'Past Due' exposures. A breakdown of the Bank's exposures by type is included in Table 3 above, which includes both drawn and undrawn exposures. Table 9 below shows the split of these exposures between drawn and undrawn, and the subsequent sections analyse the drawn lending.

Table 9: Customer Lending - Analysis by Drawn and Undrawn Amounts

31 March 2014	**Drawn**	**Undrawn**	**Total Exposure**
	£000	**£000**	**£000**
Customer Lending			
Real Estate Property	**812,500**	**45,599**	**858,099**
Customer Lending over €1m	**130,596**	**287,174**	**417,770**
Retail Claims under €1m	**34,027**	**3,004**	**37,031**
Past Due Items	**18,620**	**-**	**18,620**
Total	**995,743**	**335,777**	**1,331,520**
31 March 2013			
Customer Lending			
Real Estate Property	852,259	74,911	927,170
Customer Lending over €1m	133,876	273,656	407,532
Retail Claims under €1m	46,626	3,148	49,774
Past Due Items	26,125	-	26,125
Total	1,058,886	351,715	1,410,601
31 March 2012			
Customer Lending			
Real Estate Property	*678,043*	*42,912*	*720,955*
Customer Lending over €1m	*157,245*	*283,830*	*441,075*
Retail Claims under €1m	*54,268*	-	*54,268*
Past Due Items	*63,532*	-	*63,532*
Total	*953,088*	*326,742*	*1,279,830*

Further details on the four categories of exposure to Customer Lending are given below:

(i) Real Estate Property

A large proportion of the Bank's customer lending is secured against residential property in the UK. The Bank's collateral register holds charges over customer property for current and potential lending propositions. As at 31 March 2014, total real estate property charged to the Bank was £3.7bn, with £2.3bn of this utilised against £819m of drawn lending, a small amount of which is classed as 'Past Due'. Table 10 shows the geographical exposure of lending secured by real estate property split between performing and past dues. At 31 March 2014, 78% was located in the South of England (50% in Greater London, 17% in the South East and 11% in the South West).

Table 10: Lending Secured by Real Estate Property - Analysis by UK Geographical Region

Lending secured by real estate property	Performing 31-Mar-14 £000	Past due* 31-Mar-14 £000	Total 31-Mar-14 £000	Performing 31-Mar-13 £000	Past due* 31-Mar-13 £000	Total 31-Mar-13 £000	*Performing 31-Mar-12 £000*	*Past due* 31-Mar-12 £000*	*Total 31-Mar-12 £000*
Region:									
Scotland	**17,851**	**328**	**18,179**	19,522	472	19,994	*7,667*	*388*	*8,055*
North England	**13,555**	**-**	**13,555**	13,088	1,606	14,694	*4,596*	*-*	*4,596*
Yorkshire & Humberside	**5,699**	**251**	**5,950**	6,411	179	6,590	*6,402*	*212*	*6,614*
North West	**11,466**	**35**	**11,501**	11,873	127	12,000	*11,807*	*-*	*11,807*
East Midlands	**47,847**	**196**	**48,043**	39,277	-	39,277	*29,302*	*377*	*29,679*
West Midlands	**24,604**	**277**	**24,881**	21,535	301	21,836	*27,632*	*146*	*27,778*
East Anglia	**48,976**	**1,665**	**50,641**	48,858	2,169	51,027	*29,087*	*4,129*	*33,216*
South West	**87,260**	**279**	**87,539**	96,660	1,635	98,295	*77,415*	*818*	*78,233*
Greater London	**408,189**	**2,325**	**410,514**	440,413	5,523	445,936	*361,633*	*10,950*	*372,583*
South East	**140,284**	**1,287**	**141,571**	148,853	4,620	153,473	*118,722*	*8,018*	*126,740*
Wales	**6,769**	**-**	**6,769**	5,769	1,039	6,808	*3,780*	*734*	*4,514*
Northern Ireland	**-**	**-**	**-**	-	-	-	*-*	*-*	*-*
Total	**812,500**	**6,643**	**819,143**	852,259	17,671	869,930	*678,043*	*25,722*	*703,815*

* Real estate lending past due items are aggregated with other Past dues in Table 3.

The Bank's standard security requirement is 1.5 times the facility amount, equivalent to a Loan to Value ("LTV") ratio of 66%. This provides a significant margin over the Standardised Approach's threshold of 80% LTV for the residential real estate exposure class. This exposure class attracts a risk weighting of 35%.

(ii) Customer Lending over €1m ('Corporate')

This exposure class includes larger loans that exceed the €1 million 'Retail Exposure' limit (see *(iii)* below) and are not categorised as 'Real Estate Property' exposures (see *(i)* above). Generally the Bank does not lend to corporate enterprises. This exposure class is risk weighted at 100%.

(iii) Retail Claims under €1m

These are small non-property exposures below the €1 million threshold for corporate lending. The risk weighting is 75%.

(iv) Past Due Exposures

All customer lending exposures are initially categorised into one of the three classes above, and on the trigger of an event of default are then reclassified as 'Past Due' exposures. The Bank has a low level of past due lending which is defined primarily as overdraft or lending balances in excess of agreed limits for more than 90 days. The exposure to these at 31 March 2014 was £19m (2%) of the total customer loan book of £1,086m. The definition of past due only applies to regulatory computations. The associated risk weightings range from 100% for real estate property past dues to 150% for wholesale and retail items.

The nature of the Bank's lending means that few of the conventional events of default are relevant to the portfolio. The Bank reviews extended breaches of advised overdrafts and actual non-performing bad debts. Breaches of overdraft limits are rarely of concern as usually there is more than sufficient collateral to cover the excess. The Bank's monitoring and classification policy on non-performing debt is explained on page 60 of the Financial Statements. The levels of bad debt charges and non performing debts (lending that is assessed as requiring a bad debt provision) are low and are summarised in Table 11.

Table 11: Retail Credit Risk - Analysis by Bad Debt Provisions and Non-Performing Debts

31 March	**2014 £000**	2013 £000	*2012 £000*
Collective allowances for impairment:			
Provision at 1 April	**2,185**	1,600	*1,370*
Change in collective provision	**(1,123)**	585	*230*
Provision at 31 March	**1,062**	2,185	*1,600*
Specific allowances for impairment:			
Provision at 1 April	**5,878**	7,014	*5,846*
Bad Debt Charge for the year	**1,300**	2,585	*1,339*
Recoveries of past charges	**(608)**	(955)	*(46)*
Net charge to profit & loss	**692**	1,630	*1,293*
Write offs	**(466)**	(2,766)	*(125)*
Provision at 31 March	**6,104**	5,878	*7,014*
Total Provisions at 31 March	**7,166**	8,063	*8,614*
Non Performing Debt (“NPD”)	**6,641**	7,444	*31,379*
Other Past due	**11,979**	18,681	*32,153*
Total Past Due Exposures	**18,620**	26,125	*63,532*
Specific provisions to NPD %	**92%**	79%	*22%*
NPD to gross loans and advances	**1%**	1%	*3%*

The Bank maintains a watch list of exposures where the customers ability to repay may be in doubt and these relationships are managed to attempt to avoid the migration into non-performing debt status and any subsequent loss. The analysis of the loan book as at 31 March 2014 and the previous two year ends is shown in Table 12:

Table 12: Retail Credit Risk - Analysis by Customer Lending

Loan Book Analysis	**31 Mar 14 £000**	31 Mar 13 £000	*31 Mar 12 £000*
Loans not subject to Watch list nor deemed Non Performing	**976,019**	936,309	*794,611*
Watch List			
Medium Risk	**99,575**	114,329	*118,027*
High Risk	**4,092**	4,423	*7,471*
Non Performing Debt	**6,641**	7,444	*31,379*
Total Loan Book	**1,086,327**	1,062,505	*951,488*
Watch List			
Medium Risk	**9.2%**	10.8%	*12.4%*
High Risk	**0.4%**	0.4%	*0.8%*
Non Performing Debt	**0.6%**	0.7%	*3.3%*
Total Watch List & Non Performing Debt	**10.2%**	11.9%	*16.5%*

The proportion of the loan book on the Watch List and in Non Performing Debt has decreased during the year and remains a small proportion of the total loan portfolio.

Table 13: Loans and Advances to Customers - Analysis by Residual Maturity

31 March 2014	**Demand £000**	**Up to 3 months £000**	**3 months to 1 yr £000**	**Over 1 yr to 5 yrs £000**	**Over 5 yrs £000**	**Total £000**
Loan Type						
Fixed term	**-**	**4,250**	**7,035**	**72,584**	**41,403**	**125,272**
Variable term	**968,221**	**-**	**-**	**-**	**-**	**968,221**
Allowance for impairment losses	**(7,166)**	**-**	**-**	**-**	**-**	**(7,166)**
Total	**961,055**	**4,250**	**7,035**	**72,584**	**41,403**	**1,086,327**
31 March 2013	Demand £000	Up to 3 months £000	3 months to 1 yr £000	Over 1 yr to 5 yrs £000	Over 5 yrs £000	Total £000
Loan Type						
Fixed term	-	-	21,918	78,314	29,872	130,104
Variable term	940,464	-	-	-	-	940,464
Allowance for impairment losses	(8,063)	-	-	-	-	(8,063)
Total	932,401	-	21,918	78,314	29,872	1,062,505
31 March 2012	*Demand £000*	*Up to 3 months £000*	*3 months to 1 yr £000*	*Over 1 yr to 5 yrs £000*	*Over 5 yrs £000*	*Total £000*
Loan Type						
Fixed term	-	-	*31,930*	*74,030*	*22,609*	*128,569*
Variable term	*831,533*	-	-	-	-	*831,533*
Allowance for impairment losses	*(8,614)*	-	-	-	-	*(8,614)*
Total	*822,919*	-	*31,930*	*74,030*	*22,609*	*951,488*

A large proportion of the lending portfolio is repayable on-demand; however there would be a lead time between demand being made and customers meeting their obligations to repay or re-finance their borrowings.

Credit Risk Mitigation

Under the Standardised Approach the Bank is permitted to reduce its exposure balances through credit risk mitigation prior to applying risk weightings and calculating capital requirements. Such mitigation may take the form of liens over cash deposits or charges over investment management portfolios. The Bank recognises cash deposits held by the Bank as eligible collateral for credit risk mitigation. At 31 March 2014, £5.5m of exposure was covered by cash deposits and, consequently, a risk weight of 0% was applied to these exposures.

High Risk Categories, Collective Investment Undertakings & Other Assets

Lastly, the Bank also records exposures under three general exposure classes:

- *High Risk Categories* – which includes the Bank's legacy investments in illiquid hedge funds and venture capital firms, these attract a 150% weighting. This portfolio is being wound down to de-risk the balance sheet.

- *Collective Investment Undertakings* – during the year, the Bank purchased an investment in a UCITS compliant open ended investment company which attracts a 100% weighting.

- *Other Assets* – which includes all assets not specifically allocated to other exposure classes. Items in this group attract a 20%, 100% or 250% weighting. The Bank reports its premises and investment properties along with other current assets and prepayments in this exposure class. Basel III requires deferred tax assets that rely on future profitability and arise from temporary differences to be deducted from CET1, however, due to threshold exemptions the deduction is not applied and instead the exposure is risk weighted at 250% (£1.5m) as opposed to Basel II treatment of all deferred tax assets being risk weighted at 100%.

6. Market Risk: Interest Rate Risk

The principal market risk to which the Bank is exposed is the risk of loss from fluctuations in the future cash flows because of a change in market interest rates. Interest rate risk is managed by the Bank's Treasury Department principally through monitoring interest rate gaps between assets and liabilities based upon the next interest rate re-fixing dates as against the contractual maturity dates of the instruments. The Bank uses interest rate swaps to hedge exposures to interest rate risk, as part of its risk management process.

The interest rate gap analysis table (Table 15) on the following page shows the gross and net interest rate exposure by repricing date.

The ALCo monitors the interest rate risk on a monthly basis. The impact of a potential 2% parallel shift in the yield curve against the Bank's interest bearing assets is computed back to a net present value. The reported interest rate sensitivity on the year end balance sheet for 31 March 2014 and the previous year were as follows:

Table 14: Interest Rate Sensitivity

Interest Rate Sensitivity	**31 Mar 14 £000**	31 Mar 13 £000	*31 Mar 12 £000*
Measured as the Effect of a 2% parallel shift in Sterling interest rates			
Net Present Value Sensitivity to:			
Positive Shift (+2%)	**(1,422)**	(935)	*(288)*
Negative Shift (-2%)	**1,472**	975	*325*

The interest rate sensitivities set out in Table 14 are illustrative only and are based on simplified scenarios. The figures represent the effect on net interest income and fixed interest security values arising from a parallel fall or rise in the yield curve and do not take into account the effect of any further actions taken to mitigate the effect.

Table 15: Interest Rate Gap Analysis

31 March 2014	**Carrying Amount £000**	**Up to 3 months £000**	**3 months to 6 months £000**	**6 months to 1 yr £000**	**Over 1 yr to 5 yrs £000**	**Over 5 yrs £000**
Assets:						
Loans and advances to banks and central banks	**684,415**	**684,100**	**315**	**-**	**-**	**-**
Loans and advances to customers	**1,084,686**	**973,389**	**-**	**6,535**	**75,975**	**28,787**
Interest bearing available for sale financial assets	**920,879**	**363,086**	**65,000**	**210,000**	**105,600**	**177,193**
Total (interest bearing) assets	**2,689,980**	**2,020,575**	**65,315**	**216,535**	**181,575**	**205,980**
Liabilities						
Deposits by banks	**16**	**16**	**-**	**-**	**-**	**-**
Customer accounts	**2,525,734**	**2,410,868**	**77,862**	**30,271**	**6,733**	**-**
Repurchase agreements	**25,000**		**25,000**			
Total (interest bearing) liabilities	**2,550,750**	**2,410,884**	**102,862**	**30,271**	**6,733**	**-**
Derivatives	**-**	**488,860**	**(55,000)**	**(46,465)**	**(181,411)**	**(205,984)**
Interest rate gap	**139,230**	**98,551**	**(92,547)**	**139,799**	**(6,569)**	**(4)**

31 March 2013	Carrying Amount £000	Up to 3 months £000	3 months to 6 months £000	6 months to 1 yr £000	Over 1 yr to 5 yrs £000	Over 5 yrs £000
Assets:						
Loans and advances to banks and central banks	676,931	650,929	-	25,000	-	1,002
Loans and advances to customers	1,057,959	945,096	1,620	14,991	74,752	21,500
Interest bearing available for sale financial assets	686,404	273,826	95,000	181,785	72,852	62,941
Total (interest bearing) assets	2,421,294	1,869,851	96,620	221,776	147,604	85,443
Liabilities						
Deposits by banks	4	4	-	-	-	-
Customer accounts	2,262,050	2,166,586	65,139	18,113	12,112	-
Total (interest bearing) liabilities	2,262,050	2,166,590	65,139	18,113	12,212	-
Derivatives	-	421,593	(56,620)	(134,700)	(146,385)	(83,888)
Interest rate gap	159,240	124,854	(25,139)	68,963	(10,993)	1,555

31 March 2012	*Carrying Amount £000*	*Up to 3 months £000*	*3 months to 6 months £000*	*6 months to 1 yr £000*	*Over 1 yr to 5 yrs £000*	*Over 5 yrs £000*
Assets:						
Loans and advances to banks and central banks	*784,499*	*783,678*	*-*	*-*	*-*	*821*
Loans and advances to customers	*947,783*	*864,838*	*-*	*500*	*71,021*	*11,244*
Interest bearing available for sale financial assets	*486,043*	*414,775*	*50,000*	*-*	*9,268*	*12,000*
Total (interest bearing) assets	*2,218,325*	*2,063,291*	*50,000*	*500*	*80,469*	*24,065*
Liabilities						
Deposits by banks	*476*	*476*	*-*	*-*	*-*	*-*
Customer accounts	*2,070,722*	*1,991,844*	*43,882*	*28,866*	*6,130*	*-*
Total (interest bearing) liabilities	*2,071,198*	*1,992,320*	*43,882*	*28,866*	*6,130*	*-*
Derivatives	*-*	*97,021*	*-*	*(400)*	*(73,971)*	*(22,650)*
Interest rate gap	*147,127*	*167,992*	*6,118*	*(28,766)*	*368*	*1,415*

7. Remuneration

In compliance with the financial services regulatory requirements, the Bank is required to make the disclosures set out below. Table 16 sets out total staff remuneration for 2013/2014 while Table 17 displays the 2013/2014 remuneration of Senior Management, including the Partners, Significant Influence Function Holders (as defined by the regulator) and Non-Executive Directors, as well as members of staff whose actions are deemed to have a material impact on the Bank's risk profile – collectively these employees are known as "Code Staff". Subsequent paragraphs provide information on decision-making policies for remuneration and links between pay and performance.

Table 16: Remuneration Information (All staff)

Business Area – Private Banking	
Number of Staff - as at 31/03/14	396
Fixed Remuneration	
Cash (£m)	23.5
Total Fixed Remuneration (£m)	**23.5**
Variable Remuneration	
Cash (£m)	7.9
Total Variable Remuneration (£m)	**7.9**

Figures represent amounts paid during the 2013/2014 financial year

Table 17: Remuneration Information: (Code staff)

Number of Code Staff – as at 31/03/14	21
Fixed Remuneration	
Cash (£m)	7.2
Total Fixed Remuneration (£m)	**7.2**
Variable Remuneration	
Cash (£m)	3.8
Deferred Cash (£m)	0.1
Total Variable Remuneration (£m)	**3.9**

Figures represent amounts paid during the 2013/2014 financial year

Decision Making Process for Determining the Remuneration Policy

The Bank's Remuneration Committee ("RemCo") is a sub-committee of the Board, and therefore reports to the Board on a regular basis. The purpose of the RemCo is to set the over-arching principles, parameters and governance of the Remuneration Policy across the Bank and to consider and approve the remuneration arrangements of the Partners[1], the Executive Group ("EG") and other senior employees. The responsibilities of the RemCo include:

- Determining the Remuneration Policy of the Bank and making recommendations to the Board on the policy and structure of remuneration. This includes proposing total remuneration packages, having given consideration to:
  (a) overall market positioning of the remuneration package
  (b) individual remuneration packages (including pension and compensation rights)
  (c) annual and long term bonus arrangements
  (d) service contracts
  (e) termination arrangements
  (f) the risk implications in respect of the design, implementation and management of remuneration arrangements
  (g) ensuring that there are formal and transparent procedures for developing the policy around these decisions to the level that the RemCo considers appropriate
- Overseeing the remuneration arrangements for those carrying out Significant Influence Functions (as defined by the regulator) or individuals whose activities have or could have a material impact on the risk profile of the Bank. This includes Risk Management, Internal Audit and Compliance
- Ensuring that no individual is involved in any decision relating to their own remuneration

[1] The Board includes seven Directors who are all descendants of the Bank's founder and are the Bank's only shareholders. They are known as Partners and all work in the business. Part of their role is to ensure the continuation of the Bank's long-held culture, values and approach to business.

- Undertaking periodic reviews of the Remuneration Policy in the context of consistent and effective risk management through consultation with the Internal Audit, Compliance and Risk Management functions as required
- Approving the annual recommendations to be included in the Bank's budget for pay and employee benefits

The remuneration of non-Hoare family Non-Executive Directors ("NEDs"), including the Chairman is determined by the Partners. The level of remuneration for NEDs is designed to reflect their responsibilities and time commitments. The level of fees paid to NEDs is bench-marked to industry standards and reviewed annually. NEDs do not receive annual variable remuneration payments.

The Remuneration Policy

The bank's Remuneration Policy reflects the objectives for good corporate governance as well as supporting the business strategy, culture of low risk and future sustainability. The overarching principles of the policy are to:

- Recognise the capabilities and achievements of individual employees, rewarding and incentivising sustained good performance. Whilst pay is performance related, individual targets are not aligned directly to bonus payments;
- Encourage behaviour that is consistent with the core values, as captured in the bank's behavioural framework which promotes team working, service excellence and the highest levels of integrity;
- Deliver a total remuneration package that is both market competitive and affordable, with consideration given to the impact on capital ratios, liquidity and the continued ability to invest in, and grow, the business;
- Ensure remuneration is structured in a way that promotes activity that is within the bank's acceptable risk parameters and is in line with regulatory requirements as set out in the financial regulators' Remuneration Code;
- Provide a total remuneration package that ensures that no employee's subsistence is dependent on an annual bonus payment. Variable remuneration payments are made by the bank on an entirely discretionary basis; and
- Ensure that total remuneration packages meet the banks commitment in relation to equal pay and non-discrimination.

Composition of the RemCo

The RemCo convenes, at a minimum, three times a year and is currently chaired by Lord Wilson of Dinton, the Chairman of the Bank. The RemCo's constitution requires that membership will consist of two Partners who are Directors, two other Directors (who shall not be Partners) and the Chairman (who shall be a Director, but who may or may not be a Partner). In the event of any tied decision, the Chairman will have the casting vote. The current members are:

- Richard Wilson – Chairman – Independent Non-Executive Director
- Richard Q Hoare – (Deputy Chair) Partner
- Venetia E Hoare – Partner
- Laurel Powers-Freeling – Independent Non-Executive Director
- Ian R. Peacock – Independent Non-Executive Director

The Role of Relevant Stakeholders

The Board is fully engaged with remuneration governance and are instrumental in agreeing the size of the annual bonus pool based on the recommendations made by the RemCo. The final recommendations are ratified at the Bank's AGM.

The RemCo may invite any Partner, EG member or senior employee to attend meetings, either regularly, or specifically. Staff in the Risk Management function will attend from time to time at the invitation of the Chairman. The RemCo will also be supported by both the Compliance department and the Human Resource function as and when required.

Link between Pay and Performance

While all employees are encouraged to discuss performance on an informal and on-going basis, formal appraisals take place twice a year in April (end of year) and September (interim). The Bank has a behavioural competencies framework to supplement the appraisal process. The framework focuses employee attention on the skills and behaviours that are required to drive effective performance and achieve the Bank's strategic aims within the prescribed risk appetite. The framework is aligned to the Bank's values of empathy, social responsibility, honesty and excellence. The framework also ensures that:

- Employees have a well-defined set of behaviours required for their role and are clear about how they are expected to perform
- Employee behaviour is aligned with business objectives and there is a link between effective individual inputs and organisational performance

- Relevant employees have a risk based objective

The interim and end of year performance appraisals evaluate performance against agreed goals and objectives, including Key Performance Indicators. Recognition is given to employees meeting both financial and non-financial objectives and to the achievement of all behaviour competencies required by their role. In awarding an overall annual performance rating, the Bank places a higher weighting on the values and behaviours demonstrated than on the achievement of financial objectives.

Any bonus payments are made on an entirely discretionary basis. Payments are aligned to the Bank's overall economic achievement rather than to individual and/or business line performances.