
C. Hoare & Co.

**Annual Report and
Consolidated Financial Statements
Year Ended 31 March 2014**



Company Number: 240822

C. HOARE & CO.
ANNUAL REPORT AND CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED 31 MARCH 2014

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CHAIRMAN'S FOREWORD

I am pleased to report another good year in our business and would like to thank our customers and staff for their contribution.

Balances on deposit, amounts lent and investments under discretionary management all increased during the year and reached record levels. Profits also increased significantly although two specific items, relating to pension accounting and the collective provision against customer loans, accounted for much of this. Without these two items, the increase in profits was more modest. We face an increase in costs to record levels, in part because of the need to comply with new regulations. Details are in the strategic report.

The bank is investing heavily in new technology. This includes work on a major new system to maintain customer records and replace paper files. We are also looking at mobile and enhanced online customer tools.

The bank's regulatory capital base increased by £24m to £221m and the bank remains liquid with less than 50 per cent of customers' deposits lent. New rules for capital were introduced by the European and UK regulators on 1 January 2014 and after the consequent reclassification of capital the bank's Core Equity Tier 1 capital ratio increased to 20.6%.

We continue to build our capital resources by retaining most of the profits we make from the business and we remain comfortably ahead of regulatory requirements. The Bank has not found the need to seek external capital and the Board intends this to continue.

The bank was once again successful in winning a number of awards during the year, but avoids complacency. We undertook another customer survey in October to identify potential areas for improvement in our Wealth Management customer service.

The Hoare family remain sole shareholders. With unlimited liability they are still, as ever, closely involved in strategy and risk management as members of the Board as well as playing key roles in the day-to-day running of the bank.

I am grateful for the high commitment of the Board and for their hard work in support of the bank's excellence. We strive constantly to improve our corporate governance and in this as in all aspects of performance want to be the best.

In short, the bank remains strong and true to its values, always looking for ways of improving its service to customers while navigating a demanding regulatory environment

Lord Wilson of Dinton
Chairman

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STRATEGIC REPORT

The directors present their Strategic Report on the C. Hoare & Co. group for the year ended 31 March 2014.

1. Review of Business: Market context

Interest rates remained low throughout the year: despite the shoots of economic growth becoming better established in the UK economy, the Bank of England's Base Rate remained at 0.5% and money market rates fell slightly, in part due to quantitative easing. The Funding for Lending Scheme led to some very aggressive pricing in the retail mortgage market during the middle of the year, although rates have increased slightly since.

UK house prices have resumed an upward trend, with some commentators viewing the market in London, in particular, as exhibiting bubble-like characteristics. The consensus outlook for interest rates indicates a potential rise in the coming 12 months. There is also expected to be a tightening of lending processes across the industry, as a consequence of the Mortgage Market Review which took effect in April. These factors, combined with the increase in stamp duty for corporate buyers in the last budget, may temper house price growth, although ultimately the lack of supply may support prices in London.

Despite room for optimism, there remains significant uncertainty in the economic outlook, both globally (the slowdown of growth in China and instability in Ukraine) and locally (the vote on Scottish independence and forthcoming UK general election).

Across the industry, changing regulation continues to warrant management's attention and drive investment in staff and systems. We believe that, in the long term, this will increase the cost base of all banks. Technology is also evolving fast, with a variety of different mobile "apps" and payment technologies in development.

The new Capital Requirements Regulation and Directive (collectively known as CRD IV) implemented Basel III in Europe on 1 January 2014. These introduced new capital and liquidity measures, which will be phased in over the coming five years. The impact of this change on the bank's position is shown on the following pages.

2. Review of Business: the bank

Against or despite this backdrop, the bank's balance sheet, funds under management and income grew again; in each case reaching the highest levels seen in the bank's history: deposits reached £2,526m; lending £1,086m; discretionary funds under management £1,558m and income £92.3m.

Profits before tax increased by £5.9m to £30.2m, although two specific accounting items flatter this result: firstly, £1.8m of the increase was due to £1.5m of financing income arising on the bank's defined benefit scheme, determined under FRS 17, versus £0.3m of cost in the previous year. This is an allocation of the movement in the scheme's deficit to the Profit and Loss, rather than a true trading result (see Note 3 for more detail). Secondly, profits for the year also benefited from a £1.1m reduction in the collective impairment provision versus a £0.6m increase in the previous year. This provision is determined by reference to the past five years' of bad debt experience, which has improved and no longer covers the peak year of the crisis. Adjusting for these two items, profits before tax increased by £2.4m or 9.6% to £27.6m. We expect next year's profits to include a slightly higher amount of financing income on the pension scheme.

Customer deposit balances grew by 12% to £2,526m, including a significant inflow of funds in the final days of the year. We recognise deposit levels may be somewhat above the level implied by the longer term trend, and are conscious of the risk that some deposits may leave us in search of higher yields, should confidence return. Our stated policy remains, as always, not to compete on price: we aim to pay a fair rate to our depositors, consistent with the low risk nature of the bank's balance sheet and our focus on customer service.

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STRATEGIC REPORT (CONTINUED)

Customer lending grew by 2% to £1,086m. While this growth is more subdued than in recent years, we continue to see a good pipeline of lending and maintain consistent credit criteria and pricing, remaining willing lenders to the right customers. The bank's loan to deposit ratio at year-end was 43% and well within the Board's risk appetite

The bank's money market book increased by 19%, due to deposit growth exceeding lending growth. At the year end, the bank held the equivalent of 22% of customers' deposits at the Bank of England, £100m in gilts and a further £303m of assets capable of repo with the Bank of England. When placing funds with other banks we continue to prefer lower risk over higher return: accepting that low market rates and a shortage of appropriate counterparties will lower the yield from the money market book.

The average net interest margin for the year was 2.51%, down 0.10% from the previous year. The main reason for this reduction was that the money market book was a higher proportion of the bank's assets, which reduced the average income yield. Net interest income rose by 9.4% to £60.4m.

The wealth management business continued its strong growth trajectory and remains a strategic growth area for the bank: funds under management increased by 19.2% to £1,558m, of which £269m was net new funds from new or existing customers. Fees from this business grew by 36% and now account for 15% of overall income. We are pleased to welcome more customers to the bank who have been attracted by the range of services we offer.

The aggregate income from the bank's fee generating businesses (wealth management, foreign exchange, cash administration and the advisory business) grew by 26% to £19.9m.

Overall, income (excluding investment income and gains and pension financing) grew by 10.7% to £91.0m, while costs (excluding bad debts) grew by 11.5% to £62.5m, both continuing the growth trend of previous years. Cost growth is occurring for three main reasons: increasing headcount to match business growth; increasing headcount and project expenditure in response to new regulatory obligations, including the cost of adapting systems and processes to these; and investment in technology to improve efficiency and service to the customer. These trends are consistent with industry peers and we are expecting further cost increases in future for these reasons.

Excluding performance-related pay, underlying operating expenses increased by 11.9% over the prior year. Staff costs comprise 64% of the bank's cost base and, excluding bonus payments, these increased by 9.8%.

Excluding the impact of bad debts, investment income and gains and pension financing, the bank's cost to income ratio increased slightly from 68.3% to 68.8%.

Overall the bank's bad debt experience during the year was relatively benign: excluding accruing interest, specific provisions increased slightly, with modest recoveries of past provisions broadly equalling new provisions. No material loans were impaired during the year.

The bank recognised £0.2m of impairment on an asset held within its legacy investment portfolio; this compares to a realised gain of £1.1m in the preceding year which arose on the sale of a different asset.

The bank's defined benefit pension scheme ("the Scheme") was closed to future accrual in 2007 and by March 2008 the Scheme was fully funded on an FRS 17 basis. Subsequent economic events took their toll on the Scheme's investments, which prompted the Board to recommence contributions to the Scheme. These contributions continued in line with a recovery plan that was agreed with the Trustee in March 2011 following the triennial review. The last payment relating to that plan was made in April 2013. The subsequent triennial review was performed during the year and a further recovery plan was agreed with the Scheme's trustees in November 2013. The details of the contributions required under this plan are set out in Note 3 to the Financial Statements. Aside from the effect of the contributions made during the year, the Scheme's deficit decreased by £4.8m, as performance of the Scheme's assets exceeded the increase in its liabilities.

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STRATEGIC REPORT (CONTINUED)

Total shareholders' funds increased by £25.2m (12.9%) during the year, primarily as a result of retained profits and the decrease in the defined benefit pension scheme deficit.

The Board maintains a strong philanthropic culture within the bank. One of the bank's key non-financial performance indicators is the proportion of staff who share the bank's values and donates to charity through the bank's "Give as You Earn" scheme. The bank's charitable trust ("The Golden Bottle Trust") increases the value of staff donations made through this scheme by double matching them. As at 31 March 2014, 51% of staff chose to give in this way (2013: 47%). The bank also encourages staff to give up some of their own time to charitable causes by matching the time taken with paid leave, up to a maximum of two days each year. We also offer the Master Charitable Trust for philanthropic customers who wish to make charitable donations for investment; this continued to attract new monies during the year.

The bank was again grateful to receive a number of awards during the year, including: two Citywealth Magic Circle Awards: Private Client Asset Manager of the Year and Woman of the Year; Portfolio Adviser's: Boutique Portfolio, Platinum Award for Aggressive Portfolio Manager; and PAM Insight's Wealth Management Awards 2014: Client Service Quality – High Net Worth – 2014.

As expected, the bank's subsidiary Mitre Court Property Holdings Company became dormant during the year.

3. Performance

The Board and management continuously assess the performance of the business, including by monitoring a range of key performance indicators, such as the capital ratio; net interest margin; cost and income growth rates; cost to income ratio; return on capital; and liquidity position; as well as non financial measures, such as: headcount; customer take-on rate and profile; and risk related measures, via the risk management framework and risk register. Where relevant, these indicators have been included within the text of this Strategic Report or within the Directors' Report.

4. Future Developments

There are four main themes which the Board considers will affect the bank and the retail banking industry over the coming years. These are: the economic outlook, in particular for interest rates; the continuing pipeline of regulatory change, including its effect on staff costs and systems investment; the evolution of technology and its impact on the bank and customers; and potential new entrants to the banking industry.

In the coming twelve months the Scottish independence vote; the run-up to the UK's general election; and the developing situation in the Ukraine all bring additional uncertainty to economies still recovering from the financial crisis of 2008.

Politicians, the media and public still have the appetite to drive further regulatory change in response to the crisis, adding to many previously announced changes, many of which have yet to be fully implemented. We expect further changes from Europe; from the UK's Independent Commission on Banking and from the FSA's two successor organisations.

On technology, we expect further evolution of mobile "apps" and payment methods, and the bank is working on introducing some of these. We are also investing in a bank wide relationship and document management system which will improve efficiency, data quality, availability and resilience, and replace a significant number of paper-based processes.

New entrants to the banking industry are emerging, some of whom resemble variants of traditional banks, while others may be more disruptive, such as peer-to-peer lenders, online-only banks or offshoots of global internet companies.

Against this background, the bank continues to focus on conducting business in a manner consistent with its long held core values, prioritising customer service and safety, while ensuring that sufficient profits are retained to maintain a capital base at least in line with expected future requirements.

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STRATEGIC REPORT (CONTINUED)

5. Principal Risks and Uncertainties

Principal risks are monitored by reference to leading indicators, which are designed to highlight potential problem areas well in advance. The principal risks faced by the bank are:

a) Credit Risk

It is the bank's policy to lend to customers against security. Unsecured lending is only entered into where, in the Board's view, the customer's circumstances make it prudent to do so.

It is the policy of the bank to lend to a restricted list of other financial institutions with the main criteria for selection being the stability and reputation of the institution.

All lending is undertaken within limits, which are regularly reviewed by either the Asset and Liability Committee ("ALCO"), for financial institutions, or the Credit Policy Committee, for customers, and approved by the Board.

b) Liquidity Risk

Liquidity risk is managed each day by the bank's Treasury department under the supervision of the ALCO. The bank has well established liquidity management criteria which include, for example, limits on the percentage of customer deposits which may be lent or which may held in other asset classes. The bank is supervised by the Prudential Regulatory Authority ("PRA") on the same basis as other major UK financial institutions. The PRA's approach to liquidity management takes account of the underlying characteristics of the deposit base and establishes bank specific liquidity requirements along similar lines to those used to set capital requirements.

c) Interest Rate Risk

The interest rate risk arising from the mismatch between the bank's lending and deposit rates is actively managed. For the majority of the bank's loans and advances to customers, rates are linked to the C. Hoare & Co. base rate. Interest rate margins are closely monitored and evaluated. The exposure to interest rate changes and sensitivity is regularly reported to and reviewed by the ALCO, which manages the overall exposure within an agreed limit.

d) Operational Risk

Operational risks are the direct or indirect impact arising from people, inadequate or failed internal processes and systems or external events. Such risks are identified, assessed and monitored in the bank's operational risk register, which is reviewed regularly by management; the Executive Group; the Risk and Compliance Committee; and the Board. The bank recognises that operational risk is inherent in all its products, activities, processes and systems and seeks to manage risks to an acceptable level that reduces the frequency and impact of operational losses in a cost effective way.

The key operational risks that the bank faces relate to legal and regulatory change; compliance (including conduct risk); fraud and information security; IT systems and business continuity. The Board is also conscious of the risks inherent in the growing investment management and advisory business.

e) Foreign Currency Risk

Foreign currency balances are driven by the requirements of the bank's customers. In order to limit the bank's exposure to exchange rate risks, limits are placed on the bank's foreign exchange dealers for intraday and end of day positions. Liabilities are in respect of deposits from customers. Assets are in respect of loans and advances to customers, balances with other banks and some foreign currency denominated investments.

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STRATEGIC REPORT (CONTINUED)

e) Foreign Currency Risk (continued)

The foreign exchange dealers have authority to deal in forward foreign exchange contracts within specified limits, either to meet or match customers' requirements or to trade on the bank's behalf. The resulting positions are independently monitored and are reported regularly on a currency by currency basis to the ALCO.

f) Derivatives

The bank does not deal in derivatives on its own account, other than to manage its exposure to fluctuations in interest or foreign exchange rates. It uses interest rate swaps to hedge fixed rate loans or investments, including currency swaps if the asset is denominated in a foreign currency, and forward foreign exchange contracts to hedge foreign exchange exposures. The bank may accept instructions to deal on behalf of a customer, on an execution only basis.

As part of its responsibilities, the ALCO approves the use of specified derivative instruments within agreed limits and business activities.

g) Trading book

It is the bank's general policy not to operate any material trading (i.e. non banking) positions. During the normal course of business the bank will undertake foreign exchange trading, income from which is included in dealing profits (Note 4).

h) Reputational risk

The bank's standing in the eyes of its customers, counterparties, employees and the general public is of critical importance to the Board. It is the Board's view that reputational risk arises as a consequence of other types of risk, and as such potential reputational impact is considered when any risk is assessed.

Detailed disclosures on credit risk, liquidity risk, interest rate risk, foreign exchange risk and operational risk and the use of derivatives are set out in Notes 11 and 36 in accordance with FRS 29 'Financial Instruments: Disclosures'.

By Order of the Board

26 June 2014

D Green
Company Secretary
C. Hoare & Co.
37 Fleet Street
London
EC4P 4DQ
Registration number: 240822

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DIRECTORS' REPORT

The Directors of C. Hoare & Co. ("the Company" or "the Bank") present their Annual Report and audited Consolidated Financial Statements of the Company and 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 ("the Group"), for the year ended 31 March 2014.

The Financial Statements were approved by the Board on 19 June 2014.

1. Principal Activities

C. Hoare & Co. is an unlimited company with a share capital which is incorporated and domiciled in the United Kingdom. The Bank's principal activity, together with its subsidiaries, is the provision of a wide range of banking, investment and financial advice services to a predominantly high net worth customer base.

2. Results and Dividends

The financial results for the year are set out in the profit and loss account on page 15.

Retained profits for the year of £23.8m (2013: £18.7m) will be used to strengthen reserves and support future growth.

The Board recommends an ordinary share dividend for the year of £50 per share (2013: £50), a total of £6,000 payable on 24 July 2014.

3. Risk Management and Governance

The Bank's and Group's business is stable and concentrates on the supply of banking, investment management, financial, tax and estate planning services to generations of customers. Regular patterns of income and expenditure emerge and are well understood by the Bank. This stability enables the Board and management to monitor risks closely and to detect and manage any emerging changes at an early stage.

Risk management framework

The Board has ultimate responsibility for the management of risk within the Bank. It discharges this responsibility with the help of the Bank's risk management framework, which describes the strategy, governance and protocol in place for the management of risk. The framework has eight elements and is based upon principles established by the Bank's regulators:

- The Board sets the Bank's strategy and defines risk appetite and risk management strategy
- Roles and responsibilities are defined
- Risk training is undertaken and awareness raised, including common language and definitions
- Risks are identified, measured, monitored and reported on
- Policies and procedures are in place to control and mitigate identified risks, and business continuity planning is undertaken
- Scenario analysis and stress testing is performed, including reverse stress tests and recovery and resolution planning
- Capital adequacy and liquidity risk are assessed
- Regular independent audits and reviews are undertaken

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DIRECTORS' REPORT (CONTINUED)

Governance structure

The Group's governance structure assigns these roles and responsibilities to a number of committees focused on managing the principal risks faced by the Bank. These committees are described below.

The Board has two sub-committees related to remuneration and nominations:

- The Remuneration Committee, which is responsible for setting the over-arching principles, parameters and governance of remuneration policy across the Bank and for approving the remuneration arrangements of the Partners, Executive Group and other senior employees across the Bank. The committee members are two non-executive directors, two partners and the Bank's chairman. It meets at least twice each year.
- The Nomination Committee, which is responsible for ensuring there is a formal, rigorous and transparent procedure for the appointment of new directors to the board. The committee members are two non-executive directors, two partners and the Bank's chairman. It meets when necessary.

The following committees are in addition to those above and may be grouped using the three lines of defence model, which is part of the risk management framework and helps to clarify roles and responsibilities.

First line of defence

The first line of defence has direct responsibility for strategy, management and control of risk. Its principal committees are:

- The Executive Group, which consists of the Chief Executive, Deputy Chief Executive, Chief Financial Officer, Chief Operating Officer, Chief Risk Officer and three Heads of Department. The main responsibilities of the Executive Group include: formulating a strategy for the Bank; developing new business; creating the organisational structure; managing the day-to-day business of the Bank; monitoring financial performance and other operational matters. The group meets weekly.
- The Asset and Liability Committee ("ALCO"), which is responsible for overseeing the Bank's assets and liabilities and managing liquidity, in a formal and co-ordinated manner. Membership of the ALCO comprises several Partners, Directors and a number of the Bank's senior managers under the Chairmanship of Miss V.E. Hoare. The ALCO meets monthly.
- The Credit Policy Committee, which oversees customer pricing, security and overall exposure guidelines and sets customer lending parameters for approval by the Board. This committee meets monthly and is chaired by an experienced member of the Bank's management, with participation of up to five Partners.

Second line of defence

The second line of defence co-ordinates, facilitates and oversees the effectiveness and integrity of the risk management framework. It is overseen by the Risk and Compliance Committee, which is a sub-committee of the Board and oversees the implementation of the Bank's risk management framework and its compliance obligations. The main purposes of the committee are to advise the Executive Group and the Board on risk management; to embed a culture of risk awareness and control consciousness within the Bank; and to ensure the Bank's compliance with the legal and regulatory framework governing the activities of the Bank and its associated businesses. The committee meets monthly and is chaired by Mr. C. J. S. Pink. The members are Miss A.S. Hoare, Mr. A.S. Hoare, Mrs L.C. Powers-Freeling, Mr. I.R. Peacock and the Chief Risk Officer. The Chief Executive, Head of Compliance and Risk and a member of the Executive Group also attend each meeting and other parties attend when relevant.

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DIRECTORS' REPORT (CONTINUED)

Third line of defence

The third line of defence provides independent assurance and challenge across all business functions in respect of the integrity and effectiveness of the risk management framework. It is overseen by the Audit Committee whose purpose is to review the effectiveness and provide independent oversight of the Bank's systems of internal controls and its financial reporting processes. This is achieved through the supervision of the quality, independence and effectiveness of the control functions. The Board has also requested that the committee ensures the Bank respects all relevant legislation and that the Internal Audit department and associated functions are properly managed. The members of the committee are Sir David Hoare Bt., Mr. C.J.S. Pink, Mrs L.C. Powers-Freeling, Miss A.S. Hoare and the independent chairman is Mr. I.R. Peacock. The committee meets six times per year. It receives reports from the external auditors, reviews the annual Financial Statements and receives regular reports from the Internal Audit department.

4. Capital Management

The Bank is regulated by the PRA and the FCA and regularly reports its capital adequacy position to both regulators. The Bank follows the Standardised Approaches to Credit Risk and to Operational Risk under the Capital Requirements Regulation and Directive (together "CRD IV"). CRD IV implemented the provisions of Basel III within Europe; it was issued in 2013 and took effect from 1 January 2014.

Under CRD IV, the Bank's regulatory capital is analysed into two tiers:

- Core Equity Tier 1 capital, which includes the share capital; reserve fund; audited retained profits and losses from previous years; property, investment property, heritage asset and available-for-sale investments revaluation reserves; plus any regulatory adjustments.
- Tier 2 capital, which comprises the Bank's collective allowance for impairment.

The Bank does not have any Tier 1 capital that is not Core Equity Tier 1 capital.

Various limits are applied to elements of the Bank's regulatory capital. Currently, the Bank is not constrained by any of these limits.

For purposes of its credit risk capital requirements, risk-weighted assets are determined according to criteria established under the Standardised Approach within CRD IV, which reflects varying levels of risk attached to assets and off-balance sheet exposures.

In accordance with the PRA's requirements, the Bank's available capital resources (i.e. regulatory capital) are measured against its capital resources requirement, as defined under Pillar 1 of CRD IV, and an Individual Capital Guidance requirement ("ICG"), set periodically by the PRA. The ICG incorporates the requirements of Pillar 2 of CRD IV and was last set in April 2013.

The Bank's capital adequacy and capital resources are managed and monitored in accordance with the regulatory capital requirements of CRD IV and the PRA. The Bank must at all times monitor and demonstrate compliance with the relevant regulatory capital requirements. The Bank has put in place processes and controls to monitor and manage capital adequacy and no breaches were reported to the PRA during the year.

The Bank's policy is to have a strong capital base to provide resilience; maintain customer, creditor and market confidence; and to sustain future development of the business. There have been no material changes to the Bank's management of capital during the year. The primary source of new capital for the Bank is retained profits. The Board is conscious of the need for retained profits to be sufficient to grow capital in line with business growth and to meet regulatory driven expectations of higher capital ratios across the industry.

Various additional capital requirements, principally additional buffers, will be introduced gradually by CRD IV over the coming years, with full implementation in 2019. The Bank expects to have sufficient capital to meet these additional requirements.

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DIRECTORS' REPORT (CONTINUED)

The Bank's regulatory capital, risk-weighted assets and capital ratios at 31 March were as follows (the figures for 31 March 2013 have been restated to the CRD IV basis):

	2014	<i>2013</i> <i>(restated)</i>
	£000	£000
Core Equity Tier 1 capital		
Ordinary share capital	120	120
Reserve Fund	22,598	22,598
Profit and loss account	163,562	138,168
Property revaluation reserve	22,534	20,765
Investment property revaluation reserve	(128)	1,641
Heritage assets revaluation reserve	9,600	9,600
Available-for-sale reserve gains	1,381	1,616
	<hr/>	<hr/>
Total Core Equity Tier 1 capital and Total Tier 1 capital	219,667	194,508
	<hr/>	<hr/>
Tier 2 capital		
Collective Impairment Allowance	1,062	2,185
	<hr/>	<hr/>
Total Tier 2 capital	1,062	2,185
	<hr/>	<hr/>
Total regulatory capital	220,729	196,693
	<hr/>	<hr/>
Risk-weighted assets (unaudited)	1,070,362	969,323
	<hr/>	<hr/>
Capital ratios (unaudited)		
Total regulatory capital expressed as a percentage of risk weighted assets	20.62%	20.29%
Core Equity Tier 1 capital expressed as percentage of risk weighted assets	20.52%	20.07%

On the CRD IV basis, the Bank's regulatory total capital ratio increased year on year from 20.29% (restated) to 20.62%, while the Core Equity Tier 1 ratio increased from 20.07% (restated) to 20.52%; both as a result of capital increasing faster than risk weighted assets. The significant increase from the Tier 1 ratio under CRD III of 15.44% on 31 March 2013 to the Core Equity Tier 1 ratio under CRD IV of 20.52% on 31 March 2014 is principally due to the reclassification of the Bank's revaluation reserves as Core Equity Tier 1 capital under the CRD IV rules, versus their classification as Tier 2 capital under the CRD III rules.

The Bank's Pillar 3 disclosures, as required under CRD IV are available on the Bank's website: www.hoaresbank.co.uk.

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DIRECTORS' REPORT (CONTINUED)

5. The Board of Directors

Directors of the Bank holding office during the year and up to the date of signing the Financial Statements were as follows:

Mr. H. C. Hoare *
Sir David Hoare Bt. *
Mr. R. Q. Hoare OBE *
Mr. A. S. Hoare *
Miss V. E. Hoare *
Mr. S. M. Hoare *
Miss A. S. Hoare (previously Hopewell) *
Lord Wilson of Dinton (Chairman)
Mr. J. S. J. Marshall (Chief Executive Officer)
Mr. I. R. Peacock
Mr. C. J. S. Pink
Mrs L. C. Powers-Freeling

The Board of Directors includes seven Directors (those marked with an asterisk in the list above) who are all descendants of the Bank's founder. 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. They are the Bank's only shareholders and have unlimited liability.

The Bank has professional indemnity insurance and directors' and officers' liability insurance for the Directors which give appropriate cover for any legal action brought against them; this cover is renewed annually and was in place throughout the financial year.

6. Employees

The Bank had 392 employees on a full time equivalent basis as at 31 March 2014 (2013: 370). The Bank is an equal opportunities employer and recruits the most suitable applicant for any given vacancy regardless of race, sex, age or ethnicity. The Bank recognises its obligation to give disabled persons full and fair consideration for all vacancies and to ensure that such persons are not discriminated against on the grounds of their disability. Employees who become disabled during their working life will be retained in employment wherever possible and given help with rehabilitation and training.

The Bank is committed to employee involvement and undertakes regular briefing sessions on the strategy and performance of the Bank. There is also an employee Information and Consultation Panel where staff representatives can raise and discuss matters with management.

7. Charitable Donations

During the year the Bank made charitable donations of £1,345,000 (2013: £1,200,000) to the Bank's charitable trust, The Golden Bottle Trust, whose objective is the continuation of the philanthropic commitments and ideals of the Hoare family.

8. Environmental Policy Statement

The Bank has built a reputation for always seeking to 'do the right thing'. We are open and honest and aim to treat our customers and colleagues fairly. Our commitment to running the business ethically means that we also have certain responsibilities, including what we give back to the community and how we affect the environment.

Climate change is an increasingly important issue for us and future generations. We are committed to running the Bank with minimum adverse impact on the environment, including using external experts to help achieve this goal, for example by reducing the Bank's carbon footprint.

C. HOARE & CO.
ANNUAL REPORT AND CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED 31 MARCH 2014

DIRECTORS' REPORT (CONTINUED)

As a responsible business, we aim to make better use of resources, including managing our energy, waste, and water more efficiently and effectively. This is nothing new; the Bank has been engaged in it for centuries, including, for example, using the Bank's own well water for non-drinking requirements.

9. Disclosure of Information to Auditors

The Directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Bank's auditors are unaware; and each Director has taken all reasonable steps that they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the Bank's auditors are aware of that information.

10. Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report 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 have prepared the group and parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law).

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 Group and the Company and of the profit or loss of the Group for that period.

In preparing these Financial Statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable United Kingdom Accounting Standards have been followed, subject to any material departures disclosed and explained in the Financial Statements;
- prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that 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 the Group and enable them to ensure that the Financial Statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

By Order of the Board

26 June 2014

D Green
Company Secretary
C. Hoare & Co.
37 Fleet Street
London
EC4P 4DQ
Registration number: 240822

C. HOARE & CO.
ANNUAL REPORT AND CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED 31 MARCH 2014

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF C.HOARE & CO.

Report on the financial statements

Our opinion

In our opinion the financial statements, defined below:

- give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2014 and of the group's profit and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

This opinion is to be read in the context of what we say in the remainder of this report.

What we have audited

The group financial statements and parent company financial statements (the "financial statements"), which are prepared by C. Hoare & Co, comprise:

- the group and parent company balance sheet as at 31 March 2014;
- the group profit and loss account and statement of total recognised gains and losses for the year then ended;
- the group cash flow statement for the year then ended;
- the group and parent company reconciliation of movements in shareholders' funds for the year then ended;
- the accounting policies; and
- the notes to the financial statements, which include other explanatory information.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

What an audit of financial statements involves

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). 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 group's and the parent 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 Consolidated Financial Statements (the "Annual Report") to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

C. HOARE & CO.
ANNUAL REPORT AND CONSOLIDATED FINANCIAL STATEMENTS
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INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF C.HOARE & CO. (CONTINUED)

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

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

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Directors' Responsibilities Statement, 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 ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Jeremy Jensen (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
26 June 2014

C. HOARE & Co.
ANNUAL REPORT AND CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED 31 MARCH 2014

CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Note	2014 £000	2013 £000
Interest receivable		67,785	63,314
Interest payable		(7,429)	(8,121)
Net interest income	2	60,356	55,193
Dividend income		56	122
Other finance income/(costs)	3	1,509	(265)
Fees and commissions receivable		26,577	22,813
Fees and commissions payable		(962)	(741)
Net fees and commissions income		25,615	22,072
Dealing profits	4	4,457	4,430
Other operating income	5	308	1,433
Total income		92,301	82,985
Operating expenses			
Administrative expenses	6	(59,031)	(53,069)
Depreciation		(3,517)	(3,025)
Total operating expenses		(62,548)	(56,094)
Impairment recovery/(losses) on loans and advances		431	(2,215)
Impairment (losses)/recovery on available-for-sale assets		-	(385)
Profit on ordinary activities before tax		30,184	24,291
Tax on profit on ordinary activities	8	(6,432)	(5,640)
Profit for the financial year	28	23,752	18,651

All amounts shown in the Consolidated Profit and Loss Account relate to continuing operations.

The Notes on pages 20 to 67 form an integral part of these Financial Statements.

C. HOARE & Co.
ANNUAL REPORT AND CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED 31 MARCH 2014

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	Note	2014 £000	<i>2013</i> <i>£000</i>
Profit for the financial year		23,752	<i>18,651</i>
Unrealised valuation gains on properties taken to equity	28	-	<i>7,261</i>
Realised valuation loss/(gains) on investment properties		-	-
Deferred tax arising on realised valuation gains		-	-
		-	<i>7,261</i>
Actuarial gains/(losses) recognised in the pension scheme	3	3,248	<i>(3,383)</i>
Deferred tax thereon		(650)	<i>812</i>
Change in corporation tax rate		(950)	<i>(196)</i>
		1,648	<i>(2,767)</i>
Available-for-sale investments:			
Valuation (losses)/gains taken to equity		(350)	<i>3,132</i>
Tax arising on valuation (losses)/gains taken to equity		115	<i>(907)</i>
	28	(235)	<i>2,225</i>
Total gains and losses recognised since the last annual report		25,165	<i>25,370</i>

The Notes on pages 20 to 67 form an integral part of these Financial Statements.

C. HOARE & CO.
ANNUAL REPORT AND CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED 31 MARCH 2014

CONSOLIDATED BALANCE SHEET

	Note	2014 £000	2013 £000
Assets			
Cash and balances at central banks		565,415	542,377
Items in course of collection from banks		5,272	5,059
Derivative financial instruments	11	5,105	179
Loans and advances to banks	12	121,372	134,931
Loans and advances to customers	13	1,086,327	1,062,505
Debt securities and other available-for-sale financial assets	15	959,426	702,270
Tangible fixed assets	17	50,323	45,818
Heritage assets	18	9,619	9,618
Deferred tax asset	19	195	329
Other assets	20	481	416
Prepayments and accrued income	21	13,271	9,877
		2,816,806	2,513,379
Total assets			
Liabilities			
Deposits by banks	22	16	4
Customer accounts	23	2,525,734	2,262,050
Repurchase agreements	24	25,000	-
Derivative financial instruments	11	18,250	18,941
Deferred tax liability	19	26	46
Other liabilities	25	3,712	6,503
Accruals and deferred income	26	18,913	16,222
Defined benefit pension scheme liability net of deferred tax	3	5,488	15,105
Called-up share capital	27	120	120
Reserve fund	28	22,598	22,598
Revaluation reserves	28	33,387	33,622
Profit and loss account	28	163,562	138,168
		219,667	194,508
Total shareholders' funds			
		2,816,806	2,513,379
Total liabilities			
Memorandum items:			
Contingent liabilities (guarantees)	29	29,428	32,830
Commitments	29	306,671	319,240

The Financial Statements on pages 15 to 67 were approved by the Board of Directors on and signed on its behalf by:

Mr H. C. Hoare
 Director
 26 June 2014

Mr R. Q. Hoare OBE
 Director
 26 June 2014

The Notes on pages 20 to 67 form an integral part of these Financial Statements.

C. HOARE & Co.
ANNUAL REPORT AND CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED 31 MARCH 2014

COMPANY BALANCE SHEET

	Note	2014 £000	2013 £000
Assets			
Cash and balances at central banks		565,415	542,377
Items in course of collection from banks		5,272	5,059
Derivative financial instruments	11	5,105	179
Loans and advances to banks	12	121,372	134,931
Loans and advances to customers	13	1,086,327	1,062,505
Available-for-sale financial assets	15	958,209	700,093
Shares in group undertakings	16	1	1
Tangible fixed assets	17	50,323	45,818
Heritage assets	18	9,619	9,618
Deferred tax asset	19	195	329
Other assets	20	481	416
Prepayments and accrued income	21	13,211	9,839
		2,815,530	2,511,165
Total assets			
Liabilities			
Deposits by banks	22	16	4
Customer accounts	23	2,525,734	2,262,050
Repurchase agreements	24	25,000	-
Deposits to subsidiary companies	23	7,385	6,148
Derivative financial instruments	11	18,250	18,941
Other liabilities	25	3,693	6,390
Accruals and deferred income	26	18,913	16,212
Defined benefit pension scheme liability net of deferred tax	3	5,488	15,105
Called-up share capital	27	120	120
Reserve fund	28	21,148	21,148
Revaluation reserves	28	32,960	33,345
Profit and loss account	28	156,823	131,702
		211,051	186,315
Total shareholders' funds			
		2,815,530	2,511,165
Total liabilities			
Memorandum items:			
Contingent liabilities (guarantees)	29	29,428	32,830
Commitments	29	306,349	318,887

The Financial Statements on pages 15 to 67 were approved by the Board of Directors on and signed on its behalf by:

Mr H. C. Hoare
 Director
 26 June 2014

Mr R. Q. Hoare OBE
 Director
 26 June 2014

The Notes on pages 20 to 67 form an integral part of these Financial Statements.

C. HOARE & Co.
ANNUAL REPORT AND CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED 31 MARCH 2014

CONSOLIDATED CASH FLOW STATEMENT

	Note	2014 £000	2013 £000
Cash flows from operating activities			
Profit before tax		30,184	24,291
Adjustments for:			
Non-cash items included in profit before tax	30	6,340	7,498
Change in operating assets	30	(21,377)	(105,693)
Change in operating liabilities	30	289,088	194,549
Contributions paid to defined benefit scheme	3	(8,000)	(4,000)
		-----	-----
Net cash flow from operating activities		296,235	116,645
		-----	-----
Taxation		(5,155)	(6,921)
		-----	-----
Capital expenditure and financial investment			
Purchase of investment securities		(1,403,191)	(1,581,948)
Sale and maturity of investment securities		1,136,374	1,385,752
Purchase of tangible fixed assets		(8,036)	(6,283)
Sale of tangible fixed assets		18	-
		-----	-----
Net cash flow for capital expenditure and financial investment		(274,835)	(202,479)
		-----	-----
Equity dividends paid		(6)	(6)
		-----	-----
Net increase/(decrease) in cash and cash equivalents		16,239	(92,761)
Cash and cash equivalents 1 April	30	577,974	670,735
		-----	-----
Cash and cash equivalents 31 March	30	594,213	577,974
		-----	-----

The Notes on pages 20 to 67 form an integral part of these Financial Statements.

C. HOARE & CO.
ANNUAL REPORT AND CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED 31 MARCH 2014

NOTES TO THE FINANCIAL STATEMENTS

1. Accounting Policies

Accounting policies have been applied consistently in dealing with amounts which are considered material to the Financial Statements.

(a) Basis of preparation

The Financial Statements have been prepared under the historical cost convention and on a going concern basis, except that the following assets and liabilities are stated at their fair values: land and buildings, investment properties, heritage assets, financial instruments designated as fair value through the profit or loss or as available-for-sale and derivative contracts. The Financial Statements have been prepared under provisions of Part XV of the Companies Act 2006 relating to Banking Groups, SI 2008/410, applicable accounting standards in the United Kingdom (United Kingdom Generally Accepted Accounting Practice). Compliance with SSAP 19 'Accounting for Investment Properties' requires a departure from the requirements of the Companies Act 2006 relating to depreciation and an explanation of this departure is given in (p) below.

(b) Basis of consolidation

The Consolidated Financial Statements include the results of the Bank and its subsidiary undertakings. Consolidation eliminates the effects of intragroup transactions. Uniform accounting policies have been adopted across the Group.

Subsidiaries are entities controlled by the Bank. Control is defined where the Bank has power, directly or indirectly, to govern the financial and operating policies of such entities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of such entities are consolidated within the Bank's Financial Statements until the date control ceases.

(c) Foreign currencies

Transactions in foreign currencies are translated to Sterling using the rate of exchange ruling at the date of the transaction. All monetary assets and liabilities are revalued daily at the closing exchange rates. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated at foreign exchange rates ruling at the dates the fair value was determined. Foreign exchange gains or losses on translation are included in the Profit and Loss Account.

(d) Interest

Interest income and expense are recognised in the Profit and Loss Account using the effective interest rate method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability to the carrying amount of that asset or liability. The calculation of the effective interest rate includes all transaction costs (directly attributable to the acquisition or disposal of the instrument) and discounts or premiums that are an integral part of the cash flow of the financial asset or liability.

Interest income and expense presented in the Profit and Loss Account include:

- Interest on financial assets and liabilities at amortised cost on an effective rate basis
- Interest on available-for-sale investment securities on an effective interest basis.

C. HOARE & CO.
ANNUAL REPORT AND CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED 31 MARCH 2014

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1. Accounting Policies (Continued)

(e) Fees and commissions

Fees and commissions income and expense that are integral to the effective interest rate on a financial asset are included in the measurement of the effective interest rate.

Fees and commissions income including loan arrangement fees, servicing fees, investment management fees, and financial service advice fees are recognised when the services are performed.

Fees and commissions expense relates mainly to transaction and service fees, which are expensed as the services are received.

(f) Dealing profits

Dealing profits comprise gains less losses related to trading assets and liabilities, and includes all realised and unrealised fair value changes, interest, dividends and foreign exchange differences.

(g) Dividend income

Dividend income is recognised when the right to receive income is established. Usually this is the ex-dividend date for equity securities.

(h) Pension costs

The company operates a defined benefit pension scheme providing benefits based on final pensionable salary. The assets of the scheme are administered separately from those of the company in a trustee administered fund. This scheme was closed to new members with effect from 1 April 2002 and since then staff have been able to join a separate defined contribution or “money purchase” scheme. On 1 December 2007 the defined benefit scheme was closed to future accrual, a “curtailment”, and all remaining members were given the option to commence plans with the defined contribution scheme.

The defined benefit scheme’s assets are measured using market values; its liabilities are measured using a projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability. The scheme’s deficit is recognised in full. The movement in the deficit is split between operating charges and finance items, which are charged to the Profit and Loss Account, and actuarial gains and losses, which are recognised in the Statement of Total Recognised Gains and Losses, in accordance with FRS 17. A full actuarial valuation of the scheme is undertaken every three years and was last undertaken as at 1 April 2013.

The company operates a defined contribution pension scheme. The assets of the scheme are administered separately from those of the company in an independently administered fund. Contributions payable to the defined contribution scheme are charged to the Profit and Loss Account.

(i) Taxation

The charge for tax is based on the profit for the year and takes into account tax deferred because of timing differences between the treatment of certain items for tax and accounting purposes.

Deferred tax is provided in respect of all timing differences that have not reversed at the balance sheet date, other than in respect of revalued land and buildings and equity investments and where transactions do not result in an obligation to pay more or less tax in the future. Timing differences are differences between taxable profits and the results in the Financial Statements.

Deferred tax assets are recognised where it is probable that future taxable profits will be available against which the temporary differences can be utilised.

C. HOARE & CO.
ANNUAL REPORT AND CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED 31 MARCH 2014

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1. Accounting Policies (Continued)

(i) Taxation (continued)

Deferred tax is determined using tax rates that have been enacted or substantially enacted by the balance sheet date which are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled. Deferred tax values are not discounted for the time value of money.

Deferred tax arising on changes in the fair value of available-for-sale investments that are recognised directly as a movement in reserves is also recognised in reserves; when such fair value gains or losses are subsequently recognised in the Profit and Loss Account, the deferred tax is similarly recognised.

(j) Dividends payable

In accordance with FRS 21 Events after the balance sheet date, dividends payable are recognised to retained profits once approved by the shareholders.

(k) Cash and cash equivalents

For the purposes of the balance sheet and cash flow statement, cash and cash equivalents comprise cash and balances at the Bank of England and loans and advances to other banks that are repayable on demand.

(l) Classification of financial assets and liabilities

In accordance with FRS 26 the Bank classifies issued instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instrument. Deposits are initially measured at fair value, and subsequently measured at their amortised cost using the effective interest method.

Deposits with other banks, debt securities and equity shares intended to be held on a continuing basis are classified as available-for-sale. Available-for-sale securities are initially measured at fair value plus direct and incremental transaction costs. They are subsequently remeasured at fair value, and changes therein are recognised directly in equity until the securities are either sold or impaired.

(m) Financial assets and liabilities

(i) Recognition

The Bank initially recognises loans and advances and deposits on the date that they are originated. All other financial assets and liabilities (including assets and liabilities designated at the fair value through the Profit and Loss Account and equity investments) are initially recognised on the trade date at which the Bank becomes party to the contractual provisions of the instrument.

(ii) Derecognition

The Bank derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the financial asset such that the rights to receive the contractual cash flows and substantially all the risk and rewards of ownership of the financial asset are transferred.

The Bank derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

C. HOARE & CO.
ANNUAL REPORT AND CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED 31 MARCH 2014

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1. Accounting Policies (Continued)

(m) Financial assets and liabilities (continued)

(iii) Offsetting

Financial assets and liabilities are offset and the net amount presented in the balance sheet when the Bank has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions such as the Bank's foreign exchange dealing activity.

(iv) Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

(v) Fair value measurement

The determination of fair values of financial assets and financial liabilities is based on quoted market prices or dealer price quotations for financial instruments traded in active markets. For all other financial instruments fair value is determined by valuation techniques. Valuation techniques applied by the Bank include using net asset values for unquoted investments in funds.

Disclosures use a three-level fair value hierarchy that reflects the significance of the inputs used in measuring fair values of financial instruments. These are:

- Level 1: Quoted price (unadjusted) in an active market for an identical instrument.
- Level 2: Valuation techniques based on observable inputs either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued where all significant inputs are directly or indirectly observable from market data.
- Level 3: Valuation techniques using significant unobservable inputs.

These disclosures are included in Note 36 to the Financial Statements.

C. HOARE & CO.
ANNUAL REPORT AND CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED 31 MARCH 2014

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1. Accounting Policies (Continued)

(m) Financial assets and liabilities (continued)

(vi) Identification and measurement of impairment

At each balance sheet date the Bank assesses whether there is objective evidence that financial assets not carried at fair value through the Profit and Loss Account are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the assets, and that the loss event has an impact on the future cash flows from the assets that can be estimated reliably.

The Bank considers evidence of impairment at both a specific and collective level. All individually significant financial assets are assessed for specific impairment. All assets found not to be specifically impaired are then collectively assessed for any impairment that may have been incurred but not yet identified.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a borrower, indications of inability to repay or that a borrower or issuer will enter bankruptcy. Equity securities are also considered impaired if there is a sustained fall in the market value of the security with no indication of recovery in the near future.

In assessing collective impairment the Bank uses historical trends of the losses incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than the historical trends suggest.

Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount and the present value of estimated future cash flows discounted at the assets' original effective interest rate. Losses are recognised in the Profit and Loss Account and reflected in an allowance account against loans and advances. Interest on impaired assets continues to be recognised through the unwinding of the discount.

Impairment losses on available-for-sale investment securities are recognised by transferring the difference between the amortised acquisition cost and the current fair value of the available-for-sale investment to Profit and Loss Account. When a subsequent event causes the amount of impairment loss on an available-for-sale debt security to decrease, the impairment loss is reversed through the Profit and Loss Account.

However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised directly to the Bank's equity reserves.

(n) Loans and advances to banks and customers

Loans and advances are classified as loans and receivables. They are initially recognised when cash is advanced to borrowers at fair value, inclusive of transaction costs, and are derecognised when borrowers repay their obligation or the loans are written off. They are subsequently measured at amortised cost using the effective interest method, less impairment losses.

C. HOARE & CO.
ANNUAL REPORT AND CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED 31 MARCH 2014

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1. Accounting Policies (Continued)

(o) Derivative financial instruments

(i) Derivative financial instruments

Derivatives are financial instruments that derive their value from underlying interest rates, financial instrument prices, foreign exchange rates, credit risk or indices.

The Bank enters into derivative contracts in the normal course of business to meet customer requirements and to manage its own exposure to fluctuations in interest, credit and foreign exchange rates.

The principal derivatives used by the Bank are interest rate swaps and forward foreign exchange rate contracts. The fair value of interest rate swaps is the estimated amount that the Bank would receive or pay to terminate the swap at the balance sheet date, taking into account current interest rates and the current creditworthiness of the swap counterparties. The fair value of forward exchange contracts is their quoted market price at the balance sheet date, being the present value of the quoted forward price.

In accordance with FRS 26 derivatives are recognised as trading and recorded at fair value, with changes in fair value recognised in the Profit and Loss Account. Fair values are obtained from quoted market prices in active markets or from dealer price quotations.

(ii) Derivative instruments and hedging activities

The Bank may designate a derivative as either a hedge of the fair value of a recognised fixed rate asset or liability or an unrecognised firm commitment (fair value hedge). The Bank does not designate all of its derivatives as hedged items, interest rate swaps are designated as hedging instruments however forward foreign exchange rate contracts are not.

All derivatives are recorded as assets or liabilities on the balance sheet at their respective fair values with unrealised gains and losses recorded in the Profit and Loss Account. Derivatives that did not meet the criteria for designation as a hedge under FRS 26 at inception, or fail to meet the criteria thereafter, are accounted for in other assets with changes in fair value recorded in the Profit and Loss Account.

Changes in the fair value of a derivative that is designated and qualifies as a fair value hedge along with the corresponding gain or loss on the hedged asset or liability that is attributable to the hedged risk are both recorded in the Profit and Loss Account, as other operating income. The gain or loss in relation to the unhedged element is left either in reserves or the Profit and Loss Account depending on the nature of the hedged item.

At the inception of a hedge transaction, the Bank formally documents the hedge relationship and the risk management objective and strategy for undertaking the hedge. This process includes identification of the hedging instrument, hedged item, the risk being hedged and the methodology for measuring effectiveness. In addition, the Bank assesses both at the inception of the hedge and on a quarterly basis, whether the derivative used in the hedging transaction has been highly effective in offsetting changes in fair value or cash flows of the hedged item, and whether the derivative is expected to continue to be highly effective.

The Bank discontinues hedge accounting prospectively when either it is determined that the derivative is no longer highly effective in offsetting changes in the fair value or cash flows of the hedged item; the derivative expires or is sold, terminated or exercised; the derivative is de-designated because it is unlikely that a forecast transaction will occur; or management determines that designation of the derivative as a hedging instrument is no longer appropriate.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1. Accounting Policies (Continued)

(o) Derivative financial instruments (continued)

When a fair value hedge is discontinued, the hedged asset or liability is no longer adjusted for changes in fair value and the existing basis adjustment is amortised or accreted over the remaining life of the asset or liability.

(p) Tangible fixed assets and depreciation

Land, buildings and investment properties are held at fair value based on the latest professional market valuation, with the surplus or deficit versus book value being transferred to the revaluation reserve, except that a deficit in excess of any previously recognised surplus over cost for a property is charged (or the reversal of such a deficit is credited) to the Profit and Loss Account. A deficit which represents a clear consumption of economic benefits is charged to the Profit and Loss Account regardless of any such previous surplus.

In accordance with SSAP 19 'Accounting for Investment Properties', depreciation is not provided on investment properties that are held as freeholds or on leases having more than 20 years unexpired. This is a departure from the Companies Act 2006 which requires all tangible assets to be depreciated. In the opinion of the Directors, this departure is necessary for the financial statements to give a true and fair view and comply with applicable accounting standards which require properties to be included in the financial statements at market value. The effect of depreciation is implicitly reflected in the valuation of investment properties, and the amount attributable to this factor cannot reasonably be separately identified or quantified by the valuers. Had the provisions of the Act been followed, net assets would not have been affected but revenue profits would have been reduced for this and earlier years and revaluation surpluses/deficits would have correspondingly increased/decreased.

Equipment is carried at cost less accumulated depreciation. Cost includes the original purchase price of the asset and any costs attributable to bringing the asset into use. Depreciation is provided on all such assets, on a straight line basis, at rates calculated to write off the cost of the asset, less estimated residual value, over its expected useful economic life (3-10 years) from the date the asset is brought into use.

The Bank ensures that costs are capitalised only for the period in which the activities are getting the asset ready for use by only capitalising directly attributable staff costs on projects including those incurred prior to the start of a project if that project has been given the 'green light' (i.e. a business case has been approved where the benefits exceed the costs) to proceed to the Board. The Bank also ceases to capitalise when substantially all the activities that are necessary to get the tangible fixed asset ready for use are complete, even if the asset has not yet been brought into use.

To ensure the costs capitalised are only directly attributable costs the Bank only capitalises costs being incurred which are directly attributable to bring the asset into use (i.e. the costs of staff directly employed for the project or brought in to backfill permanent members of C. Hoare & Co. staff seconded to work on the implementation). Administration costs, other general overhead costs or employee costs not related to the specific asset are excluded

Fixed assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount might not be recoverable. In the event that a fixed asset's carrying value is determined to be greater than its recoverable amount it is written down immediately. The recoverable amount is the higher of the asset's fair value less costs to sell and its value in use.

A profit or loss may be recognised on disposal of a tangible fixed asset. The amount recognised is equal to the difference between any net sale proceeds and the net carrying value of the asset prior to disposal.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1. Accounting Policies (Continued)

(q) Investment property

Investment properties are properties that are held to earn rental income, usually through leases to third parties, and for capital appreciation. Investment properties are carried at market value based on latest professional valuation. Rental income is recorded on an accruals basis.

(r) Project costs

The Bank ensures that costs are capitalised only for the period in which the activities are getting the asset ready for use by only capitalising directly attributable staff costs on projects including those incurred prior to the start of a project if that project has been given the 'green light' (i.e. a business case has been approved where the benefits exceed the costs) to proceed to the Board. The Bank also ceases to capitalise when substantially all the activities that are necessary to get the tangible fixed asset ready for use are complete, even if the asset has not yet been brought into use.

To ensure the costs capitalised are only directly attributable costs the Bank only capitalises costs being incurred which are directly attributable to bring the asset into use (i.e. the costs of staff directly employed for the project or brought in to backfill permanent members of C. Hoare & Co. staff seconded to work on the implementation). Administration costs, other general overhead costs or employee costs not related to the specific asset are excluded.

Depreciation begins in the month the project goes live.

(s) Heritage assets

The Bank has a collection of Heritage assets comprising paintings, an extensive coin collection and the Bank's own ledgers. Collectively, these 'artefacts' are reported in the balance sheet at valuation. Individual items in the collection are periodically revalued by an external valuer with any surplus or deficit being reported in the Statement of Total Recognised Gains and Losses. The artefacts are deemed to have indeterminate lives and high residual values; hence the Directors do not consider it appropriate to charge depreciation.

Acquisitions are made by purchase or donation. Purchases are initially recorded at cost and donations are recorded at current value ascertained by the Directors with reference, where possible, to commercial markets using recent transaction information.

Expenditure which, in the Directors' view, is required to preserve or prevent further deterioration is recognised in the Profit and Loss Account as it is incurred.

(t) Classification of financial instruments issued by the Bank

The only financial instruments the Bank has in issue are its Ordinary Shares, which arose from its incorporation in 1929.

(u) Investments in subsidiaries

The Bank's investments in subsidiaries are stated at cost less any impairment losses. An impairment review is conducted if there is any indication of potential impairment.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1. Accounting Policies (Continued)

(v) Financial guarantees

The Bank issues guarantees on behalf of its customers. In the majority of cases, the Bank will hold collateral against the resultant exposure or have a right of recourse to the customer, or both. In addition, the Bank issues guarantees on its own behalf. The main types of guarantees provided are financial guarantees given to banks and financial institutions on behalf of customers to secure loans, overdrafts or other banking facilities, including stock borrowing indemnities and standby letters of credit. Other guarantees provided include performance guarantees, advance payment guarantees, tender guarantees, and guarantees to Her Majesty's Revenue and Customs and retention guarantees. The nominal principal amount of these guarantees is set out in Note 29.

(w) Accounting judgements and estimates

The preparation of financial statements requires the use of estimates. It also requires management to exercise judgement in applying the accounting policies. The key areas involving a higher degree of judgement or complexity, or areas where assumptions are significant to the consolidated and individual financial statements, are highlighted under the relevant Notes, on the pages listed below:

- Impairment of financial assets, pages 24, 41 and 42
- Land, buildings and investment properties valuation, pages 26, 44 and 45
- Heritage assets, pages 27 and 45
- Defined benefit pension scheme liability, pages 21 and 29 to 35

(x) Repurchase agreements

When securities are sold subject to a commitment to repurchase them at a predetermined price ("repos"), they remain on the balance sheet as the Bank retains substantially all the risks and rewards of ownership and a liability is recorded in respect of the consideration received. The difference between the sale and repurchase price is treated as interest and recognised in net interest income over the life of the agreement for loans and advances to banks and customers.

(y) Operating expenses

The Bank's expenses, including administrative expenses, are accounted for on an accruals basis and are charged to the profit and loss account as incurred.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. Net Interest Income

	2014	<i>2013</i>
	£000	<i>£000</i>
Interest income		
Available-for-sale investments	7,357	8,339
Loans and advances to customers	57,256	51,676
Loans and advances to banks	3,172	3,299
	67,785	63,314
Interest expense		
Deposits from banks and customers	(5,785)	(5,722)
Derivative liabilities	(1,644)	(2,399)
	(7,429)	(8,121)
Net interest income	60,356	55,193

Included within interest income is £571,853 (*2013: £658,000*) accrued in respect of impaired financial assets.

3. Pension and Other Post-Retirement Benefits

The Bank operated a defined benefit pension scheme until 1 December 2007 when it was closed to further accrual and all staff that were members at that date were made deferred members; all benefits accrued to that date were enhanced and then preserved. Contributions to the defined benefit scheme for the year ended 31 March 2014 were £8,000,000 (*2013: £4,000,000*). There was no charge (*2013: £48,000*) to the Profit and Loss Account for past service costs. The Bank now operates a defined contribution scheme which has become the main retirement scheme for all employees, the cost of that scheme for the year was £3,609,000 (*2013: £3,276,000*). There were no outstanding or prepaid contributions to the defined benefit scheme and defined contribution scheme at either the beginning or the end of the financial year.

The pension scheme assets are held in a separate trustee-administered fund to meet long-term liabilities to past and present employees. The Trustee of the fund is required to act in the best interest of the scheme's beneficiaries. The scheme's trustee is Hoare's Bank Pension Trustees Limited. The appointment of Directors to the trustee company is determined by the scheme's trust documentation. The Bank has a policy that one-third of such Directors should be nominated by members of the scheme and includes at least one Director who is a current pensioner.

In preparing these Financial Statements, the Bank has applied the recognition and measurement requirements of FRS 17 Revised 'Retirement benefits', Accounting Standards Board Reporting statement: Retirement benefits disclosures and has considered the Urgent Issues Task Force Abstract 48 (UITF 48).

The principal actuarial assumptions at the balance sheet date were:

	2014	<i>2013</i>
	%	<i>%</i>
Rate of increase in salaries	n/a	<i>n/a</i>
Rate of increase in pensions in payment and deferred pensions	3.30	<i>3.40</i>
Discount rate at 31 March	4.30	<i>4.10</i>
Expected return on plan assets at 31 March		
- Equities	7.40	<i>7.00</i>
- Liability Driven Investments ("LDI")	3.50	<i>3.00</i>
- Property	5.50	<i>5.10</i>
- Other and cash	0.50	<i>0.50</i>
Inflation assumption	3.30	<i>3.40</i>

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. Pension and Other Post-Retirement Benefits (Continued)

Members are assumed to retire uniformly over the period from age 55 until their 60th birthday. No rate for increase in salaries has been included following the closure of the scheme in 2007.

The assumed life expectations upon retirement at age 60 are shown below:

	2014	<i>2013</i>
Retiring today		
- Males	28.6	<i>28.2</i>
- Females	30.0	<i>31.1</i>
Retiring in 20 years time		
- Males	30.2	<i>31.5</i>
- Females	31.6	<i>34.3</i>

The assumptions used by the actuary are chosen from a range of possible actuarial assumptions which, due to the timescale covered, may not necessarily be borne out in practice.

The key sensitivities regarding the principal assumptions used to measure the scheme liabilities are set out below.

Assumption	Change in Assumption	Impact on scheme liabilities
Discount rate	+/- 0.5%	-/+ £8.7m
Rate of life expectations upon retirement at aged 60	Increase by 1 year	+ £3.0m
Rate of increase in pensions payable and deferred pensions	+/- 0.5%	+/- £8.7m

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. Pension and Other Post-Retirement Benefits (Continued)

Scheme assets and liabilities

Until 1 December 2007, the Bank provided retirement benefits to some of its former and many of its current employees through a defined benefit scheme. This scheme was closed to further accrual with effect from that date and all current members became deferred members with preserved benefits and enhanced pension service. These staff then joined the C. Hoare Individual Pension Plan (“CHIPP”) which is a defined contribution scheme that was already in existence for staff not eligible to join the defined benefit scheme. The terms of the CHIPP were enhanced for all staff from December 2007 and this is now the primary pension arrangement for the Bank’s staff. The defined benefit scheme provides a pension based upon the final salary at retirement date or preserved rights as at leaving the scheme or upon curtailment. The CHIPP provides a pension from an annuity purchased with the accumulated investment funds. Both permit lump sum withdrawals and reduced pensions thereafter.

The liabilities of the defined benefit scheme are measured by discounting the best estimate of future cash flows to be paid out by the scheme using the projected unit method. This amount is reflected in the scheme surplus or deficit as detailed below. As at 31 March 2014, the valuations of scheme assets less liabilities show a deficit of £6,860,000 (2013: £19,617,000).

An alternative method of valuation to the projected unit method is a solvency basis: this is the cost of buying out the existing pensions in payment and the accrued entitlements of the current and deferred members as at the balance sheet date. As at 31 March 2014 this was calculated to be £193m (2013: £207m).

The fair value of the scheme’s assets, which are not intended to be realised in the short term and may be subject to significant change before they are realised, and the present value of the scheme’s liabilities, which are derived from the cash flow projections over long periods and thus inherently uncertain, were:

	2014	<i>2013</i>	<i>2012</i>	<i>2011</i>	<i>2010</i>
	£000	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Equities	80,258	<i>72,586</i>	<i>29,471</i>	<i>31,409</i>	<i>31,287</i>
Liability Driven Investments (“LDI”)	14,763	<i>23,173</i>	<i>57,614</i>	<i>49,677</i>	<i>45,745</i>
Bonds	-	-	-	-	-
Property	15,198	<i>8,518</i>	<i>2,019</i>	<i>2,022</i>	<i>1,960</i>
Other and cash	1,177	<i>320</i>	<i>518</i>	<i>249</i>	<i>1,199</i>
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total market value of assets	111,396	<i>104,597</i>	<i>89,622</i>	<i>83,357</i>	<i>80,191</i>
Present value of scheme liabilities	(118,256)	<i>(124,214)</i>	<i>(109,543)</i>	<i>(97,898)</i>	<i>(99,908)</i>
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Deficit in scheme	(6,860)	<i>(19,617)</i>	<i>(19,921)</i>	<i>(14,541)</i>	<i>(19,717)</i>
Related deferred tax asset	1,372	<i>4,512</i>	<i>4,781</i>	<i>3,781</i>	<i>5,521</i>
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Net pension scheme liability	(5,488)	<i>(15,105)</i>	<i>(15,140)</i>	<i>(10,760)</i>	<i>(14,196)</i>
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

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ANNUAL REPORT AND CONSOLIDATED FINANCIAL STATEMENTS
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. Pension and Other Post-Retirement Benefits (Continued)

Changes in the fair value of the scheme assets	2014	<i>2013</i>
	£000	<i>£000</i>
Opening fair value of scheme assets at 1 April	104,597	89,622
Expected return on assets	6,506	4,671
Actual less expected return on assets	(3,054)	10,778
Contributions from employer	8,000	4,000
Benefits paid	(4,653)	(4,714)
Conversion of Additional Voluntary Contributions ("AVCs")	-	240
	<hr/>	<hr/>
Closing fair value of scheme assets at 31 March	111,396	104,597
	<hr/>	<hr/>
Actual return on assets	3,452	15,449
	<hr/>	<hr/>
Changes in the present value of the pension obligation	2014	<i>2013</i>
	£000	<i>£000</i>
Opening pension obligation at 1 April	124,214	<i>109,543</i>
Service cost	-	-
Past service cost arising on conversion of AVCs	-	48
Interest cost	4,997	4,936
Actuarial loss/(gain) on liabilities due to experience	2,087	(22)
Actuarial (gain)/loss on liabilities due to assumption changes	(8,389)	14,183
Benefits paid	(4,653)	(4,714)
Conversion of AVCs	-	240
	<hr/>	<hr/>
Closing pension obligation at 31 March	118,256	<i>124,214</i>
	<hr/>	<hr/>

C. HOARE & CO.
ANNUAL REPORT AND CONSOLIDATED FINANCIAL STATEMENTS
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. Pension and Other Post-Retirement Benefits (Continued)

Movement in deficit during the year	2014	<i>2013</i>	<i>2012</i>
	£000	<i>£000</i>	<i>£000</i>
Deficit as at 1 April	(19,617)	<i>(19,921)</i>	<i>(14,541)</i>
Current service cost	-	-	-
Past service cost	-	<i>(48)</i>	-
Employer contributions	8,000	<i>4,000</i>	<i>2,000</i>
Other finance income/(costs)	1,509	<i>(265)</i>	<i>(360)</i>
Actuarial gains/(losses)	3,248	<i>(3,383)</i>	<i>(7,020)</i>
	<hr/>	<hr/>	<hr/>
Deficit as at 31 March	(6,860)	<i>(19,617)</i>	<i>(19,921)</i>
	<hr/>	<hr/>	<hr/>

The following items are recognised in the Profit and Loss Account:

Analysis of other pension costs included within the Profit and Loss Account under Administrative expenses	2014	<i>2013</i>
	£000	<i>£000</i>
In respect of defined benefit scheme		
- Current service cost	-	-
- Past service cost	-	<i>48</i>
	<hr/>	<hr/>
	-	<i>48</i>
In respect of defined contribution scheme		
- Current service cost	3,609	<i>3,276</i>
	<hr/>	<hr/>
Included within Administrative expenses (Note 6)	3,609	<i>3,324</i>
	<hr/>	<hr/>
Analysis of other pension costs included within the Profit and Loss Account under Other finance (income)/costs	2014	<i>2013</i>
	£000	<i>£000</i>
Interest on liabilities	4,997	<i>4,936</i>
Expected return on assets	(6,506)	<i>(4,671)</i>
	<hr/>	<hr/>
Other finance (income)/costs	(1,509)	<i>265</i>
	<hr/>	<hr/>

The expected return on the scheme assets is arrived at by applying the expected return of each asset class to the value of investments held in that asset class at 31 March 2013, to estimate a full year's return for the year ended 31 March 2014.

The expected returns on bonds are an estimate of the yield to redemption for an average portfolio, for equities it is the expected long term return from distributions and capital growth and for property and cash it is the expected long term return on deposits. These values are provided by the Bank's independent actuaries.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. Pension and Other Post-Retirement Benefits (Continued)

The following items are recognised in the Statement of Total Recognised Gains and Losses (“STRGL”):

Analysis of amounts recognised in STRGL	2014 £000	<i>2013 £000</i>	<i>2012 £000</i>	<i>2011 £000</i>	<i>2010 £000</i>
Actual return less expected return on assets	(3,054)	<i>10,778</i>	<i>3,072</i>	<i>924</i>	<i>14,274</i>
Experience gains and losses arising on liabilities	(2,087)	<i>22</i>	<i>(664)</i>	<i>(1,571)</i>	<i>2,182</i>
Changes in assumptions	8,389	<i>(14,183)</i>	<i>(9,428)</i>	<i>7,482</i>	<i>(26,748)</i>
Actuarial gain/(loss)	3,248	<i>(3,383)</i>	<i>(7,020)</i>	<i>6,835</i>	<i>(10,292)</i>
Adjustment to reversal/ (recognition) of balance sheet asset	-	-	-	-	-
Actuarial gain/(loss) recognised in STRGL	3,248	<i>(3,383)</i>	<i>(7,020)</i>	<i>6,835</i>	<i>(10,292)</i>
Actual return less expected return on assets as a percentage of scheme assets	2.74%	<i>10.30%</i>	<i>3.43%</i>	<i>1.11%</i>	<i>17.80%</i>
Experience gains and losses arising on liabilities as a percentage of the present value of scheme liabilities	1.76%	<i>0.02%</i>	<i>0.61%</i>	<i>1.60%</i>	<i>2.18%</i>
Actuarial gain/(loss) as a percentage of the present value of scheme liabilities	2.75%	<i>-2.72%</i>	<i>-6.41%</i>	<i>6.98%</i>	<i>-10.30%</i>
				2014 £000	<i>2013 £000</i>
Cumulative value of actuarial losses recognised in STRGL since the adoption of FRS 17				(28,421)	<i>(31,669)</i>

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. Pension and Other Post-Retirement Benefits (Continued)

Future funding obligations

The most recent triennial actuarial valuation was carried out as at 1 April 2013. As the scheme is closed to future accrual there are no further employer contributions required to support future service. As at 1 April 2013, the actuarial valuation showed a £24m deficit in respect of past service funding and the Bank agreed to a recovery plan which would reduce this deficit with annual contributions of £2.165m over nine years. £8m was paid in the current financial year under the previous recovery plan (2013: £4m). The Bank is continuing to work with the Trustees to explore ways to stabilise the scheme deficit through an investment strategy to minimise the mismatch between the liabilities and the assets of the scheme.

During the year, the Bank established a charge over certain assets in favour of the Pension Fund Trustee, for the benefit of the Scheme. The value of these assets is set at least annually by reference to the FRS 17 deficit. £19,617,000 of assets were charged at 31 March 2014 (2013: Nil).

Nature and extent of the risks and rewards arising from the financial instruments held by the scheme

The scheme's assets are invested in a range of funds according to the Statement of Investment Principles ("SIP"). This was developed in conjunction with the trustee and its appointed investment advisers. The spread of investments at 31 March was as follows:

% of total scheme assets	31 March 2014	<i>31 March 2013</i>
LDI Investments	13%	22%
Global Equities	43%	42%
Property	14%	8%
Diversified Growth	29%	27%
Cash	1%	1%
Total	100%	100%

The Trustee has appointed Lane Clark & Peacock LLP as investment advisers to the scheme. Through them, Legal and General Assurance (Pensions Management) Limited, Northern Trust International Fund Administration Services (Ireland) Limited, Standard Life Investments Limited and Baillie Gifford Life Limited manage the scheme's investment portfolio day to day through unitised funds and OEICs in accordance with the SIP. This ensures that investment risks are spread across several investment classes and exposures to individual holdings are minimised. The Trustee receives regular performance reports from the investment managers and the advisers and monitors these against fund benchmarks.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4. Dealing Profits

	2014	<i>2013</i>
	£000	<i>£000</i>
Dealing profits	4,457	<i>4,430</i>

Dealing profits arise from gains or losses on treasury positions, including from foreign currency trades carried out on behalf of the Bank and its customers.

5. Other Operating Income

	2014	<i>2013</i>
	£000	<i>£000</i>
Rental income	563	<i>496</i>
Profit on sale of fixed assets	5	<i>-</i>
(Losses)/profit on sale of available-for-sale investments	(237)	<i>946</i>
Hedging result		
- (Loss)/gain on hedged items attributable to hedged risk	(3,896)	<i>841</i>
- Gain/(loss) on hedging instruments (swaps)	3,873	<i>(852)</i>
Net hedging result	(23)	<i>(11)</i>
Increase in value of derivative contracts	-	<i>2</i>
	308	<i>1,433</i>

6. Employee Information and Administrative Expenses

	2014	<i>2013</i>
	£000	<i>£000</i>
Staff costs		
- Wages and salaries	32,347	<i>29,725</i>
- Social security costs	4,149	<i>3,742</i>
- Other pension costs (Note 3)	3,609	<i>3,324</i>
Other administrative expenses	18,926	<i>16,278</i>
Total administrative expenses	59,031	<i>53,069</i>

The monthly average Full Time Equivalent (“FTE”) number of persons employed by the Bank (including Directors) during the year, analysed by category, was as follows:

	2014	<i>2013</i>
	FTE	<i>FTE</i>
	Number	<i>Number</i>
Full time	300.4	<i>284.3</i>
Part time	40.3	<i>32.6</i>
Contractors and agency staff	50.3	<i>36.7</i>
Total average full time equivalent headcount	391.0	<i>353.6</i>

All persons are employed by C. Hoare & Co.; the Bank’s subsidiaries do not have any direct employees.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

6. Employee Information and Administrative Expenses (Continued)

Auditors' Remuneration	2014	<i>2013</i>
	£000	<i>£000</i>
Remuneration payable to the auditors in respect of:		
- Statutory audit of the company and consolidated financial statements	107	<i>104</i>
- Statutory audit of the subsidiaries' financial statements	11	<i>11</i>
- All other assurance services	16	<i>15</i>
- All other non-audit services	21	<i>7</i>
- All other taxation advisory services	19	<i>-</i>
	<hr/>	<hr/>
	174	<i>137</i>
	<hr/>	<hr/>

7. Emoluments of Directors

	2014	<i>2013</i>
	£000	<i>£000</i>
Aggregate emoluments	8,886	<i>8,174</i>
Pension contributions	85	<i>82</i>
Supplementary pensions paid to former Directors' widows	105	<i>89</i>
	<hr/>	<hr/>
	9,076	<i>8,345</i>
	<hr/>	<hr/>
Highest paid Director		
- Emoluments	1,544	<i>1,383</i>
- Pension contributions	28	<i>27</i>
- Accrued pension entitlement (increase)	1	<i>1</i>
	<hr/>	<hr/>
Cumulative accrued pension entitlement of highest paid director at 31 March	32	<i>31</i>
	<hr/>	<hr/>
Number of Directors accruing benefits under the Bank's defined benefit pension scheme at the year end	5	<i>5</i>
	<hr/>	<hr/>

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

8. Tax on Profit on Ordinary Activities

The standard rate of corporation tax in the UK changed from 24% to 23% with effect from 1 April 2013. Accordingly, the Company's profits for this accounting period are taxed at an effective rate of 23%.

	2014	<i>2013</i>
	£000	<i>£000</i>
Current tax		
UK Corporation tax on profits for the year	4,938	<i>4,970</i>
Adjustments in respect of previous years	(162)	<i>21</i>
	<hr/>	<hr/>
Total current tax (Note 8(a))	4,776	<i>4,991</i>
Origination and reversal of timing differences	1,970	<i>636</i>
Change in tax rate	(314)	<i>13</i>
	<hr/>	<hr/>
Total deferred tax (Note 8(b))	1,656	<i>649</i>
	<hr/>	<hr/>
Total tax on ordinary activities	6,432	<i>5,640</i>
	<hr/>	<hr/>

8(a) Factors affecting the tax charge for the year

The tax assessed for the year of £4,776,000 (*2013: £4,991,000*) is lower (*2013: lower*) than the result of applying the standard rate of corporation tax in the UK of 23% (*2013: 24%*) to the accounting profit before tax. The reasons for this are shown below:

	2014	<i>2013</i>
	£000	<i>£000</i>
Profit on ordinary activities before tax	30,184	<i>24,291</i>
	<hr/>	<hr/>
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 23% (<i>2013: 24%</i>)	6,942	<i>5,830</i>
Effects of:		
- Permanent disallowables	188	<i>(122)</i>
- Fixed asset timing differences	(7)	<i>147</i>
- Defined benefit scheme timing differences	(2,187)	<i>(885)</i>
- Other short term timing differences	2	<i>-</i>
- Adjustments in respect of previous years	(162)	<i>21</i>
	<hr/>	<hr/>
Current tax charge for the year	4,776	<i>4,991</i>
	<hr/>	<hr/>

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

8. Tax on Group Profit on Ordinary Activities (Continued)

8(b) Factors affecting the deferred taxation charge

	2014	<i>2013</i>
	£000	<i>£000</i>
Fixed asset timing differences	144	<i>(246)</i>
Other short term timing differences	(2)	<i>-</i>
Prior year adjustment	(74)	<i>(3)</i>
Deferred tax on pension scheme	1,902	<i>885</i>
Change in tax rate	(314)	<i>13</i>
	1,656	<i>649</i>
Deferred tax charge for the year	1,656	<i>649</i>

In addition to the tax charge in the Profit and Loss Account detailed above, £650,000 has been debited (*2013: £812,000 credit*) to the Consolidated Statement of Total Recognised Gains and Losses in respect of actuarial losses in the pension scheme.

The reductions in UK corporation tax rate from 1 April 2014 (from 23% to 21%) and from 1 April 2015 (from 21% to 20%) is expected to reduce the Group's charge for corporation tax in future years. The deferred tax calculations anticipate these reductions in rate.

9. Company Profit Dealt with in the Consolidated Financial Statements of C. Hoare & Co.

£23,479,000 (*2013: £24,831,000*) of the Group profit attributable to shareholders relates to the Company, this includes dividends of £Nil (*2013: £7,489,000*) from subsidiary companies. As permitted by Section 408 of the Companies Act 2006, the Profit and Loss Account of the Company has not been presented separately

10. Dividends

The aggregate of dividends comprises:

	2014	<i>2013</i>	2014	<i>2013</i>
	per share	<i>per share</i>	£000	<i>£000</i>
Ordinary shares (declared)	£50	<i>£50</i>	6	<i>6</i>
	£50	<i>£50</i>	6	<i>6</i>

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

11. Derivative Financial Instruments

The following table shows the notional principal amounts and the fair values, both positive and negative, of the derivative financial instruments.

	2014 Notional amount Group and Company £000	2014 Fair value Group and Company £000	<i>2013 Notional amount Group and Company £000</i>	<i>2013 Fair value Group and Company £000</i>
Derivative assets				
Exchange rate contracts				
Forward foreign exchange contracts	31,796	51	13,695	62
Interest rate contracts				
Interest rate swaps – Hedging instruments	331,053	5,054	180,000	117
Total derivative assets	362,849	5,105	<i>193,695</i>	<i>179</i>
Derivative liabilities				
Exchange rate contracts				
Forward foreign exchange contracts	26,160	49	21,780	60
Interest rate contracts				
Interest rate swaps – Hedging instruments	297,057	18,201	243,238	18,881
Total derivative liabilities	323,217	18,250	<i>265,018</i>	<i>18,941</i>

Interest rate swaps are used to hedge the interest rate risk arising on the Bank's fixed interest rate assets. The notional principal amount of interest rate swaps, by asset class, is shown below. The notional principal amount has increased significantly during the year to match an increase in fixed rate debt securities and available-for-sale financial assets held by the Bank.

	2014 Group £000	2014 Company £000	<i>2013 Group £000</i>	<i>2013 Company £000</i>
Loans and advances to banks	-	-	25,000	25,000
Loans and advances to customers	115,317	115,317	105,799	105,799
Debt securities and other available-for-sale financial assets	512,793	512,793	292,439	292,439
Total interest rate swaps	628,110	628,110	<i>423,238</i>	<i>423,238</i>

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

12. Loans and Advances to Banks

	2014	2014	<i>2013</i>	<i>2013</i>
	Group	Company	<i>Group</i>	<i>Company</i>
	£000	£000	<i>£000</i>	<i>£000</i>
Repayable on demand	28,798	28,798	<i>35,597</i>	<i>35,597</i>
Other loans and advances:				
Remaining maturity				
- over 5 years	17,902	17,902	<i>19,902</i>	<i>19,902</i>
- over 1 year but less than 5 years	-	-	-	-
- 1 year or less but over 3 months	315	315	<i>25,000</i>	<i>25,000</i>
- 3 months or less	74,357	74,357	<i>54,432</i>	<i>54,432</i>
	121,372	121,372	<i>134,931</i>	<i>134,931</i>

Included within the 2013 loans and advances to banks was a fixed term loan of £25.0m which was hedged against interest rate risk using interest rate swaps. There were no such loans or advances at the balance sheet date.

13. Loans and Advances to Customers

	2014	2014	<i>2013</i>	<i>2013</i>
	Group	Company	<i>Group</i>	<i>Company</i>
	£000	£000	<i>£000</i>	<i>£000</i>
Remaining maturity				
- over 5 years	41,403	41,403	<i>29,872</i>	<i>29,872</i>
- 5 years or less but over 1 year	72,584	72,584	<i>78,314</i>	<i>78,314</i>
- 1 year or less but over 3 months	7,035	7,035	<i>21,918</i>	<i>21,798</i>
- 3 months or less	972,471	972,471	<i>940,464</i>	<i>940,384</i>
Allowance for impairment losses (Note 14)	(7,166)	(7,166)	<i>(8,063)</i>	<i>(8,063)</i>
Total loans and advances to customers	1,086,327	1,086,327	<i>1,062,505</i>	<i>1,062,505</i>
Of which repayable on demand or short notice	961,055	961,055	<i>932,401</i>	<i>932,401</i>

Included in the above loans and advances to customers are fixed rate loans which have been hedged against interest rate risk using interest rate swaps. The value of lending hedged at 31 March 2014 was £115.3m (2013: £105.8m).

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14. Allowance for Impairment Losses on Loans and Advances to Customers (Group and Company)

	2014	<i>2013</i>
	£000	<i>£000</i>
Specific allowances for impairment		
Balance at 1 April	5,878	<i>7,014</i>
Impairment loss for the year		
- Charge for the year	1,300	<i>2,585</i>
- Recoveries	(608)	<i>(955)</i>
	<hr/>	<hr/>
Net charge	692	<i>1,630</i>
Write-offs	(466)	<i>(2,766)</i>
	<hr/>	<hr/>
Balance at 31 March	6,104	<i>5,878</i>
	<hr/>	<hr/>
Collective allowance for impairment		
Balance at 1 April	2,185	<i>1,600</i>
Impairment loss for the year		
- (Recovery)/charge for the year	(1,123)	<i>585</i>
	<hr/>	<hr/>
Balance at 31 March	1,062	<i>2,185</i>
	<hr/>	<hr/>
Total specific and collective impairment allowances	7,166	<i>8,063</i>
	<hr/>	<hr/>

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

15. Debt securities and other Available-for-sale Financial Assets

	2014	2014	<i>2013</i>	<i>2013</i>
	Group	Company	<i>Group</i>	<i>Company</i>
	£000	£000	<i>£000</i>	<i>£000</i>
Bank and building society certificates of deposit	457,229	457,229	358,393	358,393
Debt securities with readily determinable fair values	480,645	480,645	346,440	346,440
Equity securities (unlisted)	1,391	1	2,818	1
Other variable yield securities	25,074	25,074	-	-
Less specific allowances for impairment	(4,913)	(4,740)	(5,381)	(4,741)
Total available-for-sale financial assets	959,426	958,209	<i>702,270</i>	<i>700,093</i>

Of the total of £481m (2013: £346m) of debt securities shown above:

- net of impairment, £33m are due to mature within one year of the balance sheet date (2013: £33m).
- fixed rate securities with a nominal value of £512.8m (2013: £292.4m) have been hedged against interest rate risk using interest rate swaps or, where the asset is denominated in a foreign currency, using currency swaps to hedge the interest rate and foreign currency risk.

The Bank continues to hold £5,048,000 (nominal value) of securities issued by Washington Mutual Bank Inc. which entered administration in 2008 and the position was fully impaired in the financial year 2008/9 as a result. The Bank continues to hold this position in anticipation of future recoveries, but given the high level of uncertainty over the value and timing of any potential future recoveries, the position remains fully impaired.

16. Investments in Subsidiaries

The Company has the following investments in subsidiaries:

Shares at cost	Principal Activity	%	2014	<i>2013</i>
		Owned	£000	<i>£000</i>
Messrs Hoare Trustees 20 shares of no par value	Trustee company	100	-	-
Hoare's Bank Pension Trustees Limited 1 Ordinary £1 share	Pension scheme trustee	100	-	-
Hoares Bank Nominees Limited 72 Ordinary £1 shares	Nominee company	100	-	-
C. Hoare & Co. EIG Management Limited 1 Ordinary £1 share	Holding company	100	-	-
Mitre Court Property Holding Company 1,000 Ordinary £1 shares	Dormant	100	1	1
Total Investments in Subsidiaries			1	<i>1</i>

All subsidiary companies are incorporated and domiciled in the United Kingdom and are 100% owned directly by C. Hoare & Co.. There were no changes in ownership of the subsidiary companies during the year. The aggregate value of the capital and reserves of each subsidiary is not less than the investment holding value in the Company's Financial Statements.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

17. Tangible Fixed Assets (Group and Company)

	Land and Buildings £000	Investment Properties £000	Equipment £000	Total £000
Cost or valuation				
1 April 2013	30,000	4,906	28,240	63,146
Additions	-	-	8,035	8,035
Transfers	3,306	(3,306)	-	-
Disposals	-	-	(1,407)	(1,407)
Revaluation	-	-	-	-
31 March 2014	33,306	1,600	34,868	69,774
Accumulated depreciation				
1 April 2013	-	-	17,328	17,328
Charge for year	-	-	3,517	3,517
Disposals	-	-	(1,394)	(1,394)
31 March 2014	-	-	19,451	19,451
Net book value 31 March 2014	33,306	1,600	15,417	50,323
<i>Net book value 31 March 2013</i>	<i>30,000</i>	<i>4,906</i>	<i>10,912</i>	<i>45,818</i>
	2014	2014	<i>2013</i>	<i>2013</i>
	Group	Company	<i>Group</i>	<i>Company</i>
	£000	£000	<i>£000</i>	<i>£000</i>
Land and buildings occupied for own activities				
- Net book value	24,440	24,440	24,440	24,440
At cost				
- Land and buildings	10,772	10,772	9,235	9,235
- Investment properties	1,728	1,728	3,265	3,265
	12,500	12,500	<i>12,500</i>	<i>12,500</i>

The use of two of the Bank's properties was reviewed during the year, and both were reclassified from investment properties to land and buildings, in recognition of the Bank's current or intended future use of them in day to day operations.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

17. Tangible Fixed Assets (Group and Company) (Continued)

	2014	2014	<i>2013</i>	<i>2013</i>
	Group	Company	<i>Group</i>	<i>Company</i>
	£000	£000	<i>£000</i>	<i>£000</i>
Future capital expenditure contracted but not provided in the Financial Statements	329	329	<i>295</i>	<i>295</i>

18. Heritage Assets (Group and Company)

	2014	2014	2014	<i>2013</i>	<i>2013</i>	<i>2013</i>
	Paintings	Artefacts	Total	<i>Paintings</i>	<i>Artefacts</i>	<i>Total</i>
	£000	£000	£000	<i>£000</i>	<i>£000</i>	<i>£000</i>
Valuation 1 April	<i>8,307</i>	<i>1,311</i>	<i>9,618</i>	<i>8,300</i>	<i>1,300</i>	<i>9,600</i>
Movements - Additions	1	-	1	<i>7</i>	<i>11</i>	<i>18</i>
Valuation 31 March	8,308	1,311	9,619	<i>8,307</i>	<i>1,311</i>	<i>9,618</i>

Having been in business for over 300 years the Bank has, over this time, acquired a number of artefacts mostly in the form of paintings, an extensive coin collection and the Bank's own ledgers. These heritage assets 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. The Bank's Museum maintains a register for its collections of heritage assets which records the nature, provenance and current location of each asset.

Following the introduction of FRS 30 (Accounting for Heritage Assets) in June 2009 the Board commissioned an external valuer (Messrs Christie's, auctioneers and valuers) to undertake a full valuation of the collection as at 31 March 2010. The Directors are not aware of any material change in value since that date and therefore the valuations are unchanged. It has not been practicable to estimate the cost of acquisition of the heritage assets; they were not recognised in the Financial Statements prior to the adoption of FRS 30. During the current year one additional item was added to the collection at a cost of £1,350.

The 2010 valuations were based on commercial markets, including recent transaction information from auctions where similar types of paintings held by the Bank had been sold; the figure included in the Financial Statements is based on the lower end of the range indicated by these various sources.

The Bank aims to maintain the condition of the collections in a steady state of repair. Detailed surveys are undertaken on a regular basis as the Board deems appropriate. At any time, approximately 50 per cent of the collections are on display. The remaining items are held in storage that is not open to the public, although access is permitted to historians and others for research purposes.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

19. Deferred Tax

The deferred tax balances shown in the balance sheet are attributable to the following:

	2014	2014	<i>2013</i>	<i>2013</i>
	Group	Company	<i>Group</i>	<i>Company</i>
	£000	£000	<i>£000</i>	<i>£000</i>
Deferred tax asset				
Fixed assets timing differences	171	171	291	291
Short term timing differences	24	24	38	38
Total deferred tax asset	195	195	<i>329</i>	<i>329</i>
Deferred tax liability				
Short term timing differences	26	-	46	-
Total deferred tax liability	26	-	<i>46</i>	<i>-</i>

The movement on the deferred tax balances has arisen due to the following:

	2014	2014	<i>2013</i>	<i>2013</i>
	Group	Company	<i>Group</i>	<i>Company</i>
	£000	£000	<i>£000</i>	<i>£000</i>
Deferred tax asset				
Balance at 1 April	329	329	111	111
Capital allowances on fixed asset additions	(144)	(144)	246	246
10 year amortisation of FRS 26 balance	(11)	(11)	(13)	(13)
Change in tax rate	(53)	(53)	(15)	(15)
Prior year adjustment	74	74	-	-
Balance at 31 March	195	195	<i>329</i>	<i>329</i>
Deferred tax liability				
Balance at 1 April	46	-	63	-
10 year amortisation of FRS 26 balance	(13)	-	(15)	-
Change in tax rate	(7)	-	(2)	-
Balance at 31 March	26	-	<i>46</i>	<i>-</i>

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

19. Deferred Tax (Continued)

FRS 26 was adopted by the Bank on 1 April 2006; the reporting standard implemented the recognition, measurement and hedge accounting requirements of the international reporting standard IAS 39. As part of the transition to the new reporting requirements certain balances arose for taxation purposes, the impact of which is being spread over ten years in accordance with rules introduced by HMRC.

The deferred tax asset and liability balances at 31 March 2014 do not include any amounts in respect of the Bank's defined benefit pension scheme liability, which is shown on the balance sheet after deduction of a deferred tax asset of £1,372,000 (2013: £4,512,000) – see Note 3. The movement in this balance is shown below:

	2014	2014	<i>2013</i>	<i>2013</i>
	Group	Company	<i>Group</i>	<i>Company</i>
	£000	£000	<i>£000</i>	<i>£000</i>
Balance at 1 April	4,512	4,512	4,781	4,781
Movement relating to:				
- Past service cost	-	-	11	11
- Employer contributions	(1,600)	(1,600)	(960)	(960)
- Other finance costs	(302)	(302)	64	64
- Actuarial gains/(losses)	(650)	(650)	812	812
- Change in tax rate	(588)	(588)	(196)	(196)
	<hr/>	<hr/>	<hr/>	<hr/>
Balance at 31 March	1,372	1,372	<i>4,512</i>	<i>4,512</i>
	<hr/>	<hr/>	<hr/>	<hr/>
20. Other Assets				
	2014	2014	<i>2013</i>	<i>2013</i>
	Group	Company	<i>Group</i>	<i>Company</i>
	£000	£000	<i>£000</i>	<i>£000</i>
Settlement balances	481	481	416	416
Other assets	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
	481	481	<i>416</i>	<i>416</i>
	<hr/>	<hr/>	<hr/>	<hr/>

Settlement balances relate to unsettled transactions at the year end.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

21. Prepayments and Accrued Income

	2014	2014	<i>2013</i>	<i>2013</i>
	Group	Company	<i>Group</i>	<i>Company</i>
	£000	£000	<i>£000</i>	<i>£000</i>
Interest receivable	7,555	7,555	5,333	5,333
Other debtors and prepayments	5,716	5,656	4,544	4,506
	<u>13,271</u>	<u>13,211</u>	<u>9,877</u>	<u>9,839</u>

22. Deposits by Banks

	2014	2014	<i>2013</i>	<i>2013</i>
	Group	Company	<i>Group</i>	<i>Company</i>
	£000	£000	<i>£000</i>	<i>£000</i>
Repayable on demand	16	16	4	4

23. Customer Accounts

	2014	2014	<i>2013</i>	<i>2013</i>
	Group	Company	<i>Group</i>	<i>Company</i>
	£000	£000	<i>£000</i>	<i>£000</i>
With agreed maturity date or notice period, by remaining maturity:				
- 2 years or less but over 1 year	6,733	6,733	12,212	12,212
- 1 year or less but over 3 months	108,132	108,132	83,252	83,252
- 3 months or less but not repayable on demand	541,460	541,460	617,653	617,653
	<u>656,325</u>	<u>656,325</u>	<u>713,117</u>	<u>713,117</u>
Repayable on demand	1,869,409	1,869,409	1,548,933	1,548,933
	<u>2,525,734</u>	<u>2,525,734</u>	<u>2,262,050</u>	<u>2,262,050</u>
Including amount due to the Pension Fund	1,073	1,073	256	256
Amount due to Subsidiary Companies		<u>7,385</u>		<u>6,148</u>

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

24. Repurchase Agreements

	2014	2014	<i>2013</i>	<i>2013</i>
	Group	Company	<i>Group</i>	<i>Company</i>
	£000	£000	<i>£000</i>	<i>£000</i>
Banks	25,000	25,000	-	-

25. Other Liabilities

	2014	2014	<i>2013</i>	<i>2013</i>
	Group	Company	<i>Group</i>	<i>Company</i>
	£000	£000	<i>£000</i>	<i>£000</i>
Corporation tax	2,248	2,280	<i>2,740</i>	<i>2,660</i>
Settlement balances	1,373	1,373	<i>3,705</i>	<i>3,705</i>
Other liabilities	91	40	<i>58</i>	<i>25</i>
	3,712	3,693	<i>6,503</i>	<i>6,390</i>

Settlement balances relate to unsettled transactions at the year end.

26. Accruals and Deferred Income

	2014	2014	<i>2013</i>	<i>2013</i>
	Group	Company	<i>Group</i>	<i>Company</i>
	£000	£000	<i>£000</i>	<i>£000</i>
Interest payable	4,835	4,835	<i>2,838</i>	<i>2,838</i>
Other creditors and accruals	14,078	14,078	<i>13,384</i>	<i>13,374</i>
	18,913	18,913	<i>16,222</i>	<i>16,212</i>

Other creditors and accruals relate to accrued expenses at the year end and include £750,000 (2013: £908,000) in respect of the FSCS Levy (Note 29).

27. Called-up Share Capital

	2014	2014	<i>2013</i>	<i>2013</i>
	Group	Company	<i>Group</i>	<i>Company</i>
	£000	£000	<i>£000</i>	<i>£000</i>
Authorised, allotted and fully paid: 120 Ordinary shares of £1,000	120	120	<i>120</i>	<i>120</i>

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

28. Reserves

	2014	2014	<i>2013</i>	<i>2013</i>
	Group	Company	<i>Group</i>	<i>Company</i>
	£000	£000	<i>£000</i>	<i>£000</i>
(i) Reserve Fund				
At 1 April	22,598	21,148	<i>22,598</i>	<i>21,148</i>
Movement for the year	-	-	-	-
31 March	22,598	21,148	<i>22,598</i>	<i>21,148</i>

The Directors are authorised under the Bank's Articles of Association 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 profits of the Bank may be properly applied.

	2014	2014	<i>2013</i>	<i>2013</i>
	Group	Company	<i>Group</i>	<i>Company</i>
	£000	£000	<i>£000</i>	<i>£000</i>
(ii) Property Revaluation Reserve				
At 1 April	<i>20,765</i>	<i>20,765</i>	<i>14,279</i>	<i>14,279</i>
Movement for the year:				
Transfer (see note 17)	1,769	1,769	-	-
Revaluations	-	-	6,486	6,486
31 March	22,534	22,534	<i>20,765</i>	<i>20,765</i>

(iii) Investment Property Revaluation Reserve				
At 1 April	<i>1,641</i>	<i>1,641</i>	<i>866</i>	<i>866</i>
Movement for the year:				
Transfer (see note 17)	(1,769)	(1,769)	-	-
Revaluations	-	-	775	775
31 March	(128)	(128)	<i>1,641</i>	<i>1,641</i>

(iv) Heritage Assets Revaluation Reserve				
At 1 April	9,600	9,600	<i>9,600</i>	<i>9,600</i>
Movement for the year	-	-	-	-
31 March	9,600	9,600	<i>9,600</i>	<i>9,600</i>

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28. Reserves (Continued)

	2014	2014	<i>2013</i>	<i>2013</i>
	Group	Company	<i>Group</i>	<i>Company</i>
	£000	£000	<i>£000</i>	<i>£000</i>
(v) Available-For-Sale Revaluation Reserve				
At 1 April	<i>1,616</i>	<i>1,339</i>	<i>(609)</i>	<i>(1,535)</i>
Fair value gains/(losses) taken to equity	(1,032)	(979)	<i>2,345</i>	<i>2,414</i>
Amounts transferred to profit and loss	797	594	<i>(120)</i>	<i>460</i>
Net Movement	(235)	(385)	<i>2,225</i>	<i>2,874</i>
31 March	1,381	954	<i>1,616</i>	<i>1,339</i>
Total Revaluation Reserves	33,387	32,960	<i>33,622</i>	<i>33,345</i>
(vi) Profit And Loss Account				
At 1 April	<i>138,168</i>	<i>131,702</i>	<i>122,290</i>	<i>109,644</i>
Profit for the financial year	23,752	23,479	<i>18,651</i>	<i>24,831</i>
Gains/(losses) recognised under FRS 17	1,648	1,648	<i>(2,767)</i>	<i>(2,767)</i>
Dividends paid	(6)	(6)	<i>(6)</i>	<i>(6)</i>
31 March	163,562	156,823	<i>138,168</i>	<i>131,702</i>
Total Reserves	219,547	210,931	<i>194,388</i>	<i>186,195</i>
Reconciliation of movements in shareholders' funds				
		2014		<i>2013</i>
		£000		<i>£000</i>
Opening shareholders' funds		<i>194,508</i>		<i>169,144</i>
Profit for the financial year		23,752		<i>18,651</i>
Dividends		(6)		<i>(6)</i>
Available-for-sale reserve (losses)/gains		(350)		<i>3,132</i>
Tax thereon		115		<i>(907)</i>
Property revaluation reserve gains		-		<i>7,261</i>
Actuarial gains/(losses)		3,248		<i>(3,383)</i>
Deferred tax thereon		(1,600)		<i>616</i>
Total movements in shareholders' funds		25,159		<i>25,364</i>
Closing shareholders' funds		219,667		<i>194,508</i>

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

28. Reserves (Continued)

Amounts recorded in the revaluation reserves exclude the potential tax impact of any subsequent realisation. Where there is a tax effect in the year of revaluation, for example on available-for-sale investments that are treated as loan relationships under HMRC rules, then the actual tax effect is included in the reserve movement.

29. Contingent Liabilities and Commitments

The table below discloses the nominal principal amounts of contingent liabilities and commitments undertaken for customers as at 31 March 2014.

Guarantees include those given on behalf of a customer to stand behind the current obligations of the customer and to carry out those obligations should the customer fail to do so.

Performance bonds and other transaction related contingencies (which include HMRC Value Added Tax bonds) are undertakings where the requirement to make payment under the guarantee depends on the outcome of a future event.

Where guarantees are issued on behalf of customers, the Bank usually holds collateral against the exposure and has a right of recourse to the customer.

The Bank's maximum exposure is represented by the amounts detailed in the table below, should contracts be fully drawn upon and customers default. Consideration has not been taken of any possible recoveries from customers for payments made in respect of such guarantees under recourse provisions or from collateral held.

Contingent obligations and commitments are managed in accordance with the Bank's credit risk management policies.

	2014	2014	<i>2013</i>	<i>2013</i>
	Group	Company	<i>Group</i>	<i>Company</i>
	£000	£000	<i>£000</i>	<i>£000</i>
Contingent liabilities:				
- Letters of credit	810	810	<i>3,379</i>	<i>3,379</i>
- Performance bonds and other transaction-related contingencies	379	379	<i>753</i>	<i>753</i>
- Other guarantees	28,239	28,239	<i>28,698</i>	<i>28,698</i>
	<hr/>	<hr/>	<hr/>	<hr/>
Total contingent liabilities	29,428	29,428	<i>32,830</i>	<i>32,830</i>
	<hr/>	<hr/>	<hr/>	<hr/>
Commitments:				
- Undrawn formal standby facilities, credit lines and other commitments to lend (Less than 1 year maturity)	306,349	306,349	<i>318,887</i>	<i>318,887</i>
- Uncalled subscription monies	322	-	<i>353</i>	-
	<hr/>	<hr/>	<hr/>	<hr/>
Total commitments	306,671	306,349	<i>319,240</i>	<i>318,887</i>
	<hr/>	<hr/>	<hr/>	<hr/>

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

29. Contingent Liabilities and Commitments (Continued)

Uncalled subscription monies

At 31 March 2014, a subsidiary company had uncalled subscription monies payable in respect of equity shares of £322,000 (2013: £353,000).

FSCS Levy

The Financial Services Compensation Scheme ("FSCS") has provided compensation to consumers following the collapse of a number of deposit takers, such as Bradford & Bingley plc. The compensation paid out to consumers under the FSCS was funded by £20 billion of loans to the FSCS from the Bank of England and HM Treasury. Under the FSCS Levy rules, all deposit takers, including C. Hoare & Co., will be required to pay a proportion of any irrecoverable principal amounts on the loans. Deposit takers are also obligated to share the interest costs of the loans and the management expenses of the FSCS. The proportion of the total Levy charged to each bank is determined by the Bank's market share of deposits protected through the FSCS.

The Bank accrued £0.75m at 31 March 2014 (2013: £0.9m) in respect of its estimated share of the management expenses and interest costs for the 2012/13 and 2013/14 levy years and of its estimated share of the expected irrecoverable principal amounts on the outstanding loans. The accrual is based on the Bank's estimated share of total market protected deposits at 31 December 2012 and 2013. The charge to the Profit and Loss Account for the year was £211,692 (2013: £308,000).

The ultimate cost of the FSCS Levy to the industry as a result of the 2008 collapses is dependent upon various uncertain factors, including: the value of potential recoveries of assets by the FSCS; changes in the interest rate on the loans; the level of protected deposits and the population of FSCS members at the time.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

30. Consolidated Cash Flow Statement

	2014	<i>2013</i>
	£000	<i>£000</i>
Non-cash items included in profit before tax		
Increase in provisions for bad debts	177	3,170
Loans and advances written off	466	2,766
Net (charge)/credit in respect of defined benefit schemes	(1,509)	313
Depreciation	3,517	3,025
Exchange translation differences on investment securities	3,457	<i>(1,215)</i>
Losses/(profits) on sale of investment securities	237	<i>(946)</i>
Profit on sale of tangible fixed assets	(5)	-
Impairment losses on investment securities	-	385
	<hr/>	<hr/>
Total non-cash items included in profit before tax	6,340	<i>7,498</i>
	<hr/>	<hr/>
Change in operating assets		
Increase in prepayments and accrued income	(3,394)	<i>(3,615)</i>
Increase in other assets	(65)	<i>(38)</i>
Net (increase)/decrease in cheques in course of collection	(213)	111
Net increase in loans and advances to banks	6,760	<i>14,802</i>
Net increase in loans and advances to customers	(24,465)	<i>(116,953)</i>
	<hr/>	<hr/>
Total change in operating assets	(21,377)	<i>(105,693)</i>
	<hr/>	<hr/>
Change in operating liabilities		
Increase in accruals and deferred income	2,691	5,000
Decrease in other liabilities	(2,299)	<i>(1,307)</i>
Net increase in customer accounts	263,684	<i>191,328</i>
Net increase/(decrease) in deposits by banks	12	<i>(472)</i>
Net increase in repurchase agreements	25,000	-
	<hr/>	<hr/>
Total change in operating liabilities	289,088	<i>194,549</i>
	<hr/>	<hr/>
Cash and cash equivalents		
Cash and balances at the Bank of England	565,415	<i>542,377</i>
Loans and advances to banks repayable on demand	28,798	<i>35,597</i>
	<hr/>	<hr/>
Total cash and cash equivalents	594,213	<i>577,974</i>
	<hr/>	<hr/>

C. HOARE & CO.
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

31. Segmental Information

Materially all income and profits arise from the business of banking and investment management conducted in the United Kingdom.

32. Directors' Loans

The aggregate amounts outstanding from the Directors (including connected persons) of C. Hoare & Co. at 31 March were as follows:

	2014	<i>2013</i>
	£000	<i>£000</i>
Loans and credit transactions:		
- Aggregate amount outstanding	4,780	<i>7,544</i>
- Number of persons	8	<i>7</i>

These loans are fully secured on normal business margins.

33. Related Party Transactions

There were no related party transactions undertaken during the year (*2013: none*).

34. Ultimate Controlling Party

The Company is the ultimate parent of its Group. There is no ultimate controlling party of the Company.

35. Charged Assets

£19,617,000 (*2013: Nil*) of assets were charged in favour of Hoare's Bank Pension Trustees Limited, for the benefit of the Hoare's Bank Pension Scheme. These assets would become available to the Pension Scheme in the event of C. Hoare & Co's insolvency. Under the arrangement, C. Hoare & Co. is entitled to any income earned on these assets.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

36. Financial Risk Management

(a) Overview

The Bank has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk
- Operational risk

The principal risks affecting the Bank are explained in the Strategic Report on pages 2 to 6.

This note presents information about the Bank's exposure to each of the above risks and the Bank's approach to the management of each risk.

Risk management framework

The Board has ultimate accountability for the risk and control environment, and is responsible for the establishment and oversight of the Bank's risk management framework.

The Bank manages risks within the three lines of defence model which defines the roles and responsibilities for the management of risk:

- The first line of defence has direct responsibility for strategy, management and control of risk and includes:
 - the Executive Group which meets weekly with main responsibilities of: formulating a strategy for the Bank; developing new business; creating the organisational structure; managing the day-to-day business of the Bank; monitoring financial performance and other operational matters;
 - the Asset and Liability Committee ("ALCO") which meets on a monthly basis and is charged with overseeing the matching of the Bank's assets and liabilities, reviewing financial market activity and managing liquidity;
 - the Credit Policy Committee which oversees customer pricing, security and overall exposure guidelines and sets lending parameters for approval by the Board; and
 - the Bank has a number of other committees to oversee operational risk areas such as information security and disaster recovery.
- The second line of defence co-ordinates, facilitates and oversees the effectiveness and integrity of the risk management framework and includes:
 - The Risk and Compliance Committee which meets monthly, is a sub-committee of the Board and oversees the implementation of the Bank's risk management framework and its compliance obligations.
- The third line of defence provides independent assurance and challenge across all business functions in respect of the integrity and effectiveness of the risk management framework and includes:
 - The Audit Committee which oversees the Bank's systems of internal controls and its financial reporting processes; and
 - Internal Audit, who undertake regular and ad-hoc reviews of risk management controls and processes, the results of which are presented to the Audit Committee, senior management and the Board.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

36. Financial Risk Management (Continued)

(b) Credit risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations. It arises principally from the Bank's loans and advances to customers and other banks release of 2013 accrual), and from investment securities.

Management of credit risk

Responsibility for credit risk on customer loans and advances resides with the lending department, monitored by the Credit Policy Committee. Responsibility for credit risk relating to bank counterparties lies with the Treasury Department and that relating to investments lies with the Investment Management Department; both of these departments are overseen by the ALCO.

It is the Bank's policy to lend to customers against security. Unsecured lending is only entered into where the customer's specific circumstances make it prudent to do so. Limits are placed on the aggregate lending to any one customer in accordance with regulatory guidelines. Lending is monitored against individual credit limits. All significant exposures are subject to annual review.

Interest payments and any capital repayments are generally serviced through a related current account with the Bank. Therefore, past due events such as late payment or missed interest rarely occur.

Lending to banks is restricted to a selection of financial institutions with the main criteria for selection being the stability and reputation of the institution. All lending is undertaken within limits, which are regularly reviewed by the ALCO and approved by the Board.

As part of an ongoing risk and capital management programme, the Bank's legacy investment portfolio is being wound down under the direction of the ALCO.

Exposure to credit risk

The table on the following page analyses the lending assets and investment securities.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

36. Financial Risk Management (Continued)

(b) Credit risk (continued)

A full analysis of impairments and watch list values across the Bank's customer, bank and investment portfolios is shown below.

£000	Loans and advances to customers		Loans and advances to banks		Available-for-sale financial assets	
	2014	2013	2014	2013	2014	2013
Balance sheet:						
Carrying amount	1,086,327	<i>1,062,505</i>	121,372	<i>134,931</i>	959,426	<i>702,270</i>
Individually impaired Allowance for impairment	6,641 (6,104)	<i>7,444</i> <i>(5,878)</i>	-	-	5,025 (4,913)	<i>5,790</i> <i>(5,381)</i>
	537	<i>1,566</i>	-	-	112	<i>409</i>
Assets not past due, subject to impairment nor on watch list	983,186	<i>944,372</i>	121,372	<i>134,931</i>	959,314	<i>701,861</i>
Watch list loans:						
- High risk	4,092	<i>4,423</i>	-	-	-	-
- Medium risk	99,574	<i>114,329</i>	-	-	-	-
Allowance for collective Impairment	(1,062)	<i>(2,185)</i>	-	-	-	-
Carrying Amount On Balance Sheet	1,086,327	<i>1,062,505</i>	121,372	<i>134,931</i>	959,426	<i>702,270</i>
Off balance sheet:						
- Guarantees	28,239	<i>28,698</i>	-	-	-	-
- Letters of credit and performance bonds	1,189	<i>4,132</i>	-	-	-	-
- Commitments	306,349	<i>318,887</i>	-	-	322	<i>353</i>
Carrying Amount Off Balance Sheet	335,777	<i>351,717</i>	-	-	322	<i>353</i>
Total credit risk exposure	1,422,104	<i>1,414,222</i>	121,372	<i>134,931</i>	959,748	<i>702,623</i>

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

36. Financial Risk Management (Continued)

(b) Credit risk (continued)

The maximum credit risk exposure of the Bank is shown in the table below and has been assessed as the balance sheet value for relevant balance sheet items and the contingent or committed value for off balance sheet items.

	2014	<i>2013</i>
	£000	<i>£000</i>
Balance Sheet items		
Cash and balances at central banks	565,415	542,377
Items in course of collection from banks	5,272	5,059
Derivative financial instruments	5,105	179
Loans and advances to banks	121,372	134,931
Loans and advances to customers	1,086,327	1,062,505
Available-for-sale financial assets	959,426	702,270
Other assets	481	416
Prepayments and accrued income	13,271	9,877
	<hr/>	<hr/>
Maximum credit exposure from Balance Sheet items	2,756,669	<i>2,457,614</i>
	<hr/>	<hr/>
Off balance sheet items		
Contingent liabilities (guarantees)	29,428	32,830
Commitments	306,671	319,240
	<hr/>	<hr/>
Maximum credit exposure from off Balance Sheet items	336,099	<i>352,070</i>
	<hr/>	<hr/>
Maximum credit exposure	3,092,768	<i>2,809,684</i>
	<hr/>	<hr/>
Credit quality of assets not subject to impairment is shown below:		
	2014	<i>2013</i>
	£000	<i>£000</i>
Loans and advances to banks, by rating:		
- Aaa to Aa3	78,190	59,162
- A1 to A3	36,412	75,582
- Baa1 to Baa3	6,770	187
	<hr/>	<hr/>
Unimpaired loans and advances to banks	121,372	134,931
	<hr/>	<hr/>
Available-for-sale financial assets, by rating:		
- Aaa to Aa3	552,884	218,971
- A1 to A3	380,251	481,122
- Baa1 to Baa3	-	-
- Caa1 and below	-	-
- Not rated	26,179	1,768
	<hr/>	<hr/>
Unimpaired available-for-sale financial assets	959,314	701,861
	<hr/>	<hr/>

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

36. Financial Risk Management (Continued)

(b) Credit risk (continued)

The credit risk classifications used in the preceding table are:

Individually impaired loans and securities

The Bank regularly assesses whether there is objective evidence that any loans or securities are impaired. Loans and securities are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the assets, and that the loss event has an impact on the future cash flows on the asset that can be estimated reliably.

Watch list loans

Watch list loans are loans where there is doubt as to the certainty of future principal and interest repayments but there has not been objective evidence of a loss event sufficient to warrant a full impairment assessment. These are assessed by the relationship managers and graded high, medium and low to highlight exposures which require closer management attention because of their greater probability of default and potential loss. For reporting purposes low risk balances are not disclosed.

Allowances for impairment

The Bank establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. The main components of this allowance are a specific loss component that relates to identified exposures and a collective loan impairment allowance in respect of losses that have been incurred but have not been identified at the reporting date. Impairment losses on loans to banks and the securities portfolio are established when there has been a sustained decrease in value over an extended period, or if it is expected that a fixed income investment will not meet its future cash flow obligations.

Write-off policy

Bad debts are usually written off in the event of bankruptcy/insolvency of a customer. However, as it is always possible that a customer may acquire assets in the future, debts are often left, fully provisioned, as an aide memoire of the position. Bad debts will be written off only when there is absolute certainty that the residual sums are uncollectable.

Collateral

The Bank holds collateral against loans and advances to customers in the form of charges over property, investment securities, other assets and guarantees. Estimates of fair value are based upon the value of collateral assessed at the time of borrowing and generally are not updated, except when required by regulation, further lending is required or a loan is assessed as impaired. Collateral is not held against loans to other banks or investment securities. At 31 March 2014, the value of property collateral recorded against customer facilities was £2,262m (2013: £2,045m). The estimated value of collateral against the impaired customer loans and advances was £1.3m (2013: £0.8m).

Renegotiated lending

The Bank maintains direct contact with all borrowers through their respective relationship manager. Over the life of a loan, should the customer's ability to service or repay become compromised in any way, the loan will be placed on a watch-list as low, medium or high risk depending upon the degree of stress as determined by the relationship manager and/or Senior Lending Committee. Where the Bank believes the ability to repay is in doubt, the account will be treated as impaired and a provision raised. The Bank does not renegotiate terms in the normal course of business. Accordingly, there is no separate disclosure in the Financial Statements for "Renegotiated loans".

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

36. Financial Risk Management (Continued)

(c) Liquidity risk

Liquidity risk is the risk that the Bank is unable to meet its liabilities when they fall due or is unable to obtain funding other than by paying a premium.

Management of liquidity risk

The Bank's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under normal and stressed conditions, without incurring unacceptable losses or risking damage to its reputation.

The Treasury Department prepares projected daily cash flows and then seeks to maintain a portfolio of short-term liquid assets, largely made up of liquid securities, short-term loans and advances to banks, to broadly match the timing of the predicted cash flows.

Exposure to liquidity risk

The Bank's exposure to liquidity risk is summarised in the following tables, which show the contractual maturity of obligations to repay monies to other banks and customers.

£000	Carrying Amount	Next day	Less than 1 month	1 to 3 months	3 months to 1 year	Over 1 year
At 31 March 2014						
Balance sheet						
Deposits from banks	16	16	-	-	-	-
Deposits from customers	2,525,734	2,007,551	287,000	116,318	108,132	6,733
Repurchase agreements	25,000	-	-	-	25,000	-
Derivative liabilities	18,250	1	22	18	228	17,981
Other liabilities	22,625	-	1,373	21,252	-	-
Off balance sheet						
Undrawn customer facilities	306,349	306,349	-	-	-	-
Guarantees, Letters of Credit and Performance Bonds	29,428	29,428	-	-	-	-
Total liabilities	2,927,402	2,343,345	288,395	137,588	133,360	24,714
<i>£000</i>	<i>Carrying Amount</i>	<i>Next day</i>	<i>Less than 1 month</i>	<i>1 to 3 months</i>	<i>3 months to 1 year</i>	<i>Over 1 year</i>
<i>At 31 March 2013</i>						
<i>Balance sheet</i>						
<i>Deposits from banks</i>	<i>4</i>	<i>4</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>
<i>Deposits from customers</i>	<i>2,262,050</i>	<i>1,745,800</i>	<i>290,005</i>	<i>130,781</i>	<i>83,252</i>	<i>12,212</i>
<i>Derivative liabilities</i>	<i>18,941</i>	<i>6</i>	<i>15</i>	<i>100</i>	<i>240</i>	<i>18,580</i>
<i>Other liabilities</i>	<i>22,725</i>	<i>-</i>	<i>3,705</i>	<i>19,020</i>	<i>-</i>	<i>-</i>
<i>Off balance sheet</i>						
<i>Undrawn customer facilities</i>	<i>318,887</i>	<i>318,887</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>
<i>Guarantees, Letters of Credit and Performance Bonds</i>	<i>32,830</i>	<i>32,830</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>
Total liabilities	2,655,437	2,097,527	293,725	149,901	83,492	30,792

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36. Financial Risk Management (Continued)

Exposure to liquidity risk (continued)

The previous tables show the undiscounted cash flows on the Bank's financial liabilities and undrawn customer facilities on the basis of their earliest possible contractual maturity. The Bank's expected cash flows on these instruments vary significantly from this analysis. For example, demand deposits from customers are expected to maintain a stable or increasing balance; undrawn loan commitments are not all expected to be drawn down immediately nor are all guarantees, letters of credit or performance bonds likely to be called at once.

The Bank is required to maintain a portfolio of highly liquid assets in accordance with the PRA's Liquidity Regime that was introduced from 30 June 2010. These assets may include deposits with Central Banks or financial instruments issued by designated national governments or multi-lateral institutions. C. Hoare & Co. has been issued with an Individual Liquidity Guidance ("ILG") specifying the minimum level of liquid assets to be held. The Bank monitors its liquidity against this requirement daily and reports any breaches to the PRA.

The Bank is a party to the Bank of England reserve facility. This enables the Bank to move funds invested in Gilts and Treasury Bills and other qualifying assets into an on-demand deposit thereby increasing the level of liquidity.

(d) Market risk

Market risk is the risk that changes in market prices, such as interest rate, equity prices, foreign exchange rates and credit spreads will affect the Bank's income or its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on the residual risk taken.

Management of market risk

Interest rate risk arising from the mismatch between the Bank's lending and deposit rates is actively managed. The majority of the advances and deposits are priced off base rates and margins are closely monitored and evaluated. The sensitivity to interest rate changes in terms of interest cash flows and effects on fixed interest instruments is computed and reported to the ALCO.

Fixed rate loans are hedged with interest rate swaps of equal size and duration which protect the net interest margin against adverse changes in money market rates. The Bank accrues the net interest payment/receipt on interest rate swaps on a quarterly basis and adjusts the estimated fair value of the remaining cash flows accordingly.

Equity and other investment prices are monitored and the investment portfolio is revalued monthly and reported to the ALCO. The portfolio is managed in defined segments and decisions on profit taking or stop-loss are taken by the investment manager. As noted above, as part of an ongoing risk and capital management programme, the Bank's investment portfolio is being wound down under the direction of the ALCO.

Foreign currency balances are driven by customer demand and do not form a significant part of the balance sheet. Currency risk is managed by the Treasury Department lending surplus funds to other banks and/or taking forward foreign exchange agreements to cover expected future cash flows.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

36. Financial Risk Management (Continued)

Exposure to market risks: interest rate risk

A summary of the Bank's interest rate gap position based on the contractual obligation is shown below:

£000	Carrying Amount	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Over 5 years
At 31 March 2014						
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 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 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)
£000						
	<i>Carrying Amount</i>	<i>Up to 3 months</i>	<i>3 to 6 months</i>	<i>6 to 12 months</i>	<i>1 to 5 years</i>	<i>Over 5 years</i>
At 31 March 2013						
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 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	12,212	-
Total liabilities	2,262,054	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

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

36. Financial Risk Management (Continued)

Exposure to market risk: interest rate risk (continued)

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 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 re-fixing date as against the contractual maturity of the instruments. The ALCO oversees management of this risk.

The Bank monitors its exposure to Interest Rate Risk. Consistent with the financial regulator's requirements, the impact of a potential 2.00% change, both increase and decrease, in the yield curve against the Bank's interest bearing assets is computed back to a net present value. The value is calculated monthly and reported to the ALCO against a Board agreed tolerance level. The reported interest rate sensitivity on the year end balance sheet and fixed interest instrument holdings was as follows:

Effect of a change to 2.00% in Sterling Market Rates	31 March 2014	<i>31 March 2013</i>
	£000	<i>£000</i>
Net Present Value Sensitivity to:		
Positive shift	(1,422)	<i>(935)</i>
Negative shift	1,472	<i>975</i>

The interest rate sensitivities set out above 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 to mitigate the effect. The values remain low as the Treasury Department has taken a short term view on interest rates.

Exposure to market risk: currency risk

The table below shows the Bank's net currency exposures that give rise to the net currency gains and losses recognised in the Profit and Loss Account and the exposure to foreign currency risk. Such exposures comprise the monetary assets and liabilities of the Bank that are not denominated in Sterling.

Net currency exposure	2014	<i>2013</i>
	£000	<i>£000</i>
US dollar	178	<i>1,748</i>
Euro	67	<i>182</i>
Other	211	<i>181</i>
	<hr/>	<hr/>
Total	456	<i>2,111</i>
	<hr/>	<hr/>

The Bank's Treasury Department is responsible for managing currency risk within intra-day and overnight limits established by ALCO.

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

36. Financial Risk Management (Continued)

(e) Operational risk (unaudited)

Operational risks are the direct or indirect impact arising from people, inadequate or failed internal processes and systems or external events.

Operational risk management objectives

- To manage operational risk to an acceptable level that reduces the frequency and impact of operational losses in a cost effective way;
- To ensure significant operational risks are identified, measured, assessed, prioritised, managed and treated in a consistent and effective manner across the Bank;
- To ensure appropriate risk management methodologies are used across the business to support the operational risk management process;
- To ensure the Board, management and all staff are responsible and accountable for managing operational risk in line with the roles and responsibilities set out in the risk management framework;
- To ensure compliance with all relevant legislation, regulatory requirements, guidance and codes of practice;
- To ensure the Board and management receive timely, dependable assurance that the Bank is managing the significant operational risks to its business; and
- To ensure the Bank holds sufficient capital to support the operational risks it is exposed to.

The Operational Risk Management Policy provides the standards that are required for effective operational risk management and the following processes are used to implement these standards:

Risk and Control Self Assessment: business units proactively identify and assess significant risks, the controls in place to manage those risks and confirm the adequacy and effectiveness of controls they are responsible for.

Key Risk Indicators: business units establish appropriate limits, monitoring thresholds and escalation points upon which management can pro-actively monitor exposures and risks and enable the Board to undertake effective oversight.

Operational Risk Events: internal and external operational loss data is used to identify trends and lessons to be learned; assess the effectiveness of existing controls; monitor changes in the risk profile of the business; and identify the need for new or improved controls.

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36. Financial Risk Management (Continued)

(f) Fair values of financial assets and liabilities

Financial instruments include financial assets, financial liabilities and derivatives. The fair value of a financial instrument is the amount the instrument could be exchanged for in a current transaction between willing parties, other than in a forced or liquidation sale.

The fair values of financial instruments are based on market prices where available and for unlisted investment securities they are based upon the net asset valuations provided by the fund managers. For financial instruments which are short term or re-price frequently, their fair values approximate to the carrying value.

The following sets out the Bank's basis for establishing fair values for each category of financial instruments:

- Cash and balances at central banks: the fair value is their carrying value.
- Treasury bills and other eligible bills: the fair value is determined using market prices.
- Derivatives: the fair value is their carrying value. For interest rate swaps market valuations are used in determining the fair value. For forward exchange contracts, the fair value is estimated by discounting the contractual forward price and deducting the current spot rate.
- Loans and advances to banks: the fair value of floating rate placements and overnight deposits is their carrying value.
- Loans and advances to customers: the majority of loans are variable rate and re-price in response to changes in market rates and hence the fair value has been estimated as the carrying value. For fixed rate loans, the fair value is their amortised cost and this equates to their carrying value once an allowance for credit risk is included.
- Debt securities and equity shares: the fair values of listed investment securities are based upon quoted market prices where available. Unlisted investment securities are based upon net asset valuations provided by the Fund Managers.
- Available-for-sale financial assets: the fair values of listed investment securities are based upon quoted market prices where available. Unlisted investment securities are based upon net asset valuations provided by the fund managers.
- Deposits from banks and customers: the estimated fair value of deposits with no stated maturity, which includes non interest bearing deposits, is the amount repayable on demand.

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36. Financial Risk Management (Continued)

Valuation methods are categorised into one of three levels as detailed in the table below.

Group	2014	2014	2014	2014
Valuation Hierarchy	Level 1	Level 2	Level 3	Total
	£000	£000	£000	£000
Bank and building society certificates of deposit	457,229	-	-	457,229
Equity securities (unlisted)	-	-	1,217	1,217
Other variable yield securities	-	25,074	-	25,074
Debt securities with readily determinable fair values	475,906	-	-	475,906
Derivative financial assets	-	5,105	-	5,105
Total financial assets	933,135	30,179	1,217	964,531
Derivative financial liabilities	-	18,250	-	18,250
<i>Group</i>	<i>2013</i>	<i>2013</i>	<i>2013</i>	<i>2013</i>
<i>Valuation Hierarchy</i>	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
<i>Bank and building society certificates of deposit</i>	358,393	-	-	358,393
<i>Equity securities (unlisted)</i>	-	-	2,177	2,177
<i>Debt securities with readily determinable fair values</i>	341,700	-	-	341,700
<i>Derivative financial assets</i>	-	179	-	179
<i>Total financial assets</i>	<i>700,093</i>	<i>179</i>	<i>2,177</i>	<i>702,449</i>
<i>Derivative financial liabilities</i>	-	18,941	-	18,941

The table above includes available-for-sale financial assets as reported in Note 15 and derivative assets and liabilities as reported in Note 11.

The 2013 equity securities (unlisted) have been reclassified as level 3 assets. These assets make up the legacy investment portfolio of the Group. This continues to be in a wind down phase and there were a number of capital distributions in the financial year which reduced the cost of the investments. The wind down of the portfolio will continue for the foreseeable future. By the end of the year the aggregate value of the investment portfolio had fallen to £1,217,000 (2013: £2,176,000), mainly due to the liquidation of one investment and the capital distributions mentioned above.

(g) Capital management

The Bank's capital management for regulatory purposes is detailed in the Director's Report on pages 9 and 10.