C. Hoare & Co.
PRIVATE BANKERS SINCE 1672

Annual Report and Consolidated Financial Statements Year Ended 31 March 2020

Company Number: 240822

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CHAIRMAN'S FOREWORD

The Coronavirus pandemic is testing the resilience of all institutions, and C. Hoare & Co. is no exception. However, the bank has weathered worse crises in its 348-year history. It has survived and thrived when other banks have failed for excellent and enduring reasons: its focus on customer service; the strength of its conservative balance sheet; and its unique ownership structure.

The financial year ended as Britain entered the second week of lockdown. The bank has nonetheless been functioning to its usual high standard and the Board and I would like to offer sincere thanks to everyone who works there; their support for stakeholders has been exemplary throughout this challenging time, meeting the needs of regulators, colleagues and, most especially, customers.

Strong leadership at all levels ensured smooth and effective implementation of the business continuity plan. Colleagues, many of whom were dealing with personal difficulties caused by virus, rapidly designed and set in place new and safe processes to maintain customer service. I am also impressed by the way the bank has stepped up support for the wider community. Local charities and the NHS have benefited from the skills of staff who, in happier times, look after catering and entertainment for customers and staff.

Looking beyond the last few months and at the year as a whole, the bank has again delivered a solid performance. The balance sheet has expanded steadily. Customer deposits and the loan book both exceeded budget, growing significantly more than in previous years (deposits increased by 9.1% to £4.8bn, loans by 6.3% to £1.8bn). The composition of the balance sheet continues to reflect a tradition of prudence, with £1.2bn on deposit at the Bank of England at the end of the year. Capital reserves remain robust, with the common equity tier 1 capital ratio at 21.5% and total capital of £394m at the year end. Capital and liquidity positions are sound.

The bank delivered a good profit performance, showing profit before tax of £21.7m. While this figure shows a drop from last year's pre-tax profit of £32.5m, it includes almost £20m of negative one-offs relating, largely, to effects of the pandemic. Net-interest income increased by 4.0% in the course of the year; this reflects growth in the balance sheet and the benefit, for several months, of a higher Bank of England base rate than in the previous year. In alignment with our strategy, we continued to invest in people and technology; this drove a 10.0% increase in underlying costs which was nonetheless 3.0% under budget as a result of operational cost savings. The cost/income ratio deteriorated slightly from 67.6% last year to 70.0%. This figure, reflecting one-off costs and continued investments as outlined above, is expected to remain elevated in a period of extremely low interest rates.

The impairment charge on customer lending increased during the year. This can be ascribed, in large part, to the impact of the pandemic on a small number of accounts and reflects an uncertain property market in London and the South East. However, credit quality of customer lending remains good, with 5.0% of the portfolio considered impaired.

Despite the difficult external environment, our purpose as 'good bankers and good citizens' remains clear and our values guide and sustain us. A number of initiatives have been introduced with a view to greater stakeholder engagement. We have increased customer research and one-on-one meetings with customers; we have established a new department focused on strategic supplier management; and we have strengthened the way we develop our people. During the year we have also enhanced our Finance, Risk and Compliance teams, all of whom are instrumental in keeping the bank safe and maintaining good relationships with regulators. A newly formed, colleague-led action group with a mission "to ensure the banks' purpose is part of our DNA and plays a role in all of our decisions", has considered the bank's policies and processes in light of the UN's sustainable development goals. Four of these goals, 'Good Health and Well Being', 'Reduced Inequalities', 'Responsible Consumption and Production', and 'Climate Action' have been selected as areas of special focus.

The Board and management team have invested considerable energy throughout the year in a robust review of our business strategy; while significantly refreshed, this remains anchored in the delivery of exceptional customer service. C Hoare & Co. recognises that human interaction lies at the heart of good relationships. We also recognise that efficient technology and innovation are key to service excellence and we continue to implement new technologies and processes to improve customer experience. We are alert to risk in this new virtual environment and have redoubled efforts to protect the bank and our customers from ever-more sophisticated fraud attempts.

Susan Rice stepped down from the board at the end of 2019 to take up her new position as chair of the Banking Standards Board. I would like to thank Susan for her wise counsel and welcome Diana Brightmore-Armour, who joined the board in January.

I would also like to thank Francesca Shaw, who is stepping down as Chief Financial Officer this summer after five years' sterling service, and welcome Louise Denning as our new CFO.

CHAIRMAN'S FOREWORD (CONTINUED)

The entire bank community was saddened by the death, in March, of Richard 'Tigger' Hoare. Tigger made an extraordinary contribution to the bank over many decades and only stepped down from the partnership last year. I would like to pay special tribute to a brilliant banker and investor, a generous philanthropist, a great source of advice, and a good friend.

Finally, the Board and I would like to thank our loyal customers, who trust us to address their financial needs throughout challenging times. We will strive relentlessly to ensure their trust is well placed.

The Rt. Hon. Lord Macpherson of Earl's Court GCB

Chairman

STRATEGIC REPORT

The Directors present their Strategic Report on the C. Hoare & Co. and its subsidiaries ("the bank") for the year ended 31 March 2020.

1. Review of Business: Market environment

The political and economic uncertainty that we have experienced over the last few years continued to dominate for most of the year. The definitive results of the national election late in the year and the move into the transition period heralded in a new chapter for the UK withdrawal from the European Union but did little to lessen the economic uncertainty. Despite this pre-lockdown employment was at its highest rate ever at 76.6% with unemployment remaining close to record lows at 4.0%. Inflation stayed below the Bank of England's target of 2.0% consistently throughout the year and dropped to 1.5% as the impact of Coronavirus resulted in lower prices for fuel and clothes partially offset by rising food prices. Pre-Coronavirus GDP growth was modest, with 2019 total growth at 1.1%.

Global and national economies suffered the most severe shocks since the great depression of the 1930s as the world grappled to deal with the emergence of the coronavirus in January 2020. Countries around the globe reacted by virtually locking down their economies and social activity. The implications are not yet understood other than they will be far reaching across almost all sectors of the economies.

The real estate market will undoubtedly be impacted as transaction volumes have dropped to a small fraction of levels experienced in recent past and there is no clarity on how protracted the inactive market will be.

We are likely to face significant increases in unemployment and negative GDP. Base rates are unlikely to rise from current positions and inflation is anticipated to stay low.

Existing and new competitors are also adapting to the economic realities and the radically new ways of working, looking for opportunities to offer services and capture market share. Technology will continue to be a great enabler across the financial services sector but will be most powerful when coupled with innovation on business processes that enhance customer experiences while remaining secure and safe.

The bank's conservative business model and ability to adapt to change has served us well throughout these challenging times. We will continue to stay nimble while focused on maintaining our core values and ensuring we deliver exemplary service and an unrivalled customer experience.

2. How we do business - Statement of Directors' responsibility under S172 of the Companies Act

We conduct our business guided by our core values and our purpose of being Good Bankers and Good Citizens which we recognise can only be achieved by addressing the interests of all our key stakeholders including customers, colleagues, regulators, owners, suppliers and the wider community in which we operate.

As such, in line with S172 of the Companies Act, we give regard to the consequences of long term decisions; the interests of our colleagues; the need to foster relationships with suppliers, customers and others; the impact of our operations on the community and environment; the importance of maintaining a reputation for high standards of business conduct; and the need to act fairly amongst all stakeholders of the company.

Consequences of long term decisions –

Being a small company, decisions of any significance can be and are discussed at the Board. The strong financial position of the bank coupled with its ownership structure allows the Board to set and maintain a long term perspective in decisioning. The Board actively participates in the setting of culture and strategy both of which anchor the decisioning of the board and the management team.

Any shift in strategic direction or significant decision is discussed at the Board with the broader management team who represent and bring forward considerations of the key stakeholders. The cornerstone of the bank's strategy to deliver an unrivalled customer experience is dependent not only on colleagues being engaged and happy but also on delivering a consistently exceptional service to our customers in a manner aligned to our stated values of excellence, empathy, integrity and social responsibility.

This year the board members engaged in the strategic refresh, attending numerous workshops with the management team over the course of the year and have endorsed a balanced strategy. It focuses on delivering an unrivalled customer experience, marrying a highly personal touch with a strong supportive digital platform all within a low risk business model.

STRATEGIC REPORT (CONTINUED)

2. How we do business - Statement of Directors' responsibility under S172 of the Companies Act (Continued)

Consequences of long term decisions (Continued)

Other key decisions with long term implications included the change in how we charge customers from account based to a broader customer based approach which the bank believes is fairer across the entire customer base; the movement to a cloud-based technology platform to a cloud based; expansion of the business to new regional and socially responsible investing decisions.

Interest of our colleagues –

The success of our strategy is dependent on the engagement and happiness of our colleagues and as such it is a major area of focus for the Board. Regular reporting to the Board on colleague matters takes place covering survey results, whistleblower updates and importantly the comprehensive people strategy which is integrated with the overall strategy. The partners engage with colleagues every day in formal and informal settings allowing them to develop a deep understanding of colleague perspectives on matters of interest.

See the Directors report section 6 for more information on how we interact with our colleagues and understand their needs.

Fostering strong relationships with our stakeholders -

Success of the bank's purpose requires strong relationships with our stakeholders, which is achieved through ongoing, meaningful dialogue. The Board is presented with and discuss all relevant research and decisions relating to how we engage with key stakeholders both from a governance perspective in relation to the risk appetite of the bank and a strategic perspective. For more information on how we engage with our customers, suppliers and regulators and ensure their views are considered please see the Directors' report section 6.

Impact of our operations on the community and environment –

Social responsibility is one of our core values and embedded in the purpose of the company to be Good Bankers and Good Citizens. The purpose has been developed jointly by the partners and colleagues of the bank. The six partners, five of whom are Directors of the bank, work with colleagues across the organisation on a wide range of activities aimed at supporting the community in which we operate and protecting the environment. The board receives reports on the activities of the company and promotes discussion on socially responsible thinking in decisioning including such matters as investment strategies of the pension assets and relationships with customers involved in industries that are seen as potentially harmful to the social or environmental health. For more information on the activities of the bank that support our community and environment please see the Directors' report section 6.

Importance of maintaining a reputation for high standards of business conduct –

The bank's reputation relies on maintaining customer confidence and demonstrating daily that our values guide our behaviour. The bank reports to the Directors on all aspects of governance through the Audit, Risk & Compliance Committee and directly to the Board. Appropriate policies addressing adherence to the regulations that govern the bank are reviewed and approved by the board on a regular basis.

The need to act fairly amongst all stakeholders of the company -

The Board has ultimate responsibility to ensure the bank conducts its activities in a fair and appropriate manner with regard to all stakeholders. To this end the Board has an established term of reference that are reviewed annually. The whistleblower function is independent and reports directly to the board. A conflict of interest register is maintained by the Head of Compliance and matters of potential conflict are discussed with the Board when necessary. Additionally, the Board and governance framework is subject to regular audits by the Compliance department.

STRATEGIC REPORT (CONTINUED)

3. Review of Business: the bank

Our key focus is to continue to offer a personal banking service characterised by service and efficiency.

Profit before tax decreased to £21.7m, from £32.5m in 2019. Income increased to £124.0m *(2019: £123.5m)* driven by balance sheet growth and a higher average Bank of England base rate throughout the year. A focus on cost control, whilst continuing to invest, meant that costs increased to £86.8m *(2019: £83.5m)*. The cost income ratio increased to 70.0% *(2019: 67.6%)*. Credit quality in the loan book remained good however the impairment charge for the year was £15.4m, or 0.9% of the loan book.

Customer deposit balances increased 9.1% to £4,761.9m as at 31 March 2020.

Customer lending grew by 6.3% to £1,806.0m and equated to 37.9% of deposits at year-end. The growth in the loan book was in line with our expectations and was largely driven by our fixed rate and term facilities. We continue to see a good pipeline of new loans despite the general lockdown imposed in the last few weeks of the year.

The bank's money market book increased 8.5% to £3,304m, of which £2,199m were high quality liquid assets. 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 continue to put pressure on the money market book yield.

The net interest margin for the year was 2.08%, down 3bps from the previous year driven by a higher percentage of assets held at the Bank of England. Net interest income rose by 4.0% to £102.0m in part benefiting from the improved yields reflecting the Bank of England base rate rise prior to the onset of COVID-19 and driven by balance sheet growth.

Fee income was broadly stable at £10.6m *(2019: £10.3m, restated)* and primarily consisted of account maintenance fees, transactions fees and charges for lending and foreign currency transactions. Fee income as a proportion of total income marginally reduced to 8.5%.

The bank's defined benefit pension scheme increased its balance sheet surplus from £0.7m to £10.2m as at 31 March 2020 due primarily to changes in key financial assumptions which reflect the impact of COVID-19. Lower than expected inflation and increase in the discount rate due to widening of corporate bond spreads generated a large actuarial gain.

Total shareholders' funds increased by £22.3m (6.0%) during the year, this was primarily as a result of retained profits.

4. Principal Risks and Uncertainties

The Board has ultimate responsibility for identifying and managing the bank's principal risks in order to achieve its strategic objectives. The Audit, Risk & Compliance Committee provides oversight and monitors the effectiveness of internal controls and risk management processes and reports thereon to the Board. The following section sets out the principal risks and uncertainties to which the bank is exposed and how these risks are mitigated with:

(a) Credit Risk

Credit risk is the risk of financial loss arising from a borrower or a counterparty failing to meet its contractual financial obligations. The risk arises from loans and advances to customers and banks and from treasury investments.

Credit risk to customer lending is managed in accordance with Board approved lending policies and procedures aligned to the bank's risk appetite. There is also a maximum exposure limit which is linked to the bank's regulatory capital as defined by the regulator. The bank has controls and processes in place to regularly assess whether there is objective evidence that any loans or securities are impaired.

The credit risk framework was strengthened last year, and many new components have been added over the course of the last twelve months to enhance the bank's management through the credit risk life cycle. A credit risk rating methodology for personal loans was implemented as well as the establishment of the Credit Committee which meets regularly to assess specific loan proposals, management of problem loans, review and approve credit risk policies and procedures. Additionally, the credit risk expertise has been consolidated into one credit risk team within the second line of defence, bringing efficiency, consistency of approach, and greater independence in credit oversight and sanctioning."

STRATEGIC REPORT (CONTINUED)

4. Principal Risks and Uncertainties (Continued)

(a) Credit Risk (Continued)

Credit risk to money market lending is governed by Board approved counterparty policies which ensure that lending is only made with high quality counterparties with the levels of permitted exposures set in accordance with the strength of their respective credit ratings. In addition, there is a maximum exposure limit for all institutions, in line with the bank's regulatory reporting requirements on large exposures.

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.

The Asset and Liability Committee (ALCO) reviews the authorised list of bank counterparties at least annually and authorises any amendments to the approved list of counterparties and related credit limits. The committee will also give on-going consideration to changes in external credit ratings and amend counterparty limits as appropriate.

(b) Capital Risk

Capital risk is the risk of insufficient capital being available to support the strategic objectives of the bank. The bank's policy is to maintain a strong capital base in line with the capital risk appetite established by the Board. The bank's regulatory capital and leverage ratios are closely monitored to ensure that the bank meets both current and future known regulatory requirements. In addition, the bank's current and forecast capital positions are reported monthly to the ALCO, Management Team and the Board. The bank maintains an internal buffer over the minimum regulatory capital requirements.

The bank assesses the adequacy of its capital through the annual update and more frequently in the event of a material change in capital, of the Internal Capital Adequacy Assessment Process (ICAAP). The ICAAP is the bank's own assessment of its capital needs and is based on stress testing and scenario analysis of the impact of material risks affecting the bank. The ICAAP is presented at least annually to the ALCO, the Management Team, Audit, and Risk and Compliance Committee for review and challenge, and ultimately to the Board for review, challenge and approval.

The implications of the COVID-19 virus on the capital position of the bank has been considered by the ALCO, the Management Team and the Board regularly since the onset of the virus. Given the strong capital position, the quality of the bank's assets and the stability of the business the risk that the capital of the bank is significantly impacted is considered to be low.

(c) Liquidity and Funding Risk

Liquidity risk is the risk that the bank is unable to meet its liabilities when they come due or is unable to obtain funding other than by paying a premium. The risk arises from mismatches in the timing of cash flows.

Funding risk is the risk that the bank does not have sufficient funding available in the medium and longer term to enable it to fund its customer lending and other longer term and illiquid assets. The risk arises when the funding needed for illiquid asset positions cannot be obtained at the expected terms and when required. The bank does not use wholesale funding.

The bank measures and manages liquidity in accordance with the liquidity risk appetite set by the Board and maintains a conservative liquidity and funding profile to ensure that it is able to meet its financial obligations under normal and stressed conditions. Daily monitoring and control processes are in place to address internal and regulatory liquidity requirements.

The bank assesses the adequacy of its liquidity through the annual update and more frequently in the event of a material change in liquidity, of the Internal Liquidity Adequacy Assessment Process (ILAAP). The ILAAP is the bank's own assessment of its liquidity needs and is based on stress testing and scenario analysis of the impact of material risks affecting the bank. The ILAAP is presented at least annually to the ALCO, Audit, Risk and Compliance Committee and the Management Team for review and challenge, eventually leading to challenge and approval by the Board.

STRATEGIC REPORT (CONTINUED)

(c) Liquidity and Funding Risk

The implications of the COVID-19 virus on the liquidity of the bank has been considered by the ALCO, the Management Team and the Board regularly since the onset of the virus. Management have daily meetings to review market movements, customer behaviour and economic, political and social trends. Given the significant levels of high quality liquid assets, the trends observed and the stability of the bank's balance sheet since the emergence of the virus the risk that the liquidity of the bank is significantly impacted is considered to be low.

(d) Market Risk

Market risk is the risk that changes in market prices, such as interest rates, equity prices, foreign exchange rates and credit spreads will affect the bank's future cash flows or the fair value of 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.

Market risk only arises materially in the banking book, since the bank does not operate a significant trading book (consistent with the articles of the Capital Requirements Regulation). Therefore, the bank's main market risks arise from:

- **Interest Rate Risk:** Only a small component of the banking book is recorded at fair value and all fixed rate financial instruments are hedged such that the main exposure to market risk is interest rate risk, both gap and basis risk.

  Interest (basis) rate risk could arise from the mismatch between the bank's lending and deposit rates and is actively managed. The ALCO has set limits to manage basis risk. Advances and deposits which are priced off base rate with margins are closely monitored and evaluated. The sensitivity to interest rate changes in terms of interest cash flows and their effect on fixed interest instruments are computed and reported monthly to the ALCO.

  Interest (gap) rate risk is managed by the bank's Treasury department principally through monitoring interest rate gaps between assets and liabilities based upon the next interest rate re-fixing dates as against the contractual maturity dates of the instruments. The bank uses interest rate swaps to hedge exposures to interest rate risk, as part of its risk management process. The ALCO approves the use of specified derivative instruments within agreed limits and business activities.

- **Foreign currency Risk:** Foreign currency balances are driven by the requirements of the bank's customers and do not form a significant part of the balance sheet. 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 foreign currency deposits from customers. Assets are in respect of foreign currency loans and advances to customers, balances with other banks and some foreign currency denominated investments.

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

  The bank uses derivatives to manage fluctuations in foreign exchange risk. It uses currency swaps if the asset is denominated in a foreign currency, and forward foreign exchange contracts to hedge foreign exchange exposures. As part of its responsibilities, the ALCO approves the use of specified derivative instruments within agreed limits and business activities.

(e) Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes and systems, human error or from external events, including legal risk. This definition excludes strategic risk and reputation risk which are captured elsewhere within the bank's risk framework.

The bank recognises that operational risk is inherent in all its products, activities, processes and systems. The Board has approved an operational risk policy to ensure operational risks are adequately identified, monitored and controlled and any losses resulting from inadequate or failed internal processes, human error and systems or from external events are minimised in line with the Bank's risk appetite.

STRATEGIC REPORT (CONTINUED)

4. Principal Risks and Uncertainties (Continued)

(e) Operational Risk (Continued)

Each department is responsible for operating within the bank's risk appetite and owns the management of the individual risks directly linked to its business operations. This includes identifying, mitigating (where appropriate), monitoring and reporting risks and ensuring that activities are undertaken within the policy requirements. The Risk Department is responsible for establishing risk policies, facilitating the implementation of effective risk management practices by the business, providing oversight over the over the risk management process and supporting risk reporting (please see the Three Lines of Defence in the Directors' report)

The key elements of the Operational Risk Framework consist of:

- Risk and Control Self-Assessments (RCSAs)
- Key Risks and Emerging Risks
- Key Risk Indicators (KRIs)
- Operational Risk Events and External Loss Data
- Operational Risk Scenario Analysis (for ICAAP)

Business units are responsible for the ongoing application of the operational risk management processes and policies.

(f) Foreign Currency Risk

Foreign currency balances are driven by the requirements of the bank's customers and do not form a significant part of the balance sheet. 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 foreign currency deposits from customers. Assets are in respect of foreign currency loans and advances to customers, balances with other banks and some foreign currency denominated investments.

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 monthly on a currency by currency basis to the ALCO.

The bank uses derivatives to manage fluctuations in foreign exchange risk. It uses currency swaps if the asset is denominated in a foreign currency, and forward foreign exchange contracts to hedge foreign exchange exposures. As part of its responsibilities, the ALCO approves the use of specified derivative instruments within agreed limits and business activities.

(g) Strategic Risk

There is a risk that the bank fails to achieve its strategic goals due to inappropriate strategic decisions or lack of responsiveness to changing customer needs, technology trends or competition which could impact the bank's profitability. The bank manages this risk by conducting regular strategic reviews supported with customer and external research which inform the refresh of the five-year financial view which is approved annually by the board. The board also closely monitors performance relative to strategy.

(h) Conduct risk

Achieving positive conduct outcomes and meeting "Treating Customers Fairly Principles" for customers is paramount to the bank. To support the management of this risk, the bank has established a robust set of systems and controls, including regular training for staff.

(i) 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. Reputational Risk is called out specifically in the bank's Risk Taxonomy. 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 also considered when any risk is assessed.

STRATEGIC REPORT (CONTINUED)

4. Principal Risks and Uncertainties (Continued)

(j) Climate risk

The bank has developed a plan to address the regulatory expectations and has assigned the Senior Management Responsibility for Climate Change to the Head of Compliance and Risk. Some of the bank's planned activities include the following :

- Identifying, assessing, monitoring and managing the risks relating to Climate Change. This will include a consideration of how climate change could impact the bank's credit risks, market risks and operational risks.
- Conducting Climate Change scenario analysis for the bank's ICAAP and ILAAP.
- Formalising the reporting of Climate Change to the bank's management committees.
- Monitoring and taking action to reduce the bank's own carbon footprint (see the bank's Streamlined Energy & Carbon Reporting), see section 7 of the Directors report.
- The bank will continue monitoring the outputs and developments on Climate Change in order to inform its thinking and actions.

Detailed disclosures on credit risk, liquidity risk, interest rate risk, foreign exchange risk and the use of derivatives are set out in Notes 12 and 30 in accordance with FRS 102 'Financial Instruments: Disclosures'. The bank's capital management is detailed in the Directors' Report on pages 14 and 15.

A fuller description of the bank's principal risks can be found in the bank's unaudited Pillar 3 disclosures and are available on the bank's website: www.hoaresbank.co.uk.

By Order of the Board 21 May 2020

Katie White (May 26, 2020 12:05 GMT+1)

Ms K. White
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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 2020.

The financial statements were approved by the Board on 21 May 2020.

1. Principal Activities

C. Hoare & Co. is an unlimited company with share capital, incorporated and domiciled in the United Kingdom and has its registered office and principal place of business at 37 Fleet Street, London, EC4P 4DQ. The bank's principal activity, together with its subsidiaries, is the provision of banking and ancillary services to a predominantly high net worth customer base.

2. Results and Dividends

The financial results for the year are set out in the Statement of Comprehensive Income on page 29.

Total comprehensive income for the year of £22.3m *(2019: £18.9m)* will be used to strengthen reserves and support future growth.

The Board recommends an ordinary share dividend for the year of £50 per share *(2019: £50)*, resulting in a total of £6,000 payable on 28 May 2020.

3. Risk Management and Governance Structure

The bank and Group's business is stable and concentrates on the supply of banking and ancillary 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.

The bank's approach to risk management is to maintain a balance between risk and potential reward that achieves its strategic objectives without exposing the bank to unacceptably high residual risks. The principal risks affecting the bank are explained in the Strategic Report on pages 3 to 9.

The bank's Risk Management Framework (RMF) comprises the risk governance structures, risk appetite and policies and procedures to achieve the bank's risk management objectives as follows:

i. Articulate and communicate the Board's risk appetite and ensure the bank's risk profile operates within the defined parameters;
ii. Integrate and consolidate all components of risk information to provide a comprehensive view of the bank's risk exposure to the Board and its Committees to evaluate risk adjusted performance against strategic objectives;
iii. Embed a risk culture; and
iv. Ensure significant risks are identified, measured, mitigated, monitored and reported in a consistent and effective manner across the bank.

A fuller description of the bank's risk management and governance structure can be found in the bank's Pillar 3 disclosures. These disclosures, which are unaudited, are available on the bank's website: www.hoaresbank.co.uk.

The RMF, which is reviewed and approved at least annually by the Board, is based on the principles and guidance prescribed by the Committee of Sponsoring Organisations (COSO)

DIRECTORS' REPORT (CONTINUED)

3.1 Risk Appetite Framework

The Risk Appetite Framework (RAF), which is approved by the Board on at least an annual basis defines the level of risk that the bank is willing to accept overall and for each risk category in pursuit of its strategic objectives. The RAF also defines the levels of capital and liquidity the bank should hold in view of its risks.

Board Strategic Objective: The Hoare Family's vision is to "perpetuate a profitable family business". With this in mind, the bank's strategic objective is to build profitable long-term relationships with its customers and to offer an exceptional and personalised service.

Board Approved Risk Appetite Statement: In order to meet the bank's strategic objective, the bank is willing to take risks if they are consistent with the bank's values and if they do not threaten the bank's reputation or its sustainability.

The RAF sets out the bank's Risk Appetite Statement (RAS) along with risk appetite metrics and thresholds. These risk appetite metrics are integrated into decision making, monitoring and reporting processes, with early warning triggers set to provide opportunities to implement management actions before the overall limits are reached.

3.2 Governance Structure

The Board of Directors ("the Board"), its committees and sub-committees together with the three lines of defence model form the bank's risk management governance structure.

The primary structures for the current year are shown below:

Table 1: Governance Structure

Board of Directors		
Remuneration & Nominations Committee	Audit, Risk & Compliance Committee	
Management Team		
Assets & Liabilities Committee	Product Governance Committee	Credit Committee
Operational Risk Committee	Legal & Regulatory Committee	Reputation Management Committee

Board of Directors

The Board is the key governance body and is responsible for the overall strategy, business performance and risk management of the bank. The Board has established the following committees to provide support in discharging its responsibilities:

- Audit, Risk & Compliance Committee (ARCCo)
- Management Team and
- Remuneration & Nominations Committee (RemCo)

The Board sets the bank's risk appetite and reviews the effectiveness of the systems and controls to manage risks against the risk appetite on an annual basis.

DIRECTORS' REPORT (CONTINUED)

3. Risk Management and Governance Structure (Continued)

3.2 Governance Structure (Continued)

Remuneration & Nominations Committee (RemCo)

The Remuneration & Nominations Committee has two main purposes. The first, in consultation with the partners, is to oversee the appointment of new Directors to the Board and members of the Management Team. This includes succession planning, with the aim of achieving an appropriate balance of skills and experience; ensuring that there is a formal, transparent and rigorous process for selection; and overseeing the balance of partners/Directors and Non-Executive Directors. The second is to set the principles, parameters and governance of the remuneration policy across the bank and to consider and approve the remuneration of the partners, Management Team and Identified Staff.

Audit, Risk & Compliance Committee (ARCCo)

The key responsibilities of the Committee are to assist the Board in its oversight of:

- The Risk Management Framework, including recovery and resolution
- Capital, liquidity and funding planning and strategy
- Overall Control environment (and advise the RemCo of this in relation to the annual bonus awards)
- Financial reporting
- Internal audit
- External audit
- Whistleblowing
- Compliance, data protection and information security

Management Team

The Board has delegated the day-to-day responsibility for running the bank to the Chief Executive Officer (CEO) who is supported by the Management Team. The Management Team recommends and delivers against the bank's strategy in an effective and controlled manner by providing for the general executive management of the business and facilitating cross-functional communication and liaison. The respective Management Team members are responsible to the CEO and Board for managing performance in line with the long-term plan, strategy, budget and risk appetite.

The Management Team comprises:

- Chief Executive Officer
- Head of Private Banking
- Chief Financial Officer
- Head of Human Resources and Business Services
- Head of Treasury
- Head of Compliance and Risk
- Chief Technology and Operations Officer
- Chief Customer Officer
- Head of Internal Audit
- General Counsel and Company Secretary

The Management Team has established the following sub-committees to support its activities, descriptions of which follow. All decisions of these sub-committees are potentially subject to Management Team review.

- Asset & Liability Committee (ALCO)
- Product Governance Committee (PGC)
- Credit Committee (CC)
- Operational Risk Committee (ORC)
- Legal & Regulatory Committee (LRG)
- Reputation Management Committee

Asset and Liability Committee (ALCO)

The purpose of the Asset and Liability Committee is to oversee the bank's balance sheet, including free capital. It is also responsible for allocating funds within the balance sheet to manage liquidity, currency risk, capital adequacy and profitability.

DIRECTORS' REPORT (CONTINUED)

3. Risk Management and Governance Structure (Continued)

3.2 Governance Structure (Continued)

Product Governance Committee (PGC)

The purpose of the Product Governance Committee is to provide oversight and leadership on the bank's product and service propositions in line with the bank's strategy and core customer needs.

Credit Committee (CC)

The purpose of the Credit Committee is to oversee the bank's approach to customer credit risk. It reviews and approves the credit risk appetite and the lending parameters, oversees the overall lending portfolio and sanctions individual deals within Delegated Authority limits, including any actions being taken on problem lending.

Operational Risk Committee (ORC)

The purpose of the Operational Risk Committee is to oversee the bank's operating risks and controls. It is responsible for monitoring the internal and external operational risk environments and tracking the testing of, and improvements to, controls.

Legal & Regulatory Committee (LRG)

The purpose of the Legal and Regulatory Committee is to oversee the legal and regulatory obligations of the bank. It is responsible for analysing new legal and regulatory developments impacting the bank, overseeing impact assessment of such developments and ensuring appropriate ownership is allocated. It also operates as a forum for identification and escalation of legal or regulatory issues and the monitoring of related mitigation actions.

Reputation Management Committee

The purpose of the Reputation Management Committee is to give consideration to circumstances in which the bank's reputation could be damaged, either through its own activities or through connection to other parties, such as customers or suppliers. It reviews and approves appropriate courses of action to mitigate reputational risks.

Three Lines of Defence Model

A Three Lines of Defence model has been adopted by the bank to embed the Risk Management Framework.

First Line of Defence (1LoD) – People responsible for day-to-day risk management and control

Each department is responsible for operating within the bank's risk appetite and owns the management of the individual risks directly linked to its business operations. This includes identifying, mitigating (where appropriate), monitoring and reporting risks.

Second Line of Defence (2LoD) – Risk oversight, policies and methodology

The 2LoD is responsible for establishing risk policies, facilitating the implementation of effective risk management practices by 1LoD, providing oversight over the 1LoD and assisting the 1LoD in reporting adequate risk related information through the bank's risk governance structure.

Third Line of Defence (3LoD) – Internal Audit

The Internal Audit function is responsible for providing independent assurance on the design and operating effectiveness of the Risk Management Framework, including providing assurance on the bank's internal control framework. Internal Audit is also responsible for validating the Risk Appetite Statement and the bank's adherence to the risk appetite statement approved by the Board.

DIRECTORS' REPORT (CONTINUED)

4. Capital Management

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.

The Board is ultimately responsible for capital management. The Board, the Management Team and the ALCO receive regular reports on the current and forecast level of capital.

The bank measures the amount of capital it holds using the regulatory framework defined by the Capital Requirements Directive and Regulation (CRD IV) which took effect from 1 January 2014 and was implemented in the UK by the Prudential Regulation Authority (PRA).

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

- Common Equity Tier 1 capital is the highest form of regulatory capital under CRD IV, which includes the share capital; reserve fund; audited retained profits and losses from previous years; property and heritage asset 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 Common Equity Tier 1 capital.

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 is subject to capital requirements as defined under Pillar 1 (minimum capital requirements) supplemented by additional minimum requirements under Pillar 2A, the aggregate of which is referred to as the Total Capital Requirement (TCR). Further to this, the bank is subject to CRD IV capital buffers. The capital conservation buffer is a standard buffer of 2.5% of risk weighted assets designed to provide for losses in the event of a severe but plausible stress and has been phased in since 2016 at the rate of 0.625% each year to reach its final level of 2.5% at 1 January 2020.

The countercyclical capital buffer is designed to require banks to hold additional capital to capture system wide cyclical risk. The amount of the buffer is determined by reference to buffer rates set by The Financial Policy Committee, whereby it was announced on the 11 March 2020, a reduction to the UK's CCyB to 0.0% for a period of at least 12 months.

DIRECTORS' REPORT (CONTINUED)

4. Capital Management (Continued)

The minimum capital requirement is determined as 8.0% of total risk weighted assets. The additional minimum requirements are set by the PRA through the issuance of bank specific Individual Capital Requirement (ICR), following the ICAAP, as part of the supervisory review. The bank assesses the adequacy of its capital through the annual update and more frequently in the event of a material change in capital, of the ICAAP. The ICAAP is the bank's own assessment of its capital needs and is based on stress testing and scenario analysis of the impact of material risks affecting the bank. The ICAAP is presented at least annually to the ALCO, the Management Team and ARCCo for review and challenge, eventually leading to review, challenge and approval by the Board. The bank has put in place processes and controls to monitor and manage capital adequacy and throughout the year, the bank's regulatory capital remained in excess of the minimum requirements determined by the ICR and CRD IV buffers.

The bank continues to monitor developments and to incorporate the impact of forthcoming regulatory changes to the capital forecasts to ensure the bank is able to maintain a strong capital base that exceeds the minimum regulatory requirements.

The bank's regulatory capital, risk weighted assets and capital ratios at 31 March were as follows:

For year ended 31 March		
Group	**2020**	*2019*
	£000	*£000*
Common Equity Tier 1 capital		
Ordinary share capital	**120**	*120*
Reserve fund	**22,598**	*22,598*
Profit and loss account	**333,472**	*307,931*
Property revaluation reserve	**29,950**	*33,167*
Heritage assets revaluation reserve	**7,581**	*7,573*
Net defined benefit obligation	**(8,482)**	*(579)*
Total Common Equity Tier 1 capital and Total Tier 1 capital	**385,239**	*370,810*
Tier 2 capital		
Collective Impairment Allowance	**4,160**	*3,137*
Total Tier 2 capital	**4,160**	*3,137*
Total regulatory capital	**389,399**	*373,947*
Risk weighted assets (unaudited)	**1,789,450**	*1,653,911*
Capital ratios (unaudited)		
Total regulatory capital expressed as a percentage of risk weighted assets	**21.76%**	*22.61%*
Common Equity Tier 1 capital expressed as percentage of risk weighted assets	**21.53%**	*22.42%*

The bank's total regulatory capital ratio decreased year on year from 22.61% to 21.76%, while the Common Equity Tier 1 ratio decreased from 22.42% to 21.53%. The capital ratios remain above the regulatory requirements. The increase in total regulatory capital during the year was due to retained profits.

The bank's total capital requirement, being the aggregate of Pillar 1 and Pillar 2A requirements, as at 31 March 2020 was 11.84*% (2019: 11.92%).*

Full details of the bank's regulatory capital framework are disclosed in the bank's Pillar 3 disclosures which are unaudited and are available on the bank's website: www.hoaresbank.co.uk.

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 A. S. Hoare
Miss V. E. Hoare
Mr S. M. Hoare
Miss A. S. Hoare
Mr A. R. Q. Hoare
The Rt. Hon. Lord Macpherson of Earl's Court GCB (Chairman)
Mr S. Cooper (Chief Executive Officer)
Mr A. J. McIntyre
Ms J. E. M.Waterous
Dame Susan Rice (resigned 01 January 2020)
Ms D. S. Brightmore-Armour (Non-Executive Director) (appointed 02 January 2020)

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. How we engage with our stakeholders

To achieve our purpose of being Good Bankers and Good Citizens we need to build strong relationships with our stakeholders. The success of the bank is dependent on engaged stakeholders who trust that the bank shares their values and has their best interests at the heart of all its activities. We continually strive to enhance these relationships and deepen our understanding of stakeholder needs through regular and meaningful dialogues.

Customers – *our customers feel like equal partners and cherish the bank because we do everything humanly possible to solve their needs*.

The bank knows its customers well and offers exceptional personal service; relationships of deep trust are founded on shared values of honesty, empathy, excellence and social responsibility. Every customer has a meeting with a partner on joining the bank This coupled with the regular interactions customers have with dedicated relationship managers allow us to offer consistent solutions tailored to customers' individual needs, while our small size and programme of social events fosters a sense of community spanning diverse groups and generations. Interactions also include surveys, councils, focus groups and customer complaint handling.

This year we:

- involved customers in our strategy refresh
- conducted customer satisfaction research
- held digital dinners to gain an understanding of customers' priorities
- held numerous social events providing customers with informal venues to share their views
- increased the number of relationship manager face to face meetings with customers by 38%.
- responded to customer complaints with personalised letters
- reached out to customers through multiple channels during the coronavirus lockdown to ensure they were well cared for and new financial needs were met promptly

What we heard from our customers

- Over 80% of surveyed customers spontaneously referred to our exceptional personal service, dedicated relationship managers and the ability to meet customers' expectations through our high standards.
- A strong belief of shared values plays a significant role in customers' relationship with the bank
- NPS and satisfaction scores of +71 and +70 respectively
- Customers scored us 9 out of 10 on problem resolution
- Feedback from focus groups has informed much of our digital enhancements agenda
- Service standards, consistency of relationship managers, digital services are all areas customers signalled for continuous attention and enhancements
- Appreciation for the intense human connection provided during the pandemic lockdown

DIRECTORS' REPORT (CONTINUED)

6. How we engage with our stakeholders (Continued)

Colleagues – *the engagement and happiness of our colleagues is critical to business success.*

A great purpose and a great culture where all can succeed is at the core of our colleague strategy which is discussed with the board regularly. Colleagues are encouraged to share their views with the Management Team, owners and board through a number of interactive venues including regular colleague surveys, a colleague led forum, townhalls, extensive communications, focus groups and workshops.

During the year we:

- Conducted an innovative annual survey capturing engagement and happiness of colleagues
- Held regular Colleague Representative meetings, townhalls and weekly debriefs
- Conducted focus groups on culture that fed into our refreshed culture statements and strategy
- Introduced extensive informal communications to support colleagues throughout the pandemic lockdown
- Developed leadership forums
- Established an innovative team challenge bringing together colleagues from diverse areas of the bank to solve enterprise problems.
- Established the colleague led Good Bankers and Good Citizens working group. See Community section below for more information.

What we heard from our colleagues

- Results of the annual survey demonstrate that a significant majority of colleagues feel that the bank has a thriving culture.
- Colleagues endorsed the values and culture of the bank.
- Areas identified by colleagues for focus continue to be improving interdepartmental communications and process reengineering to enable colleagues to be more efficient

The bank had 416 colleagues on a full-time equivalent basis as at 31 March 2020 (2019: 411). 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. Colleagues who become disabled during their working life will be retained in employment wherever possible and given help with rehabilitation and training.

Regulators – *we aim to foster and maintain an open and transparent working relationship with all regulators*.

The bank is authorised by the Prudential Regulation Authority and regulated by the Prudential Regulation Authority and the Financial Conduct Authority. Additionally, the bank engages with the Information Commissioner's Office and HMRC. Our engagement with regulators ensures we serve our stakeholders' best interest and provides us with important oversight on how we manage the various elements of our business model effectively. Our approach is to conduct our business, including our tax affairs, in a transparent manner, complying with all the relevant legislation and submitting payments and reporting on a timely basis.

Owners – *the owners of the bank remain engaged in the business and interact with colleagues and customers on a daily basis.*

The shareholders, or "partners", of the bank consist of six Hoare family members, all descendants of the bank's founder and each with unlimited liability. Five of the partners are directors of the Board. The partners are fully involved in all aspects of the business and engage with customers and colleagues on a daily basis. Their deep understanding of the needs of private banking customers, developed over eleven generations, ensures the continuation of the bank's long-held culture, values and purpose.

DIRECTORS' REPORT (CONTINUED)

6. How we engage with our stakeholders (Continued)

Suppliers – *The bank engages in outsourcing where there are strategic, financial or operational benefits to be achieved.*

It is recognised that outsourcing introduces risk that must be effectively mitigated and monitored. This is achieved by way of establishing and monitoring adherence with policies that address risks throughout the supply chain such as modern slavery, anti-bribery and corruption, data protection and information security, tax evasion and procedures to ensure any threats to the operational resilience of the company are understood and managed. The success of these controls largely depends on building and maintaining good relationships with key suppliers. During the year we:

- Established a dedicated strategic sourcing and supplier management department
- Established relationship owners for and engaged with all critical suppliers on a regular basis
- Initiated weekly business continuity interactions with critical suppliers to manage through the challenges of the pandemic

These regular interactions with key suppliers give us confidence in the robustness and integrity of our critical supply chain.

Community – *We do our best to look after our community and the world around us*

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. The following are just a few of the ways the bank has encouraged and worked with colleagues, customers and the community to make a positive difference:

Good bankers and Good citizens – We established a colleague led, and partner supported forum to energise and focus colleagues on broad community issues. The group selected four of the UN Sustainable Development Goals to be the focus of our efforts: Good Health and Well-being, Reduced Inequalities, Responsible Consumption and Production, and Climate Action.

Give as you earn – We encouraged colleagues to participate in Give-As-You-Earn by double-matching their donations and 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.

Charitable donations - The bank's charitable trust, The Golden Bottle Trust, whose objective is the continuation of the philanthropic commitments and ideals of the Hoare family distributed £2.9m during the year *(2019: £3.8m*) to support a variety of local and global initiatives. *Master Charitable Trust (MCT)* – We provide our like-minded customers with an efficient and convenient way to join forces and have positive impact in the global communities. The bank offers MCT for philanthropic customers who wish to make charitable donations; this continued to attract new monies during the year and now has approximately £120.8m *(2019: £106.4m)* in funds set aside for charitable purposes.

DIRECTORS' REPORT (CONTINUED)

7. Environmental Policy Statement

Climate change remains an important issue for us and future generations. We are committed to running the bank with minimum adverse impact on the environment, for example by an ongoing effort to continue to reduce the bank's carbon footprint. As a responsible business, we aim to make better use of resources, including managing our energy, waste, and water more efficiently and effectively.

During the year we engaged in numerous activities to minimise our carbon footprint including:

Plant Efficiency Upgrades – We continued with on-going projects to replace old, energy inefficient and life-expired plant, machinery and equipment. Most notably a chiller project was undertaken which replaced two 25+ year old chillers with a significantly improved energy efficient one.

Fleet Upgrades & Reduction – We moved the fleet of cars over to electric/hybrid cars and reduced from 3 to 2 vehicles.

Green Energy - Green energy tariffs were used for all purchased electricity, with 100% sourced from renewable energy.

Enhanced Building Management - Enhanced building management controls that can change the settings on the HVAC (Heating Ventilation Air Conditioning) equipment to limit running time and save energy were introduced. Enhanced Energy Monitoring Smart meters were also installed with access to an energy portal that allows for real time data tracking.

Lighting Upgrades -A programme of moving over to LED lights to replace the halogen bulbs, and installation of motion detector sensors was initiated.

Behaviour Change Programme – A climate change committee has been established by volunteer members of staff to assist the facilities department and champion energy reduction and awareness in the bank.

Catering – A procurement and sustainability policy was created to ensure we only use suppliers who actively share the same principles as us and request that the goods and services we receive are procured from a responsibly sourced and sustainable supply chain.

In accordance with the Streamlined Energy Carbon Reporting (SECR) requirements we have calculated our carbon footprint for the year ended 31 March 2020 as follows:

Scope	Emissions Source	Energy Use (kWh)	Emissions ($kgCO_2e$)	Emissions (tCO_2e)	Intensity Ratio (tCO_2e / £mil)
Scope 1 (Direct)	Fuel use by owned and leased vehicles travel (fleet)	2,226	527	0.53	0.0043
	Natural gas consumed in offices	592,426	108,918	108.92	0.8800
	Gas Oil consumed by boilers and back-up generators	64,648	16,599	16.6	0.1300
Scope 2 (Indirect)	Electricity consumed in offices	1,491,426	19,190.06	19.19	0.1500
	Electricity consumed by owned / leased vehicles travel (fleet)	674	172	0.17	0.0014
	TOTAL	**2,151,400**	**145,406**	**145.41**	**1.1657**

DIRECTORS' REPORT (CONTINUED)

7. Environmental Policy Statement (Continued)

The following methodology has been applied to calculate the required energy and carbon data for SECR.

- Energy consumption data for gas and other fuels used at the properties has been gathered in the form of supplier invoices and/or half hourly data, where available.
- Electricity energy data has been gathered in the form of supplier invoices, meter reads and/or half hourly data, where available.
- Fuel and/or mileage data has been provided for each vehicle owned/leased by C Hoare & Co.
- The total energy data associated with each data source has been collated to calculate the total energy usage.
- This has been converted to GHG emissions by applying the appropriate 2019 UK Government GHG Conversion Factors for Company Reporting, in line with the GHG Protocol Corporate Standard methodology.
- The selected metric for the emissions intensity ratio is income. Carbon emissions have been reported for each category per £124.0m total income for the reporting period.

The bank continues to explore further opportunities for carbon reduction and is using this financial year's data as the baseline for further objectives and target setting over the next 5 years; we are committed to being net carbon neutral by 2025.

8. 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.

9. Statement of Directors' Responsibilities

The Directors are responsible for preparing the Strategic Report, Directors' 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, comprising Financial Reporting Standard 102 "The Financial Reporting Standard Applicable in the UK and Republic of Ireland (FRS 102)", 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
- state whether applicable United Kingdom Accounting Standards comprising FRS 102 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
- make judgements and accounting estimates that are reasonable and prudent

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.

DIRECTORS' REPORT (CONTINUED)

9. Statement of Directors' Responsibilities (Continued)

The Directors have given due consideration to the implications of the COVID-19 virus on the sustainability of the Company and have concluded that the going concern assumption is appropriate for the following reasons:

- the Company has a strong financial position with high levels of capital and liquidity,
- stress testing has indicated that even in extreme but plausible circumstances the Company will continue to be profitable,
- to date of signing there have been no indications of further deterioration in the customer loan book
- a very small number of customer requests for contingency lending facilities or adjustment of payment terms relating to COVID-19 have been received, assessed and granted
- to date of signing customer lending has continued to grow and deposits have remained stable

By Order of the Board 21 May 2020

Katie White (May 26, 2020 12:05 GMT+1)

Ms K. White
Company Secretary
C. Hoare & Co.
37 Fleet Street
London
EC4P 4DQ
Registration number: 240822
katie.white@hoaresbank.co.uk

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

Report on the audit of the financial statements

Opinion

In our opinion, C. Hoare & Co.'s group financial statements and company financial statements (the "financial statements"):

- give a true and fair view of the state of the group's and of the company's affairs as at 31 March 2020 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 (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Consolidated Financial Statements (the "Annual Report"), which comprise: the consolidated and company balance sheet as at 31 March 2020; the consolidated statement of comprehensive income, the consolidated and company statements of changes in equity, and the consolidated cash flow statement for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit Committee.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs) and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the company.

We have provided no non-audit services to the group or the company in the period from 1 April 2019 to 31 March 2020

Our audit approach

Overview

Materiality

- Overall group materiality: £1.8mil (2019: £1.6mil), based on 5% of three year adjusted average profit before tax.
- Overall company materiality: £1.8mil (2019: £1.6mil), based on 5% of three year adjusted average profit before tax.

Audit scope

- We scoped our audit to gain sufficient audit assurance over all material financial statement line items.
- The group and Company operate solely in the UK and the Company is the only significant component of the group.

Key audit matters

- Valuation of provisions for impairment of credit balances (Group and Company).
- Impact of COVID-19 (Group and Company)

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

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

Capability of the audit in detecting irregularities, including fraud

Based on our understanding of the group and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of banking regulations such as, but not limited to, the relevant rules of the Prudential Regulatory Authority as the Bank's lead regulator, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the preparation of the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls) and determined that the principal risks were related to posting inappropriate journal entries to increase revenue or reduce expenditure, and management bias in accounting estimates. Audit procedures performed included:

- Reading key correspondence with regulatory authorities;
- Discussions with management including consideration of known or suspected instances of non-compliance with laws and regulations and fraud;
- Challenging assumptions and judgements made by management in their significant accounting estimates, in particular in relation to impairment of loans and advances to customers (see related key audit matter below);
- Identifying and testing journal entries, in particular any journal entries considered higher risk, for example those posted by senior management or those with unusual descriptions or time of posting.

There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

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

Key audit matters (Continued)

<table>
<tr><th>Key audit matter</th><th>How our audit addressed the key audit matter</th></tr>
<tr><td>

Valuation of provisions for impairment of credit balances (Group and Company)

The Group and Company have loans and advances to customers of £1,806m which is net of a provision for impairment of £26.8m. Further details are set out in notes 13 and 30, and the accounting policies are set out in note 1.

There is a risk that loans and advances made to customers are not recoverable and/or the judgements made in determining the impairment provision are inappropriate or incorrectly applied. This risk is partially mitigated by the nature of the lending, in particular given the majority of lending is secured, with the value of the collateral typically in excess of the amount of the customer exposure.

We focussed on this area because the Directors make subjective judgments over both the timing of recognition and the size of impairment provisions, and individual exposures are in excess of audit materiality. In addition, recent COVID-19 developments increase uncertainty including when valuing collateral given reduced market liquidity.

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We evaluated the design and tested the operating effectiveness of relevant controls including:

- The approval of the granting of loan facilities to customers;
- The registration of collateral;
- IT controls over the systems used to record customer lending and repayments, including restricted access and change management controls.

We determined that we could rely on these controls for the purposes of our audit.

We tested all material loans and advances to customers identified as impaired by management and formed our own judgement as to whether the provisions recorded on these exposures were appropriate. This included assessing:

- Relevant evidence about the customer's ability to repay;
- The appropriateness of collateral valuation estimates in light of COVID-19 and the low level of market liquidity;
- External projections of future movements in property price and how these compared to the estimated collateral realisations assumed in the impairment provisions, and
- The time period assumed before collateral can be realised.

We also assessed the completeness of the credit impairment provision, including by:

- Testing a sample of customer accounts identified as 'non-performing' but for which no impairment was recorded, including by obtaining evidence to support how the collateral held is in excess of the exposure after applying a haircut to current valuations, and
- Assessing whether the collective provision was appropriate in light of historic experience, the nature of the loan book and the collateral held against most exposures.

In our view, the overall impairment provision held is within a reasonable range of outcomes.

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

Key audit matters (Continued)

Key audit matter	How our audit addressed the key audit matter
Impact of COVID-19 (Group and Company) The COVID-19 pandemic will have a significant impact on all businesses, with uncertainty over the future spread of the disease, the extent and impact of government measures and the economic outlook in the UK. The Directors have considered the impact of COVID-19 when preparing the financial statements with the main impacts being on collateral valuations, the level of impairment provisions and related disclosures, and the going concern status of the group and company. Further details are set out in notes 13, 14 and 30, and the accounting policies are set out in note 1. We considered this area a key audit matter given the pervasive nature of the risk and the level of uncertainty at the date of signing the financial statements. The impact on impairment provisions is considered in the key audit matter above.	Our testing in this area included: ● We obtained management's going concern assessment, which included specific consideration of the impacts of COVID-19; ● We read correspondence with regulators and met with the Bank's lead regulator, the Prudential Regulation Authority; ● We assessed the capital adequacy of the Group and Company, considering the level of headroom above minimum capital requirements, the potential impact of COVID-19 on future profitability, and the mitigating actions that could be taken by the Directors; ● We assessed the liquidity position of the Group and Company, considering the historic experience of depositor behaviour, the liquid assets held and the mitigating actions that could be taken by the Directors; ● When performing these tests, we tested the impact of applying a severe but plausible stress including in relation to future profitability, deposit outflows and collateral values, and ● We considered the adequacy of disclosures made in the financial statements. Based on our testing we consider that the impacts of COVID-19 have been reflected in the financial statements.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the group and the company, the accounting processes and controls, and the industry in which they operate.

The group has subsidiary entities on which we perform audit testing to statutory materiality levels, but as over 97% of group profit before tax arises in the Company, for group audit scoping purposes we consider the Company to be the only significant component. We performed audit work for all financial statement line items in the Company with balances above our materiality level.

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

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Bank financial statements
Overall materiality	£1.8m *(2019: £1.6m)*	£1.8m *(2019: £1.6m)*
How we determined it	5% of adjusted 3 year average profit before tax.	5% of adjusted 3 year average profit before tax
Rational for benchmark applied	Profit before tax is the primary measure used by the shareholders in assessing the performance of the Group and Company. Current year profitability has been impacted by increased impairment provisions and we consider that using an average of profit over the last three years excluding one-off items results in an appropriate materiality level given the size of the Group and Company.	

We agreed with the Audit Committee that we would report to them misstatements identified during our Group and Company audits above £88k (2019: £79k) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's and company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's and company's ability to continue as a going concern.

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

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 March 2020 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the group and company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities set out on pages 20 and 21, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

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

Use of this report

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.

Other required reporting

Companies Act 2006 exception reporting

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 company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the company financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the Audit Committee, we were appointed by the directors on 19 December 2011 to audit the financial statements for the year ended 31 March 2012 and subsequent financial periods. The period of total uninterrupted engagement is 9 years, covering the years ended 31 March 2012 to 31 March 2020.

Luke Hanson

Luke Hanson (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
27 May 2020

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 March 2020

	Note	**Group 2020 £000**	*Group 2019 £000 Restated* *
Interest receivable		**113,495**	*106,800* *
Interest payable		**(11,492)**	*(8,705)*
Net interest income	3	**102,003**	*98,095*
Dividend income		**14**	*19*
Other finance income	4	**20**	*268*
Fees and commissions receivable		**12,991**	*11,605* *
Fees and commissions payable		**(2,421)**	*(1,284)*
Net fees and commissions income		**10,570**	*10,321*
Dealing profits	5	**10,890**	*12,878*
Other operating income	6	**477**	*1,925*
Total income		**123,974**	*123,506*
Operating expenses			
Administrative expenses:			
Administrative expenses excluding depreciation	7	**(78,033)**	*(76,529)*
Depreciation		**(8,795)**	*(7,018)*
Total operating expenses		**(86,828)**	*(83,547)*
Impairment charge on loans and advances	14	**(15,434)**	*(7,544)*
Impairment recovery on debt securities		**-**	*58*
Profit before taxation		**21,712**	*32,473*
Tax on profit	9	**(4,053)**	*(6,713)*
Profit for the financial year		**17,659**	*25,760*
Other comprehensive income/(expense):			
Remeasurement of retirement benefit obligations gain/(loss)	4	**9,502**	*(9,867)*
Deferred tax arising on pension scheme (income)/expense	9	**(1,614)**	*1,677*
Revaluation of property and heritage assets (losses)/gains	27	**(3,866)**	*1,648*
Deferred tax arising on valuation gains/losses	9	**657**	*(280)*
Other comprehensive income/(expense) for the year, net of tax		**4,679**	*(6,822)*
Total comprehensive income for the year		**22,338**	*18,938*
Total comprehensive income distribution:			
Distributable profits		**23,363**	*17,963*
Undistributable (loss)/profit	6	**(1,025)**	*975*
		22,338	*18,938*

*For full details of restatement, refer to note 1(z).

The Notes on pages 34 to 80 form an integral part of these Financial Statements.

CONSOLIDATED AND COMPANY BALANCE SHEETS

As at 31 March 2020

		Group		Company	
		As at 31 March		As at 31 March	
		2020	*2019*	**2020**	*2019*
	Note	**£000**	*£000*	**£000**	*£000*
Assets					
Cash and balances at central banks		**1,161,138**	*1,525,359*	**1,161,138**	*1,525,359*
Items in course of collection from banks		**12**	*1,074*	**12**	*1,074*
Derivative financial instruments	12	**31**	*2,105*	**31**	*2,105*
Financial assets	13	**3,956,424**	*3,228,242*	**3,956,314**	*3,228,141*
Shares in group undertakings	15	**-**	*-*	**1**	*1*
Property and equipment	16	**82,849**	*83,668*	**82,849**	*83,668*
Heritage assets	17	**9,473**	*9,438*	**9,473**	*9,438*
Deferred tax asset	18	**1,016**	*856*	**1,016**	*856*
Other assets	19	**3,591**	*343*	**3,760**	*321*
Prepayments and accrued income	20	**9,121**	*11,425*	**9,098**	*11,247*
Post retirement benefit asset	4	**8,482**	*579*	**8,482**	*579*
Total assets		**5,232,137**	*4,863,089*	**5,232,174**	*4,862,789*
Liabilities					
Deposits by banks	21	**466**	*60*	**466**	*60*
Customer accounts	22	**4,761,856**	*4,366,767*	**4,761,856**	*4,366,767*
Deposits to subsidiary companies		**-**	*-*	**11,298**	*10,616*
Derivative financial instruments	12	**37,128**	*80,184*	**37,128**	*80,184*
Deferred tax liability	18	**8,629**	*9,425*	**8,629**	*9,425*
Other liabilities	23	**845**	*2,990*	**691**	*2,644*
Accruals and deferred income	24	**24,946**	*28,904*	**24,946**	*28,904*
Provision for other liabilities	25	**4,546**	*3,370*	**4,546**	*3,370*
Total liabilities		**4,838,416**	*4,491,700*	**4,849,560**	*4,501,970*
Called up share capital	26	**120**	*120*	**120**	*120*
Reserve fund		**22,598**	*22,598*	**21,148**	*21,148*
Revaluation reserves	27	**37,531**	*40,740*	**37,531**	*40,740*
Current year net income		**25,541**	*17,564*	**25,004**	*17,081*
Changes in retained earnings		**-**	*3,750*	**-**	*3,750*
Retained earnings brought forward		**307,931**	*286,617*	**298,811**	*277,980*
Total equity		**393,721**	*371,389*	**382,614**	*360,819*
Total liabilities and equity		**5,232,137**	*4,863,089*	**5,232,174**	*4,862,789*
Memorandum items:					
Contingent liabilities	28	**27,013**	*20,276*	**27,013**	*20,276*
Commitments	28	**357,861**	*367,228*	**357,861**	*367,228*

The Financial Statements on pages 29 to 80 were approved by the Board of Directors on 21 May 2020 and signed on its behalf by:

Alexander S. Hoare

Mr A. S. Hoare
Director
26 May 2020
alexander@hoaresbank.co.uk

Venetia E Hoare
Venetia E Hoare (May 26, 2020 12:54 GMT+1)

Miss V.E. Hoare
Director
26 May 2020
venetia@hoaresbank.co.uk

The Notes on pages 34 to 80 form an integral part of these Financial Statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2020	Note	Called Up Share Capital £000	Reserve Fund £000	Revaluation Reserves £000	Retained Earnings £000	Total Equity £000
Balance as at 1 April 2018		**120**	**22,598**	**43,122**	**286,617**	**352,457**
Profit for the financial year		-	-	-	25,760	25,760
Other comprehensive (expense)/income for the year						
Remeasurement of retirement benefit obligations		-	-	-	(9,867)	(9,867)
Deferred tax arising on pension scheme		-	-	-	1,677	1,677
Reclassify property to investment property	27	-	-	(3,750)	3,750	-
Revaluation of property and heritage assets	27	-	-	1,648	-	1,648
Deferred tax arising on valuation gains	27	-	-	(280)	-	(280)
Total comprehensive income for the year		-	-	(2,382)	21,320	18,938
Dividends		-	-	-	(6)	(6)
Balance as at 31 March 2019		**120**	**22,598**	**40,740**	**307,931**	**371,389**
Profit for the financial year		-	-	-	17,659	17,659
Other comprehensive income/(expense) for the year						
Remeasurement of retirement benefit obligations		-	-	-	9,502	9,502
Deferred tax arising on pension scheme		-	-	-	(1,614)	(1,614)
Valuation loss of property and heritage assets	27	-	-	(3,866)	-	(3,866)
Deferred tax arising on valuation losses	27	-	-	657	-	657
Total comprehensive income for the year		-	-	(3,209)	25,547	22,338
Dividends		-	-	-	(6)	(6)
Balance as at 31 March 2020		**120**	**22,598**	**37,531**	**333,472**	**393,721**

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.

The Notes on pages 34 to 80 form an integral part of these Financial Statements.

COMPANY STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2020	Note	Called Up Share Capital £000	Reserve Fund £000	Revaluation Reserves £000	Retained Earnings £000	Total Equity £000
Balance as at 1 April 2018		**120**	**21,148**	**43,122**	**277,980**	**342,370**
Profit for the financial year		-	-	-	25,277	25,277
Other comprehensive (expense)/income for the year						
Remeasurements of retirement benefit obligations		-	-	-	(9,867)	(9,867)
Deferred tax arising on pension scheme		-	-	-	1,677	1,677
Reclassify property to investment property	27	-	-	(3,750)	3,750	-
Revaluation of property and heritage assets	27	-	-	1,648	-	1,648
Deferred tax arising on valuation gains	27	-	-	(280)	-	(280)
Total comprehensive income for the year		-	-	(2,382)	20,837	18,455
Dividends		-	-	-	(6)	(6)
Balance as at 31 March 2019		**120**	**21,148**	**40,740**	**298,811**	**360,819**
Profit for the financial year		-	-	-	17,122	17,122
Other comprehensive income/(expense) for the year						
Remeasurements of retirement benefit obligations		-	-	-	9,502	9,502
Deferred tax arising on pension scheme		-	-	-	(1,614)	(1,614)
Valuation loss of property and heritage assets	27	-	-	(3,866)	-	(3,866)
Deferred tax arising on valuation losses	27	-	-	657	-	657
Total comprehensive income for the year		-	-	(3,209)	25,010	21,801
Dividends		-	-	-	(6)	(6)
Balance as at 31 March 2020		**120**	**21,148**	**37,531**	**323,815**	**382,614**

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.

The Notes on pages 34 to 80 form an integral part of these Financial Statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 March 2020			
Group	**Note**	**2020**	*2019*
		£000	*£000*
Net cash from operating activities	29	**154,741**	*465,462*
Taxation paid		**(7,851)**	*(7,243)*
Net cash generated from operating activities		**146,890**	**458,219**
Cash flow from investing activities			
Purchase of investment securities		**(2,318,017)**	*(2,292,637)*
Sale and maturity of investment securities		**1,815,052**	*2,194,962*
Purchase of tangible fixed assets		**(12,902)**	*(9,451)*
Proceeds from disposals of tangible assets		**2**	-
Net cash used in investing activities		**(515,865)**	**(107,126)**
Cash flow from financing activities			
Dividend paid		**(6)**	*(6)*
Net cash used in financing activities		**(6)**	*(6)*
Net (decrease)/increase in cash and cash equivalents		**(368,981)**	*351,087*
Cash and cash equivalents at the beginning of the year		**1,597,127**	*1,246,040*
Cash and cash equivalents at the end of the year		**1,228,146**	*1,597,127*
Cash and cash equivalents consists of:			
Cash at bank and in hand		**1,161,138**	*1,525,359*
Short term deposits		**67,008**	*71,768*
Cash and cash equivalents		**1,228,146**	*1,597,127*

The Notes on pages 34 to 80 form an integral part of these Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020

1. Summary of significant accounting policies

The principal accounting polices applied in the preparation of these consolidated financial statements are set out below. These 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 and derivative contracts. The financial statements have been prepared under the provisions of Part XV of the Companies Act 2006 relating to Banking Groups, SI 2008/410, and in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, "The Financial Reporting Standards applicable in the United Kingdom and the Republic of Ireland" (FRS 102). The 2020 figures represent continuing operations unless otherwise disclosed.

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group and Company accounting policies. Any areas involving, a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 2.

The bank has taken the exemption under Section 408 of the Companies Act 2006 from presenting its unconsolidated profit and loss account. For balance sheet notes where the Company is not presented separately, references to the Group should also be read as applying to the Company.

The bank has elected to present all items of income and expense recognised in the period using the single-statement approach in accordance with FRS 102, Section 5 'Statement of Comprehensive Income and Income Statement'.

Compliance with FRS 102, Section 16 'Investment Property' requires a departure from the requirements of the Companies Act 2006 relating to depreciation and an explanation of this departure is given in (s) below.

(b) Going concern

The going concern of the Company and the Group is dependent on funding their respective balance sheets and maintaining adequate levels of capital. The Directors have undertaken an assessment of the Company and the Group's going concern status, with consideration of current and projected financial performance, including capital and funding projections of the Group and having regard to the Group's principal risks and uncertainties as set out in the Strategic report. The Directors have given due consideration to the implications of the COVID-19 virus on the sustainability of the Company and the Group and have concluded that the Group has adequate resources to continue in operational existence for the foreseeable future and therefore it is appropriate to continue to adopt the going concern basis in preparing its financial statements for the following reasons:

- the Company has a strong financial position with high levels of capital and liquidity,
- stress testing has indicated that even in extreme but plausible circumstances the Company will continue to be profitable,
- to date of signing there have been no indications of further deterioration in the customer loan book
- a very small number of customer requests for contingency lending facilities or adjustment of payment terms relating to COVID-19 have been received, assessed and granted
- to date of signing customer lending has continued to grow and deposits have remained stable

(c) 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 as 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020 (CONTINUED)

1. Summary of significant accounting policies (Continued)

(d) 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 the 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 is determined. Foreign exchange gains or losses on translation are included in the profit and loss account.

(e) 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 Statement of Comprehensive Income include:

- Interest on financial assets and liabilities at amortised cost on an effective rate basis
- Interest on financial assets that are measured at fair value through profit or loss
- Arrangement fees amortised using an effective interest rate basis

(f) Fees and commissions

Income from fees and commission is recognised when the services are performed. Expenses relating to fees and commissions are expensed when the services are received.

The bank uses historic data to determine the expected average life of its on demand portfolio, this analysis is performed on an annual basis and for the year ended 31 March 2020 it has been determined to be 3 years.

(g) Dealing profits

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.

These positions are used to provide liquidity and to manage the bank’s liabilities and form part of the banking book. The bank’s policy is not to operate any significant trading (i.e. non-banking) positions.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020 (CONTINUED)

1. Summary of significant accounting policies (Continued)

(h) Retirement benefit obligations

The Company operates a defined benefit pension scheme for certain employees providing a pension benefit that an employee will receive on retirement, dependent upon several factors including age, length of service and final 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 fair values in accordance with the FRS 102 fair value hierarchy.

The liability recognised in the balance sheet in respect of the defined benefit scheme is the present value of the defined benefit obligation less the fair value of the scheme assets at the reporting date.

The defined benefit obligation is calculated using the projected unit credit method. The present value is determined by discounting the estimated future payments using market yields on high quality corporate bonds that are denominated in sterling and that have terms approximating the estimated period of the future payments ('the discount rate'). Annually the Group engages a qualified independent actuary to calculate the obligation with actuarial assumptions as best estimates.

Remeasurements of the defined benefit pension scheme comprise actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions, the return on assets and the effect of the asset ceiling (if any). The Company recognises remeasurements immediately in other comprehensive income. The Company determines the net interest expense/(income) on the net defined benefit liability/(asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the year to the net defined benefit liability/(asset). The net interest expense/(income) is charged to/ (credited) to finance costs/(income).

In accordance with FRS 102, the surplus on the defined benefit pension scheme is recognised on the balance sheet to the extent that it is recoverable over the lifetime of the Scheme.

The Company also operates a defined contribution pension scheme, where the bank pays fixed contributions into a separate entity; there is no legal or constructive obligation to pay further contributions. The contributions are recognised as an expense when they are due. The assets of the scheme are held separately from the Group in independently administered funds.

(i) Taxation

Taxation expense included in the Consolidated Statement of Comprehensive Income comprises current and deferred tax recognised in the reporting period. Tax is recognised in the Consolidated Statement of Comprehensive Income except to the extent that it relates to items recognised in equity, in which case it is recognised in other comprehensive income.

i) Current tax

Current tax is the amount of income tax payable in respect of the taxable profit for the year or prior years. Tax is calculated on the basis of tax rates and laws that have been enacted or substantively enacted at the balance sheet date.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020 (CONTINUED)

1. Summary of significant accounting policies (Continued)

(i) Taxation (Continued)

ii) Deferred tax

Deferred tax arises from timing differences which are generated from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in financial statements.

Deferred tax is provided in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that will result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date.

Deferred tax assets are recognised where it is probable that future taxable profits will be available against which the temporary differences can be utilised and are reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax related to revaluation on properties, revaluation of heritage assets, retirement obligations and other amounts charged or credited directly to other comprehensive income is recognised in the balance sheet as a deferred tax asset or liability.

(j) Dividends payable

In accordance with Section 32 'Events after the end of the reporting period', of FRS102, dividends payable is recognised within 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

On initial recognition, financial assets and liabilities are classified into either basic or other financial instruments. The Company enters into both basic financial instrument, such as cash, loans and receivables and complex financial instruments, such as equity securities and derivatives.

Basic financial instruments, as defined in FRS 102 Section 11, will initially be recognised at the transaction price (including transaction costs). Subsequent measurement will be at the amortised cost of the financial instrument using the effective interest rate method.

Other financial instruments (complex financial instruments) as defined in FRS 102 section 12 will initially be recognised at fair value (including transaction costs). Subsequent measurement will be at the fair value of the financial instruments recognising changes in fair value as profit or loss.

(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 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 expired.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020 (CONTINUED)

1. Summary of significant accounting policies (Continued)

(m) Financial assets and liabilities (continued)

(iii) Offsetting

Financial assets and liabilities are offset and the net amounts presented in the financial statements where there is a legally enforceable to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

(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 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.

The bank has applied the disclosure requirements of FRS 102, Section 11 in respect of financial instruments for the fair value hierarchy disclosures.

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 prices (unadjusted) in active markets for identical instruments.
- 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 not based on observable market data (unobservable inputs).

These disclosures are included in Note 30 to the financial statements and are in line with Section 34 of FRS 102.

(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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020 (CONTINUED)

1. Summary of significant accounting policies (Continued)

(m) Financial assets and liabilities (continued)

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 financial assets held at fair value are recognised by transferring the difference between the amortised acquisition cost and the current fair value of the financial assets to profit and loss account. When a subsequent event causes the amount of impairment loss on a financial asset to decrease, the impairment loss is reversed through the profit and loss account.

However, any subsequent recovery in the fair value of an impaired 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 financial assets at amortised cost. 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.

(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 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 102 Section 12 other financial instruments issues, 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 fair value 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 102 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 in the profit and loss account.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020 (CONTINUED)

1. Summary of significant accounting policies (Continued)

(o) Derivative financial instruments (continued)

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 monthly 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.

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.

The bank has early adopted the amendment to FRS102 – Interest rate benchmark reform, which allows entities to apply specific hedge accounting requirements assuming that the interest rate benchmark relevant to the hedge accounting is not altered as a result of the interest rate benchmark reform. The bank's transition from IBOR benchmark rates commenced during the year with all new Treasury transactions after December 2019 being SONIA based. Legacy hedges are expected to convert to SONIA based instruments using International Swap and Derivatives Association (ISDA) protocols and as such no market transactions will be required to affect the transition. All IBOR based customer lending will be transitioned to central bank benchmark linked products by September 2021.

(p) Property, equipment and depreciation

Land, buildings are held at fair value based on the latest professional market valuation.

Subsequent changes in the fair value of properties are recognised in other comprehensive income net of deferred tax.

Property valuation reviews are performed with sufficient regularity and granularity to ensure that the recorded fair value reflects or does not appear materially different from the current market value at the end of the reporting period.

These consist of annual internal reviews, full external valuations every 5 years and interim external valuations in year 3. Updates in the intervening years are made if the Directors consider there to have been a material change in market value.

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.

The bank's policy states that the individual equipment classification, thresholds and their respective economic life are as follows. Costs incurred below the thresholds are expensed to the profit and loss since they are not considered material:

- IT general software £50,000 per system and over will be depreciated for four years
- IT infrastructure software will be depreciated for eight years
- IT hardware £1,000 per unit and over will be depreciated for three years
- Furniture & office equipment £1,000 per unit and over will be depreciated for four years
- Plant and machinery £5,000 per unit and over will be depreciated for ten years
- Motor vehicles will be depreciated for four years

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020 (CONTINUED)

1. Summary of significant accounting policies (Continued)

(p) Property, equipment and depreciation (continued)

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.

(q) Operating leased assets

Leases that do not transfer all the risks and rewards of ownership are classified as operating leases. Payments under operating leases are charged to the profit and loss account on a straight-line basis over the period of the lease.

(r) Investment property

Investment properties are held at fair value based on the latest professional market valuation.

Changes in the fair value of investment properties are recognised in profit and loss, and whilst these are included in retained earnings, these are treated as non distributable profits.

Property valuation reviews are performed with sufficient regularity and granularity to ensure that the recorded fair value reflects or does not appear materially different from the market value at the end of the reporting period.

These consist of annual internal reviews, full external valuations every 5 years and interim external valuations in year 3. Updates in the intervening years are made if the Directors consider there to have been a material change in market value.

In accordance with FRS 102 Section 16 'Investment Property', 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 valuer. Had the provisions of the Act been followed, net assets would not have been affected but profits would have been reduced for this and earlier years and revaluation surpluses/deficits would have correspondingly increased/decreased.

Investment properties are properties that are held to earn rental income, usually through leases to third parties, and for capital appreciation. Investment properties are held at fair value based on the latest professional market valuation. Rental income is recorded in other operating income on an accrual's basis.

(s) Project costs

Project costs are capitalised only when they can be directly attributed to bringing an asset into use. Such costs may include the costs of staff directly employed on a project or brought in to backfill permanent members of C. Hoare & Co. staff seconded to work on a project. Administration costs, other general overhead costs or employee costs not related to the specific asset are excluded. The bank ceases to capitalise such costs when substantially all of the activities necessary to bring the asset into use have been completed, even if the asset has not actually been brought into use.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020 (CONTINUED)

1. Summary of significant accounting policies (Continued)

(t) Heritage assets

The bank has a collection of artefacts largely comprising of paintings, an extensive coin collection and the bank's own ledgers and are regarded as heritage assets. These are recorded as heritage assets due to their historical importance and held for the purposes of its contribution to the knowledge and culture of the bank's history.

Heritage assets are reported at the fair value as at the balance sheet date. Individual items in the collection are periodically revalued by an external valuer with any surplus or deficit being reported in Other Comprehensive Income net of deferred tax. The artefacts are deemed to have indeterminate lives and high residual values; hence the Directors do not consider it appropriate to charge depreciation. At each balance sheet date, the bank undertakes a review to assess if there is any indication of potential impairment resulting from damage to the items.

Acquisitions are made by purchase or donation. Purchases are initially recorded at cost and donated assets are recorded at fair 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.

(u) 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.

(v) 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.

(w) Contingent liabilities and commitments

The bank will issue letters of credit, performance bonds and other transaction related contingencies and other guarantees as part of its normal business. It also provides formal standby facilities, credit lines, subscription monies and other commitments to lend which will remain undrawn or uncalled at year end.

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.

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.

Where the bank undertakes to make payment on behalf of its customers for guarantees issued, for which an obligation to make payment has not arisen at the reporting date, those are included in these financial statements as contingent liabilities.

Commitments are where the bank has confirmed its intention to provide funds to a customer or on behalf of a customer in the form of loans, overdrafts, future guarantees, whether cancellable or not and the bank has not made payment at the balance sheet date. These are included in these financial statements as commitments. See disclosures at Note 28

(x) 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020 (CONTINUED)

1. Summary of significant accounting policies (Continued)

(y) Recognition and movement of provisions

Provisions are recognised where the bank has a present legal or constructive obligation as a result of past events; it is probable that a future outflow of economic resources will be required to settle the obligation; and the amount of the obligation can be estimated reliably. The corresponding expense relating to the provision is recognised directly in the profit and loss account. Movements in the provision due to a re-estimation of the obligation are also recognised directly in the profit and loss account.

(z) Prior year restatement

- The prior year has been restated following the application of using the effective interest rate method on financial instruments recorded at amortised cost. Arrangement fees, that are amortised using the effective interest rate method, have been reclassified from fees and commissions receivable to interest receivable in the consolidated statement of comprehensive income

The impact of the reclassification on the financial statements has no impact on the comprehensive income.

The table below illustrates the impact of the reclassification in the prior year.

Summary of prior year adjustment	
	2019
Group	*£000*
Statement of Comprehensive Income	
Increase in interest receivable *(Note: 3)*	*3,060*
Reduction in fees and commissions receivable	*(3,060)*

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020 (CONTINUED)

2. Critical accounting judgements and estimation uncertainty

The preparation of the financial statements requires management to make judgements, estimates and assumptions in applying the accounting policies that affect the reported amounts of assets, liabilities, income and expenses. Due to the inherent uncertainty in making estimates, actual results reported in future periods may be based upon amounts which differ from those estimates. Estimates, judgements and assumptions are reviewed periodically and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) Critical judgements in applying the Group’s accounting policies

The following areas are highlighted as they involve a higher degree of uncertainty and could have a material impact on the financial statements. Management consider them to be critical judgements in applying the group’s accounting policies.

(i) Loan impairment provisions

The determination of loan impairment provisions is inherently judgemental and relies on management’s assessment of a variety of inputs. The bank has a significant loan portfolio to customers and the impact of these provisions can be material in preparing the financial statements. Judgements made are regarding the most likely future outcomes based on an assessment, made jointly by knowledgeable colleagues in the risk department and the respective relationship team, of the macro environment and data specific to the customer’s ability and willingness to repay the loan.

For individual loan impairment provisions there is a high level of judgement and reliance on relationship managers in ensuring the timely identification of subjective indicators of impairment. The subjectivity is augmented by the observation of objective triggers relating to the ongoing performance of the loan which are now being monitored regularly by an independent team. In determining whether impairment is likely, judgement is applied to assess whether certain objective evidence such as late payments, cash flow or income deterioration, likelihood and timing of planned capital transactions being successfully executed, indicate that the customer may not be able to meet his/her contractual obligations.

In assessing the collective loan 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.

Judgement decisions on loan impairments, other than insignificant balances, are reviewed by the Credit Committee.

(ii) Provisions

Judgement is involved in determining whether a present obligation exists in relation to specific transactions or activities in which the company has been engaged. This judgement is informed by a detailed assessment of the specific circumstances surrounding the particular activity or transaction in question supported where possible with external information relating to similar situations and in certain cases external expert opinions.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020 (CONTINUED)

2. Critical accounting judgements and estimation uncertainty (Continued)

(b) Key accounting estimates and assumptions

Management makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below:

(i) Impairment of Loans (note 1 (m) (vi), note 13 and note 30 (b))

The bank regularly assesses whether there is objective evidence that any loans or securities are impaired. When it has been determined that an impairment could occur the estimation is made of what level of impairment is likely and what amount of provision would be needed. The levels of specific provisions are determined giving consideration to the implications of the macro environment and include estimations on property values and the time to liquidate collateral should that become necessary. As such property values on impaired loans have been set at conservative levels because of the lack of liquidity and market data available at the date of the balance sheet. An additional 10% reduction in property values could result in a modest increase in provisions of up to £10m.

The collective impairment allowance is also subject to estimation uncertainty, as it is calculated using the bank's historical experience, the use of management overlays and the emergence period applied in calculating the provision. Given all but a de minimus amount of the non-impaired customer portfolio is secured with real property at conservative loan to value levels it is not expected that an economic downturn nor a 10% reduction in property values would generate additional collective provisions.

(ii) Defined benefit pension scheme (note 1 (h) and note 4)

The liabilities of the defined benefit pension scheme are measured as the present value of the estimated benefit cash flows to be paid by the scheme. The present value of the liabilities involves judgements about uncertain events including the life expectancy of the members, price inflation and discount rate used to calculate the net present value of the future pension payments. Estimates are applied for these uncertain events and our assumptions reflect historical experience, external independent advice from a qualified actuary in deriving the actuarial assumptions at the balance sheet date. On 9 July 2018 the Trustee completed the purchase of a "buy-in" bulk annuity policy covering existing pensioners and dependant members at that time, greatly reducing the overall pension risk uncertainty to the Company. Details of the pension are outlined in Note 4.

(iii) Provisions (note 1 (y) and note 25)

Provisions are liabilities of uncertain timing or amount and are recognised where there is an obligation to recognise a present legal or constructive obligation as a result of past events and can be measured reliably using assumptions which may reflect historical experience and current trends. Any difference between the final outcome and amounts provided will affect the reported results in the period when the matter is resolved.

Where disclosure of any such items may seriously prejudice the position of the bank, the Directors take advantage of prejudicial disclosures; paragraph 21.17 of FRS 102.

(iv) Land, Buildings and Investment Properties (note 1 (p) and note 1 (r))

The bank's land, buildings and investment properties were valued as at 31 March 2019 by AGL, Chartered Surveyors. As at 31 March 2020, AGL updated the valuations based on latest indices available. Based on this updated valuation, a revaluation loss of 10% of the 31 March 2019 valuations has been recognised to reflect the material uncertainty in the market and lack of independent evidence available since the lockdown. A further 5% decrease in value of the land, buildings and investment properties could result in a revaluation loss of £2,650,000The Royal Albert Hall Box (included within land and buildings) was last valued as at 31 March 2019 by Harrods Estates Luxury Property Agents.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020 (CONTINUED)

2. Critical accounting judgements and estimation uncertainty (Continued)

(b) Key accounting estimates and assumptions (Continued)

In addition, the following are areas of estimation uncertainty:

(i) Fair value – financial instruments (note 1(m) and 1(o))

In accordance with the above Accounting policies, financial instruments and derivatives are classified as fair value through profit or loss.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value measurement considers the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. It also uses the assumptions that market participants would use when pricing the asset or liability.

Fair value hedges and their respective hedged items are adjusted to the mid point levels, by marking individual cash positions directly to mid reserves calculated on a portfolio basis for derivatives exposures. The mid approach is based on current market spreads and standard market bucketing of risk.

Valuation techniques applied by the bank include using net asset values for unquoted investments in funds as permitted by FRS 102.

(ii) Loan arrangement fees (note 1 (e) and note 24)

Loan arrangement fees are required to be amortised over the expected duration of the loan.

The bank uses historic data to determine the expected average duration of its customer lending which are repayable on demand or at short notice, this analysis is performed annually and for the year ended 31 March 2020, it has been determined to be three years. For fixed term customer lending, loan arrangement fees are amortised using the effective interest rate method.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020 (CONTINUED)

3. Net Interest Income

Group	**2020 Total £000**	*2019 Total Restated £000*
Interest receivable and similar income		
Interest on debt securities	**18,667**	*15,038*
Loans and advances to customers	**79,948**	*79,898*
Loans and advances to banks	**14,880**	*11,864*
Total interest receivable and similar income	**113,495**	*106,800*
Interest payable and similar charges		
Deposits from banks and customers	**(9,666)**	*(6,669)*
Derivative liabilities	**(1,826)**	*(2,036)*
Total interest payable and similar charges	**(11,492)**	*(8,705)*
Net interest income	**102,003**	*98,095*

Included within interest income is £3,850,565 *(2019: £405,852)* accrued in respect of impaired financial assets of which £1,790,505 *(2019: £3,974)* relates to recoveries received in the period.

In the prior year, arrangement fees were presented within fees and commissions receivable in the consolidated statement of comprehensive income. A restatement has been made to reflect these fees within interest receivable. The effect is to reduce fees and commissions receivable by £3.0m and increase interest receivable by the same amount. Refer to note 1(z) for full details of the restatement.

4. Retirement Benefit Obligations

The bank has both defined benefit and defined contribution retirement schemes.

Defined benefit scheme

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. 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. Contributions to the defined benefit scheme for the year ended 31 March 2020 were £Nil *(2019: £Nil)*. There was no charge *(2019: £Nil)* to the profit and loss account for past service costs.

On 9 July 2018, the Trustee completed a pension buy in, purchasing a bulk annuity policy from Canada Life Limited which insured benefits payable under the scheme in respect of the existing pensioners and dependant members at that time.

The defined benefit pension scheme's 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020 (CONTINUED)

4. Retirement Benefit Obligations (Continued)

The scheme liabilities are derived using actuarial assumptions for inflation, future salary increases, mortality rates and the discount rate used to calculate the net present value of the future pension payments. The principal actuarial assumptions used to calculate the scheme liabilities were:

Group	**2020**	*2019*
	%	*%*
Pension increases in payment	**2.60**	*3.10*
Discount rate	**2.50**	*2.40*
Retail price inflation	**2.60**	*3.30*

The actuarial assumptions allow for commutation of members' pensions for cash at retirement, where members will commute 10% *(2019: 10%)* of their pensions at retirement.

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 calculated by a qualified independent actuary at the balance sheet date and is reflected in the scheme asset or liability as detailed below:

As at 31 March 2020, the valuation of scheme assets less liabilities showed a surplus of £10,220,000 (*2019: £698,000 surplus).*

Movement in net defined benefit asset		
Group	**2020**	*2019*
	£000	*£000*
Opening net defined benefit asset at 1 April	**698**	*10,297*
Other finance income	**20**	*268*
Actuarial gains/(losses)	**9,502**	*(9,867)*
Closing net defined benefit asset at 31 March	**10,220**	*698*

Future funding obligations

The most recent triennial actuarial valuation was carried out as at 1 April 2019. As the scheme is closed to future accrual there are no further employer contributions required to support future service. There are no future deficit contributions due under the current schedule of contributions. The bank continues to work with the Trustees to explore ways to stabilise the defined benefit obligation through an investment strategy to minimise the mismatch between the liabilities and assets of the scheme.

The next triennial actuarial valuation is to be carried out as at 1 April 2022.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020 (CONTINUED)

4. Retirement Benefit Obligations (Continued)

Scheme assets and liabilities

The Trustee has appointed Lane Clark & Peacock LLP as investment advisers to the scheme. Through them, Legal and General Assurance (Pensions Management) Limited manage the scheme's investment portfolio day to day through unitised funds in accordance with the Statement of Investment Principles (SIP). This ensures that investment risks are spread across several investment classes. Within each investment portfolio, investment objectives and restrictions to manage risk are implemented through the legal agreements in place with the scheme's investment manager. The Trustee receives regular performance reports from the investment manager and the investment advisers to the scheme monitors the performance of the strategy and associated risks, and each investment manager against its objectives and restrictions.

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:

Group	**2020 £000**	*2019 £000*
Global equities	**7,713**	*22,361*
Diversified growth funds ("DGF")	**7,814**	*8,547*
Liability driven investments ("LDI")	**15,790**	*18,118*
Short duration credit	**5,613**	-
Property	**4,701**	*4,641*
Cash	**14,612**	*210*
Bulk annuity policy	**72,213**	*82,100*
Total fair value of assets	**128,456**	*135,977*
Present value of scheme liabilities	**(118,236)**	*(135,279)*
Pension scheme asset	**10,220**	*698*
Related deferred tax liability (Note 18(b))	**(1,738)**	*(119)*
Net pension scheme asset	**8,482**	*579*

The fair value of the Scheme's assets is made up of unitised pooled investment vehicles which have been valued at the latest available bid price or single price provided by the pooled investment manager.

Changes in the fair value of the scheme assets		
Group	**2020 £000**	*2019 £000*
Opening fair value of scheme assets at 1 April	**135,977**	*142,938*
Interest on assets	**3,183**	*3,643*
Actual return on assets less interest	**(4,786)**	*(4,514)*
Benefits paid	**(5,918)**	*(6,090)*
Closing fair value of scheme assets at 31 March	**128,456**	*135,977*
Actual return on assets	**(1,603)**	*(871)*

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020 (CONTINUED)

4. Retirement Benefit Obligations (Continued)

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 calculated by a qualified independent actuary at the balance sheet date and is reflected in the scheme asset or liability as detailed below:

Movement in the present value of the defined benefit obligation		
Group	**2020**	*2019*
	£000	*£000*
Opening defined benefit obligation at 1 April	**135,279**	*132,641*
Interest on obligation	**3,163**	*3,375*
Actuarial gain on liabilities due to experience	**(1,269)**	*(2,828)*
Actuarial (gain)/loss on liabilities due to assumption changes	**(13,019)**	*8,181*
Benefits paid	**(5,918)**	*(6,090)*
Closing pension obligation at 31 March	**118,236**	*135,279*

The net finance income or expense on the net defined benefit obligation for the year is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the year to the net defined benefit obligation

Analysis of amounts recognised in profit and loss		
Group	**2020**	*2019*
	£000	*£000*
Interest on obligation	**(3,163)**	*(3,375)*
Interest on assets	**3,183**	*3,643*
Total recognised as other finance income	**20**	*268*

The following items are recognised in the Statement of Other Comprehensive Income (OCI):

Remeasurements		
Group	**2020**	*2019*
	£000	*£000*
Actual return on assets less interest	**(4,786)**	*(4,514)*
Actuarial gains due to experience	**1,269**	*2,828*
Actuarial gains and (losses) due to assumption changes	**13,019**	*(8,181)*
Total recognised in other comprehensive income/(expense)	**9,502**	*(9,867)*

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020 (CONTINUED)

4. Retirement Benefit Obligations (Continued)

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 SIP. This was developed in conjunction with the Trustee and its appointed investment advisers. The spread of investments as at 31 March was as follows:

% of total scheme assets		
Group	**2020**	*2019*
Global equities	**4.6%**	*16.4%*
UK property	**3.6%**	*3.4%*
Liability driven investments	**12.3%**	*13.3%*
Diversified growth funds	**6.1%**	*6.3%*
Short duration credit	**4.4%**	*0.0%*
Future world fund	**1.4%**	*0.0%*
Cash	**11.4%**	*0.2%*
Bulk annuity policy	**56.2%**	*60.4%*
Total	**100.0%**	**100.0%**

The investment performance and liability impact is reviewed on a regular basis by the Board and the Trustee of the Scheme. The investment strategy aims to mitigate the impact of increases in the liabilities, by investing in assets that will increase in value if future inflation expectations rise. The assets held, excluding the bulk annuity policy, are well diversified to mitigate against a wide range of risks, including credit risk and market risk. The Trustee of the Scheme manages investment risks, considering the scheme's investment objectives, strategy and the advice of its investment adviser.

The scheme has over recent years reduced its interest rate and inflation risks through a significant amount of investment in LDI and bonds, the values of which increase and decrease, in line with scheme liabilities, from changes in interest rates and market implied inflation. The LDI strategy aims to hedge 100% of the interest rate risk and inflation risk on a technical provisions basis. The scheme hedges interest rate risk on a statutory and long-term funding basis (gilts) whereas AA corporate bonds are implicit in the IAS 19 discount rate and so there is some mismatching risk to the bank should yields on gilts and corporate bonds move differently.

Defined contribution scheme

The bank operates a defined contribution scheme which has become the main retirement scheme for all employees. During the year ended 31 March 2020 the charge to the Statement of Comprehensive Income was £4,800,000 *(2019: £4,144,000)*, representing the contributions payable by the employer in accordance with the scheme's rules.

The following items are recognised in the Statement of Comprehensive Income:

Analysis of other pension costs included within the Profit and Loss Account under Administrative expenses		
Group	**2020 Total £000**	*2019 Total £000*
In respect of defined contribution scheme		
- Current service cost	**4,800**	*4,144*
Included within Administrative expenses (Note 7)	**4,800**	*4,144*

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020 (CONTINUED)

5. Dealing Profits

Group	**2020 £000**	*2019 £000*
Dealing profits	**10,890**	*12,878*

Dealing profits arise from gains or losses on treasury positions, including from foreign currency trades carried out by the bank.

6. Other Operating Income

Group	**2020 £000**	*2019 £000*
Rental income	**944**	*947*
Gain on sale of fixed assets	**2**	-
Gain on sale of financial assets	**5**	*50*
Hedging result		
- Gain on hedged items attributable to hedged risk on loans	**15,768**	*8,952*
- Loss on hedged items attributable to hedged risk on debt securities	**(57,124)**	*(47,751)*
- Gain on hedged items (swaps)	**40,989**	*38,763*
Net hedging expense	**(367)**	*(36)*
Unrealised profit/(losses) from financial assets at FVTPL	**925**	*(111)*
(Decrease)/increase in value of derivative contracts	**(7)**	*6*
Investment property revaluation (loss)/gain	**(1,025)**	*975*
Other operating income	**-**	*94*
Total other operating income	**477**	*1,925*

7. Employee Information and Administrative Expenses

Group	**2020 Total £000**	*2019 Total £000*
Staff costs		
- Wages and salaries and other short term benefits	**38,764**	*36,027*
- Social security costs	**6,155**	*5,468*
- Other pension costs (Note 4)	**4,800**	*4,144*
Operating lease expense	**25**	*3*
Other administrative expenses	**28,289**	*30,887*
Total administrative expenses excluding depreciation	**78,033**	*76,529*

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020 (CONTINUED)

7. Employee Information and Administrative Expenses (Continued)

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

Group	**2020 Total FTE Number**	*2019 Total* FTE Number
Full time	**337.8**	*306.6*
Part time	**29.2**	*29.1*
Contractors and agency staff	**46.2**	*50.3*
Total average full time equivalent headcount	**413.2**	*386.0*

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

Auditors' Remuneration

Group	**2020 £000**	*2019 £000*
Remuneration payable to the auditors in respect of:		
- Statutory audit of the company and consolidated financial statements	**227**	*177*
- Statutory audit of the subsidiaries' financial statements	**13**	*13*
- All other non-audit services	**-**	*4*
	240	*194*

8. Emoluments of Directors

Group	**2020 £000**	*2019 £000*
Aggregate emoluments	**11,401**	*14,407*
Pension contributions	**20**	*20*
	11,421	*14,427*
Highest paid Director		
- Emoluments	**1,982**	*2,411*
- Pension contributions	**-**	*10*
	1,982	*2,421*

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020 (CONTINUED)

9. Tax on profit

The UK corporation tax rate for the year was 19% *(2018: 19%)* The UK's bank surcharge levy of 8% applies to taxable profits above £25m and since the bank's profits were below the threshold the surcharge was not applicable at the year end. Accordingly, the Company's profits for this accounting period have been taxed for corporation tax at 19% .

9(a) Analysis of taxation charge

Group	**2020 Total £000**	*2019 Total £000*
Current tax		
UK corporation tax on profits for the year at 19% *(2019: 19%)*	**4,122**	*5,998*
UK surcharge tax on profits for the year at 8% *(2019: 8%)*	**-**	*468*
Adjustments in respect of previous years	**54**	*53*
Total current tax (Note 9(c))	**4,176**	*6,519*
Deferred tax		
Origination and reversal of timing differences	**(123)**	*195*
Adjustments in respect of previous periods	**-**	*(1)*
Total deferred tax	**(123)**	*194*
Tax on profit	**4,053**	*6,713*

The Finance (No.2) Act (the Act) was substantively enacted on 26 October 2015. The Act reduced the main rate of corporation tax to 19% from 1 April 2017 and to 17% from 1 April 2020. Accordingly, the deferred taxes at the balance sheet date have been measured using these enacted tax rates and reflected in these financial statements.

On 11 March 2020, it was announced in the March budget statement that the reduction of the main rate of corporation tax to 17% from 1 April 2020 would no longer take place, with the standard rate being maintained at 19%. At the reporting date, the 17% rate continued to be the substantively enacted rate. Deferred taxes at the balance sheet date have been measured using the enacted tax rate of 17%.

9(b) Tax expense/(income) included in other comprehensive income/(expense)

Group	**2020 £000**	*2019 £000*
Deferred tax		
Timing differences on actuarial losses/(gains) in the pension scheme	**1,614**	*(1,677)*
Deferred tax (gains)/losses arising on land and building valuations	**(658)**	*170*
Deferred tax losses arising on heritage assets valuation	**1**	*110*
Total tax expense/(income) included in other comprehensive income/(expense)	**957**	*(1,397)*

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020 (CONTINUED)

9. Tax on Profit (Continued)

9(c) Reconciliation of current taxation charge

The tax assessed for the year of £4,176,000 *(2019: £6,519,000)* is higher *(2019: higher)* than the result of applying the standard rate of corporation tax in the UK for the year ended 31 March 2020 of 19% *(2019: 19%)* The reasons for this are shown below:

Group	**2020 Total £000**	*2019 Total £000*
Profit before tax	**21,712**	*32,473*
Profit multiplied by standard rate of tax in the UK of 19% *(2019: 19%)*	**4,125**	*6,170*
Company profits in excess of surcharge threshold in the UK of 8% *(2019: 8%)*	**-**	*545*
Effects of:		
- Permanent disallowables	**(141)**	*44*
- Fixed asset timing differences	**182**	*162*
- Other short term timing differences	**(40)**	*(328)*
- Defined benefit scheme timing differences	**(4)**	*(51)*
- Adjustments in respect of previous years	**54**	*53*
- Surcharge allowance	**-**	*(76)*
Total current tax charge for the year	**4,176**	*6,519*

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

£17,122,000 *(2019: £25,277,000)* of the Group profit attributable to shareholders relates to the Company, this includes dividends of £Nil *(2019: £Nil)* 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.

11. Dividends

The aggregate of dividends comprises:

Group	**2020 £ per share**	*2019 £ per share*	**2020 £000**	*2019 £000*
Ordinary shares (declared)	**50**	*50*	**6**	*6*

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020 (CONTINUED)

12. Derivative Financial Instruments

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

Group	2020 Notional amount £000	2020 Fair value £000	*2019 Notional amount £000*	*2019 Fair value £000*
Derivative assets				
Exchange rate contracts				
Forward foreign exchange contracts	**11,909**	**10**	*11,480*	*33*
Interest rate contracts				
Interest rate swaps – hedging instruments	**10,001**	**21**	*431,213*	*2,072*
Total derivative assets	**21,910**	**31**	*442,693*	*2,105*
Derivative liabilities				
Exchange rate contracts				
Forward foreign exchange contracts	**3,118**	**10**	*12,712*	*26*
Interest rate contracts				
Interest rate swaps – hedging instruments	**1,362,033**	**37,118**	*949,097*	*80,158*
Total derivative liabilities	**1,365,151**	**37,128**	*961,809*	*80,184*

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 decreased during the year to match a decrease in fixed rate lending, debt securities and other financial assets held by the bank.

Interest Rate Swaps Notional Group	2020 £000	*2019* *£000*
Loans and advances to customers		
- Drawn	**1,001,374**	*866,679*
- Undrawn	**11,037**	*14,500*
Debt securities	**359,623**	*499,131*
	1,372,034	*1,380,310*

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020 (CONTINUED)

13. Financial Assets

	Group 2020 £000	**Company 2020 £000**	*Group 2019 £000*	*Company 2019 £000*
Financial assets at fair value through profit or loss				
Equity securities (unlisted)	**6,038**	**5,928**	*5,104*	*5,003*
	6,038	**5,928**	*5,104*	*5,003*
Financial assets at cost less impairment				
Investment in equity shares	**1,528**	**1,528**	*1,528*	*1,528*
	1,528	**1,528**	*1,528*	*1,528*
Financial assets measured at amortised cost				
Loans and advances to banks (Note 13(a))	**384,872**	**384,872**	*217,116*	*217,116*
Loans and advances to customers (Note 13(b))	**1,832,836**	**1,832,836**	*1,711,021*	*1,711,021*
Less specific and collective allowances for impairment	**(26,842)**	**(26,842)**	*(11,611)*	*(11,611)*
Bank and building society certificates of deposits	**617,362**	**617,362**	*519,344*	*519,344*
Debt securities	**1,140,630**	**1,140,630**	*785,740*	*785,740*
	3,948,858	**3,948,858**	*3,221,610*	*3,221,610*
Total financial assets	**3,956,424**	**3,956,314**	*3,228,242*	*3,228,141*

Included in the above table are fixed rate securities with a nominal value of £359.6m *(2019: £499.1m)* and drawn fixed rate loans with a nominal value of £1,001.4m *(2019: £866.7m)* which 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.

Included within debt securities is £87m in respect of Residential Mortgage-Backed Securities.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020 (CONTINUED)

13. Financial Assets (Continued)

13(a) Loans and advances to banks

Group	**2020**	*2019*
	£000	*£000*
Repayable on demand	**67,008**	*71,768*
Other loans and advances:		
Remaining maturity		
- 3 months or less	**261,755**	*38,367*
- over 5 years	**56,109**	*106,981*
Total loans and advances to banks	**384,872**	*217,116*

13(b) Loans and advances to customers

Group	**2020**	*2019*
	£000	*£000*
Remaining maturity		
- 3 months or less	**681,096**	*777,905*
- 1 year or less but over 3 months	**165,148**	*107,713*
- 5 years or less but over 1 year	**812,272**	*693,904*
- over 5 years	**174,320**	*131,499*
Allowance for impairment losses (Note 14)	**(26,842)**	*(11,611)*
Total loans and advances to customers	**1,805,994**	*1,699,410*
Of which repayable on demand or short notice	**609,749**	*730,785*

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 drawn and undrawn customer lending hedged at 31 March 2020 was £1,012.4m *(2019: £881.2m)*.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020 (CONTINUED)

14. Allowance for Impairment Losses

Loans and advances to customers		
Group	**2020**	*2019*
	£000	*£000*
Specific allowances for impairment		
Balance at 1 April	**8,474**	*3,225*
Impairment loss for the year		
- Charge for the year	**16,713**	*6,448*
- Recoveries for the year	**(2,302)**	*(34)*
Net charge	**14,411**	*6,414*
Write-offs	**(203)**	*(1,165)*
Balance at 31 March	**22,682**	*8,474*
Collective allowance for impairment		
Balance at 1 April	**3,137**	*2,007*
Impairment loss for the year		
- charge for the year	**1,023**	*1,130*
Balance at 31 March	**4,160**	*3,137*
Total specific and collective impairment allowances	**26,842**	*11,611*

15. Shares in Group Undertakings

The Company has the following investments in subsidiaries:

Shares at cost		**Principal Activity**	**2020 £**	*2019 £*
Messrs Hoare Trustees	20 shares of no par value	Trustee company	**-**	*-*
Hoare's Bank Pension Trustees Limited	1 Ordinary £1 share	Pension scheme trustee	**1**	*1*
Hoares Bank Nominees Limited	72 Ordinary £1 shares	Nominee company	**72**	*72*
C. Hoare & Co. EIG Management Limited	1 Ordinary £1 share	Holding company	**1**	*1*
Mitre Court Property Holding Company	10,000 Ordinary £1 shares partly paid	Dormant	**1,000**	*1,000*
Total Investments in Subsidiaries			**1,074**	*1,074*

All subsidiary companies are 100% owned directly by C. Hoare & Co. and registered at 37 Fleet Street, London, EC4P 4DQ and are incorporated and domiciled in the United Kingdom. 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020 (CONTINUED)

16. Property and Equipment

Group	Land and Buildings	Investment Properties	Equipment	Software	Total
At 1 April 2019	**£000**	**£000**	**£000**	**£000**	**£000**
Cost	*5,071*	*8,878*	*16,263*	*43,462*	*73,674*
Revaluation	*44,479*	*1,722*	-	-	*46,201*
Accumulated depreciation and impairment	-	-	*(10,345)*	*(25,862)*	*(36,207)*
Net book amount	*49,550*	*10,600*	*5,918*	*17,600*	*83,668*
Year ended 31 March 2020					
Opening net book amount	**49,550**	**10,600**	**5,918**	**17,600**	**83,668**
Additions	**-**	**-**	**1,832**	**11,044**	**12,876**
Revaluation movement	**(3,875)**	**(1,025)**	**-**	**-**	**(4,900)**
Depreciation	**-**	**-**	**(1,800)**	**(6,995)**	**(8,795)**
Closing net book amount	**45,675**	**9,575**	**5,950**	**21,649**	**82,849**
At 31 March 2020					
Cost	**5,071**	**8,878**	**18,095**	**54,506**	**86,550**
Revaluation	**40,604**	**697**	**-**	**-**	**41,301**
Accumulated depreciation and impairment	**-**	**-**	**(12,145)**	**(32,857)**	**(45,002)**
Net book amount	**45,675**	**9,575**	**5,950**	**21,649**	**82,849**

Group	2020	*2019*
	£000	*£000*
Land and buildings occupied for own activities		
- Net book amount	**37,204**	*40,542*
At cost		
- Land and buildings	**5,071**	*5,071*
- Investment properties	**8,878**	*8,878*
	13,949	*13,949*

The bank's land, buildings and investment properties were valued as at 31 March 2020 by AGL, Chartered Surveyors. A provision in the amount of 10% of the pre-virus value has been included in the valuation in recognition of the material uncertainty generated by the COVID -19 virus. The Royal Albert Hall Box (included within land and buildings) was last valued as at 31 March 2019 by Harrods Estates Luxury Property Agents.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020 (CONTINUED)

16. Property and Equipment (Continued)

Group	2020 £000	*2019 £000*
Future capital expenditure		
Contracted but not provided in the financial statements	**1,793**	*1,670*

The bank had the following future minimum lease payments under operating leases for each of the following periods:

Group	2020 £000	*2019 £000*
Payment due		
Not later than one year	**19**	*14*
Later than one year and not later than five years	**17**	-
	36	*14*

17. Heritage Assets

Group	Paintings £000	Artefacts £000	2020 Total £000	*Paintings £000*	*Artefacts £000*	*2019 Total £000*
Valuation 1 April	**6,839**	**2,599**	**9,438**	*6,429*	*2,326*	*8,755*
Movements - additions	**25**	**1**	**26**	*35*	-	*35*
Movements - valuation	-	**9**	**9**	*375*	*273*	*648*
Valuation 31 March	**6,864**	**2,609**	**9,473**	*6,839*	*2,599*	*9,438*

The bank has accumulated a collection of a number of artefacts largely in the form of paintings, an extensive coin collection and the bank's own ledgers during the bank's history of over 300 years. These are regarded as heritage assets due to their historical importance to the knowledge and culture of the bank's history. Most of these are housed at the bank's registered office at 37 Fleet Street London, including collections on display at the bank's museum library at the same address. 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 providing valuable research to the bank's history.

The bank's Museum maintains a register for its collections of heritage assets which records the nature, provenance and current location of each asset. The bank continues to add to its collection of heritage assets by purchase or donation, with the objective to retain items that are relevant to the history of the bank for future generations.

The bank aims to preserve and maintain the condition of the collections in a steady state of repair.

The bank commissioned external valuers (Messrs Christie's, auctioneers and valuers and Classical Numismatic Group – Coin Valuers) to undertake a full valuation of the collection as at 31 March 2017.

The 2017 valuations were based on commercial market prices, including recent transaction information from auctions where similar paintings to those 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.

In November 2018 the bank commissioned external valuer Tim Ritchie & Associates Ltd to undertake a valuation for items that had been transferred to heritage assets from fixed assets since 31 March 2017. The bank has assessed that the valuation of the Heritage assets has not been affected by COVID-19.

18. Deferred Tax

18(a) Analysis of Deferred Taxation

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

Group	2020 £000	2019 £000
Deferred tax asset		
Fixed assets timing differences	**1,015**	*853*
Provision on loan fees	**1**	*3*
Total deferred tax asset	**1,016**	*856*
Deferred tax liability		
Timing differences on valuations		
- Land and buildings	**6,134**	*6,793*
- Investment properties	**887**	*1,061*
- Heritage assets	**1,553**	*1,551*
Short term timing differences	**55**	*20*
Total deferred tax liability	**8,629**	*9,425*

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

Group	2020 £000	2019 £000
Deferred tax asset		
Balance at 1 April	**856**	*986*
Capital allowances on fixed asset additions	**162**	*144*
Short term timing difference	**-**	*(273)*
Prior year adjustment	**-**	*1*
Timing differences on loan fees	**(2)**	*(2)*
Balance at 31 March	**1,016**	*856*
Deferred tax liability		
Balance at 1 April	**9,425**	*8,959*
Timing differences on valuations		
- Land and buildings	**(658)**	*(598)*
- Investment properties	**(174)**	*934*
- Heritage assets	**1**	*110*
Short term timing difference	**35**	*20*
Balance at 31 March	**8,629**	*9,425*

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020 (CONTINUED)

18. Deferred Tax (Continued)

18(b). Deferred Tax on the defined benefit pension scheme

The deferred tax asset and liability balances at 31 March 2020 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 liability of £1,738,000 *(2019: £119,000 liability)* – see Note 4. The movement in this balance is shown below:

Defined benefit pension scheme liability		
Group	**2020** **£000**	*2019* *£000*
Balance at 1 April	**(119)**	*(1,751)*
Movement relating to:		
- Past service cost	**£000**	*£000*
- Other finance expense	**(5)**	*(45)*
- Actuarial (losses)/gains	**(1,614)**	*1,677*
Balance at 31 March	**(1,738)**	*(119)*

19. Other Assets

	Group **2020** **£000**	**Company** **2020** **£000**	*Group* *2019* *£000*	*Company* *2019* *£000*
Corporation tax	**3,122**	**3,282**	-	-
Settlement balances	**469**	**469**	*343*	*343*
Amounts owed by/(to)group undertakings	**-**	**9**	-	*(22)*
	3,591	**3,760**	*343*	*321*

Settlement balances relate to unsettled transactions at the year end.

20. Prepayments and Accrued Income

	Group **2020** **£000**	**Company** **2020** **£000**	*Group* *2019* *£000*	*Company* *2019* *£000*
Interest receivable	**4,404**	**4,404**	*6,535*	*6,536*
Other debtors and prepayments	**4,717**	**4,694**	*4,890*	*4,711*
	9,121	**9,098**	*11,425*	*11,247*

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020 (CONTINUED)

21. Deposits by Banks

Group	**2020**	*2019*
	£000	*£000*
Repayable on demand	**466**	*60*

22. Customer Accounts

Group	**2020**	*2019*
	£000	*£000*
Repayable on demand	**3,591,821**	*3,134,163*
With agreed maturity date or notice period, by remaining maturity:		
- 3 months or less but not repayable on demand	**682,888**	*833,204*
- 1 year or less but over 3 months	**428,005**	*382,393*
- 2 years or less but over 1 year	**59,142**	*17,007*
	4,761,856	*4,366,767*
Amount due to Subsidiary Companies	**11,297**	*10,616*

23. Other Liabilities

	Group	**Company**	*Group*	*Company*
	2020	**2020**	*2019*	*2019*
	£000	**£000**	*£000*	*£000*
Corporation tax	**-**	**-**	*357*	*147*
Settlement balances	**651**	**650**	*2,498*	*2,498*
Other liabilities	**194**	**41**	*135*	*(1)*
	845	**691**	*2,990*	*2,644*

Settlement balances relate to unsettled transactions at the year end.

24. Accruals and Deferred Income

Group	**2020**	*2019*
	£000	*£000*
Interest payable	**2,620**	*3,291*
Other creditors and accruals	**22,326**	*25,613*
	24,946	*28,904*

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020 (CONTINUED)

25. Provision for Other Liabilities

(a)Legal and related costs

From time to time, in the ordinary course of business, the bank may be subject to actual or potential legal claims whereby provisions and disclosures are required in accordance with the bank's accounting policies. However, where disclosure of any such items may seriously prejudice the position of the bank, the Directors take advantage of paragraph 21.17 of FRS 102. The bank recorded an opening balance of £3.3m, *(2019: £3.3m)* in respect of legal provision and related costs with no change in provision *(2019: £Nil)* during the year resulting with the bank carrying a closing provision of £3.3m at 31 March 2020 *(2019: £3.3m).*

26. Called up Share Capital

Group	2020 £000	*2019* *£000*
Authorised, allotted and fully paid:		
120 *(2019: 120)* Ordinary shares of £1,000	**120**	*120*

27. Revaluation reserves

Group	Property £000	Heritage Assets £000	Total £000
Balance as at 1 April 2018	**36,087**	**7,035**	**43,122**
Revaluation of property and heritage assets	*1,000*	*648*	*1,648*
Deferred tax charge on property and heritage assets	*(170)*	*(110)*	*(280)*
Reclassify property to investment property	*(3,750)*	-	*(3,750)*
Balance as at 31 March 2019	**33,167**	**7,573**	**40,740**
Revaluation of property and heritage assets	**(3,875)**	**9**	**(3,866)**
Deferred tax charge on property and heritage assets	**658**	**(1)**	**657**
Balance as at 31 March 2020	**29,950**	**7,581**	**37,531**

Deferred tax is recognised on all revaluation movements and recorded in revaluation reserves.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020 (CONTINUED)

28. Contingent Liabilities, Commitments

Contingent Liabilities and commitments

The table below discloses the nominal principal amounts of contingent liabilities and commitments undertaken for customers as at 31 March 2020.

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 the customers actually default. Consideration has not been taken of any possible recoveries from the 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.

Group	**2020** **£000**	*2019* *£000*
Contingent liabilities:		
- Performance bonds and other transaction-related contingencies	**517**	*517*
- Guarantees	**26,496**	*19,759*
Total contingent liabilities	**27,013**	*20,276*
Commitments:		
- Undrawn formal standby facilities, credit lines and other commitments to lend (Less than 1 year maturity)	**353,029**	*362,624*
Commitments on equity investments	**4,832**	*4,604*
Total commitments	**357,861**	*367,228*

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020 (CONTINUED)

29. Notes to the statement of cash flows

Group	**2020** **£000**	*2019* *£000*
Profit for the financial year	**17,659**	*25,760*
Tax on profit on ordinary activities	**4,053**	*6,713*
Operating profit	**21,712**	*32,473*
Impairment charge	**15,366**	*7,386*
Loans and advances written off	**203**	*1,165*
Depreciation of tangible fixed assets	**8,795**	*7,018*
Operating lease	**25**	-
Net income in respect of defined benefit scheme	**(17)**	*(222)*
Profit on sale of investment securities	**(5)**	*(50)*
Profit on disposal of tangible asset	**(2)**	-
Loss/(gain) on revaluation of investment property	**1,025**	*(975)*
Fair value movements on financial assets	**8,208**	*(1,968)*
Working capital movements:		
- (Increase)/decrease in loans and advances	**(293,675)**	*97,319*
- Decrease in debtors	**2,179**	*6,758*
- Increase in payables	**390,927**	*316,558*
Cash flow generated from operating activities	**154,741**	*465,462*

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020 (CONTINUED)

30. Financial Risk Management

(a) Overview

The Board has ultimate responsibility for the management of risk within the bank. The ARCCo provide oversight and monitor the effectiveness of internal control and risk management processes and reports to the Board. Further details of the bank's risk management and governance structure are described in the Directors' Report on pages 10 to 21.

The principal risks affecting the bank are explained in the Strategic Report on pages 3 to 9. A fuller description of the bank's principal risks can be found in the bank's Pillar 3 disclosures, which is unaudited, and is available on the bank's website: www.hoaresbank.co.uk.

The primary risks affecting the bank through the use of financial instruments are: credit risk, liquidity risk, market risk which includes interest rate risk and foreign exchange risk and capital risk.

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

(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. The risk arises from loans and advances to customers and banks and from treasury investments.

Management of credit risk
Responsibility for credit risk on customer loans and advances resides with the Managers department, monitored by the Risk department and the Credit Committee. Responsibility for credit risk relating to bank counterparties and treasury investments is managed by the Treasury department and monitored by the ALCO and the ARCCo.

Credit risk arising from loans and advances to customers is managed in accordance with lending policies and procedures aligned to the bank's risk appetite. The bank seeks to mitigate credit risk by focusing on sectors where the bank has specialist expertise. The bank's general policy is to lend to customers with security provided as collateral and primarily includes charges over residential and commercial properties. 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 both internal and regulatory guidelines. Lending is monitored closely against individual credit limits. All significant exposures are subject to an annual review.

The bank seeks to build strong relationships with customers and endeavours to assist customers when in financial difficulty.

The bank takes into consideration the customer's ability to service the debt, however, the unique nature of the bank's customer base and their financial affairs can occasionally result in irregular or late payments which do not necessarily indicate an increase in credit risk. The bank manages these situations through regular communication with customers and obtaining strong levels of high-quality security cover on the majority of its lending facilities in accordance with the bank's risk appetite,

Credit risk arising from treasury investments is managed through restricting lending to a selection of financial institutions with selection criteria being regularly reviewed and approved by the ALCO. The bank has policies in place and sets exposure limits for approved counterparties, taking into consideration the large exposure requirements and where appropriate the use of external credit assessments supplemented with the bank's internal assessment of credit risk.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020 (CONTINUED)

30. Financial Risk Management (Continued)

(b) Credit risk (continued)

Maximum credit exposure

The maximum credit risk exposure of the bank without taking account of any collateral held is the balance sheet carrying amount or for off balance sheet transactions and guarantees, their contractual nominal amounts.

Maximum credit exposure		
Group	**2020**	*2019*
	£000	*£000*
Balance Sheet items		
Cash and balances at central banks	**1,161,138**	*1,525,359*
Derivative financial instruments	**31**	*2,105*
Loans and advances to banks (Note 13(a))	**384,872**	*217,116*
Loans and advances to customers (Note 13(b))	**1,805,994**	*1,699,410*
Bank and building society certificates of deposits	**617,362**	*519,344*
Debt securities	**1,140,630**	*785,740*
Equity securities (unlisted)	**7,566**	*6,632*
Maximum credit exposure from Balance Sheet items	**5,117,593**	*4,755,706*
Off balance sheet items		
Contingent liabilities	**27,013**	*20,276*
Commitments	**357,861**	*367,228*
Maximum credit exposure from off Balance Sheet items	**384,874**	*387,504*
Maximum credit exposure	**5,502,467**	*5,143,210*

Concentration risk

Additional credit risk can result from high or excessive exposure to certain clients, regions or industry sectors.

The bank's activities are concentrated on serving high net worth individuals within the UK primarily in the South of England, where a significant proportion of the bank's lending activities are relating to residential properties. The bank mitigates the potential concentration risk by establishing a range of limits and trigger thresholds that are regularly monitored and reported to ALCO.

At 31 March the bank's exposure to UK retail customers (personal and business) was 91% (*2019:91%)*, of total loans and advances to customers.

At 31 March the bank's exposure to UK financial institutions and central bank/government was 73% *(2019:78%)*, of total loans and advances to banks and investment securities held.

Credit quality of assets

The credit risk framework was strengthened last year and has supported the enhancement of credit risk management information. The disclosures below have been presented on a new basis to reflect the monitoring of non-performing loans by the risk department and the Credit Committee.

A loan is considered to be non-performing if any payment relating to the loan is outstanding beyond its contractually due date. Past due amounts will arise through the borrower failing to make a payment when contractually due. For the purposes of reporting, past due but not impaired relates to loans that are in arrears but do not meet the criteria of an impaired asset as the expected recoverable amounts exceed the carrying amounts.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020 (CONTINUED)

30. Financial Risk Management (Continued)

(b) Credit risk (continued)

The credit quality of assets is shown below.

Loans and advances to customers by payment status		
Group	**2020**	*2019*
	£000	*£000*
Performing		
Neither past due nor impaired	**1,572,309**	*1,535,430*
Non-performing		
Past due but not impaired		
Past due up to 3 months	**111,451**	*54,478*
Past due 3 to 6 months	**13,435**	*8,363*
Past due 6 to 12 months	**16,606**	*20,214*
Past due over 12 months	**29,463**	*28,955*
Impaired	**89,572**	*63,581*
Total non-performing loans	**260,527**	*175,591*
Total loans and advances to customers	**1,832,836**	*1,711,021*
Impairment		
Specific allowances for impairment	**22,682**	*8,474*
Collective allowance for impairment	**4,160**	*3,137*
Total impairment	**26,842**	*11,611*
Total loans and advances to customers	**1,805,994**	*1,699,410*
Non-performing loans to gross loans and advances	**14.2%**	*10.3%*
Specific impairment to gross loans and advances	**1.2%**	*0.5%*
Collective impairment to gross loans and advances	**0.2%**	*0.2%*
Specific impairment to non-performing loans	**8.7%**	*4.8%*
Collateral*		
Against loans past due but not impaired	**332,711**	*191,086*
Against impaired loans	**66,895**	*64,849*
Total collateral against non-performing loans	**399,606**	*255,935*

*The collateral represents the direct security linked to the non-performing loan, however, in almost all cases the borrower would have provided additional security to support its total borrowings.

At 31 March 2020, impaired loans of £16.7m (2019: £3.2m) had forbearance considerations, and specific provisions of £2.8m (2019: £0.6m). The estimated value of collateral against these loans were £15.0m (2019: £3.0m).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020 (CONTINUED)

30. Financial Risk Management (Continued)

(b) Credit risk (continued)

Collateral held as security

The bank holds collateral against loans and advances to customers in the form of charges over residential and commercial 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 is assessed at regular intervals in the lending life cycle. At 31 March 2020, the value of property collateral recorded against customer facilities was £4,693m *(2019: £4,484m).* The valuation does not assume any reduction relating to the uncertainty of COVID-19 except for collateral relating to impaired loans. The estimated value of collateral against the impaired customer loans and advances was £66.9m *(2019: £64.8m).*

Collateral is not held against loans to other banks or investment securities.

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 of the asset that can be estimated reliably.

The estimate of the impact on future cash flows, and therefore the level of provision required, is principally based on an estimate of the amount expected to be recovered when collateral is liquidated in order to repay a loan. The bank's collateral largely consists of residential and commercial property and therefore the critical accounting estimate includes management's view on property values. Any increase or decrease in property values will change the level of provision. The current provision applies primarily to loans where the property held as security is in a niche segment of the market. There are therefore no generic indicators that can be reliably used to quantify, or stress test the impact of a change in the environment on the provision level.

Allowances for impairment

The bank establishes an allowance for impairment losses that represents its estimate of incurred losses within 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. Given the bank's general policy to lend to customers with sufficient collateral for the majority of its exposures, the loss given default is typically low.

Write-off policy

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

Forbearance

The bank's aim in offering forbearance and other assistance measures to customers who are experiencing financial difficulties is to benefit both the customer and the bank by supporting its customers and acting in their best interests by with the intent, wherever possible of bringing customer facilities back into a sustainable position.

Forbearance measures consist of concessions to a customer who is about to experience or is experiencing difficulties in meeting its financial commitments. This can include modifications which would not be available generally on the market at the previous terms and conditions of a contract, which would not have been required had the customer not been experiencing financial difficulties.

The provision and review of supporting customers with forbearance measures is considered and approved by the Credit Committee.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020 (CONTINUED)

30. Financial Risk Management (Continued)

(b) Credit risk (continued)

Analysis of loans and advances to banks and debt and equity securities		
Group	**2020** **£000**	*2019* *£000*
Loans and advances to banks, by rating:		
- Aaa to Aa3	**278,817**	*102,256*
- A1 to A3	**106,055**	*114,860*
Total unimpaired loans and advances to banks	**384,872**	*217,116*
Debt and equity security financial assets, by rating:		
- Aaa to Aa3	**1,456,679**	*1,122,584*
- A1 to A3	**301,313**	*182,500*
- Not rated	**7,566**	*6,632*
Total debt and equity securities	**1,765,558**	*1,311,716*

(c) Liquidity risk

Liquidity risk is the risk that the bank is unable to meets its liabilities when they come due or is unable to obtain funding other than by paying a premium. The risk arises from mismatches in the timing of cash flows.

Management of liquidity risk

The bank measures and manages liquidity adequacy in accordance with the liquidity risk appetite set by the Board and maintains a conservative liquidity and funding profile to ensure that it is able to meet its financial obligations under normal and stressed conditions. Daily monitoring and control processes are in place to address internal and regulatory liquidity requirements.

The internal liquidity requirement seeks to ensure that the bank maintains adequate liquid assets to survive a defined stress scenario for a sufficient period as defined by the risk appetite.

CRD IV introduced two new liquidity standards, the short-term Liquidity Coverage Requirement (LCR) and the longer term Net Stable Funding Requirement (NSFR). The LCR became the Pillar 1 standard for liquidity in the UK in October 2015. The bank continues to monitor the NSFR requirements and expects to meet them once confirmed by the regulator.

The bank's Treasury department has responsibility for the day to day liquidity management and continuously monitors deposit activity in order to predict expected maturity flows. The ALCO oversees the management of the bank's balance sheet within the Board approved policies.

The bank assesses the adequacy of its liquidity through the annual update and more frequently in the event of a material change in liquidity, of the ILAAP. The ILAAP is the bank's own assessment of its liquidity needs and is based on stress testing, including reverse stress testing, and scenario analysis of the impact of material risks affecting the bank. Reverse stress testing is undertaken to identify the scenario or combination of scenarios that would result in liquidity resources being exhausted in which the bank becomes unviable or insolvent. The ILAAP is presented at least annually to the ALCO, the Management Team and the ARCCo for review and challenge, eventually leading to review, challenge and approval by the Board.

With the onset of COVID-19 the bank increased its monitoring of external developments and assessments on implications to liquidity. Daily meetings of senior members of the Treasury, Finance and Risk departments take place to review and discuss economic, political and social developments, monitor market movements, monitor the credit quality of our Treasury assets as well as customer deposit behaviour and escalate as necessary to the ALCO. ALCO scheduled meetings have increased to every two weeks from monthly. Twice weekly meetings of the full management team and partners of the bank take place to discuss all business recovery elements implicated by the COVID-19 virus, including any unusual movements in deposit balances and liquidity in general. No unusual trends have been noted.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020 (CONTINUED)

30. Financial Risk Management (Continued)

(c) Liquidity risk (Continued)

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. For those products that have a fixed cashflow schedule, undiscounted cash flows are shown, including interest cash flows. For all other products the balance sheet amounts are shown.

Group At 31 March 2020	**Carrying Amount £000**	**Next day £000**	**Less than 1 month £000**	**1 to 3 months £000**	**3 months to 1 year £000**	**1 - 5 years £000**	**Over 5 years £000**
Balance sheet							
Deposits from banks	**466**	**466**	-	-	-	-	-
Deposits from customers	**4,762,228**	**3,537,864**	**197,881**	**506,441**	**460,859**	**59,183**	-
Derivative liabilities	**37,128**	**1**	**13**	**56**	**1,564**	**19,763**	**15,731**
Off balance sheet							
Guarantees, letters of credit and performance bonds	**27,013**	**27,013**	-	-	-	-	-
Undrawn customer facilities	**357,861**	**357,861**	-	-	-	-	-
Total liabilities	**5,184,696**	**3,923,205**	**197,894**	**506,497**	**462,423**	**78,946**	**15,731**

Group At 31 March 2019	*Carrying Amount £000*	*Next day £000*	*Less than 1 month £000*	*1 to 3 months £000*	*3 months to 1 year £000*	*1 - 5 years £000*	*Over 5 years £000*
Balance sheet							
Deposits from banks	*60*	*60*	-	-	-	-	-
Deposits from customers	*4,366,516*	*3,228,573*	*319,806*	*340,147*	*460,997*	*16,993*	-
Derivative liabilities	*80,184*	*5*	*1*	*6*	*297*	*11,144*	*68,731*
Off balance sheet							
Guarantees, letters of credit and performance bonds	*20,276*	*20,276*	-	-	-	-	-
Undrawn customer facilities	*367,228*	*367,228*	-	-	-	-	-
Total liabilities	*4,834,264*	*3,616,142*	*319,807*	*340,153*	*461,294*	*28,137*	*68,731*

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020 (CONTINUED)

30. Financial Risk Management (Continued)

(c) Liquidity risk (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 a member of the Bank of England's Sterling Monetary Framework (SMF). This enables the bank to swap funds invested in High Quality Liquid Assets (HQLA) into the most liquid asset in the economy, central bank reserves thereby increasing its level of available liquidity.

(d) Market risk

Market risk is the risk that changes in market prices, such as interest rates, equity prices, foreign exchange rates and credit spreads will affect the bank's future cash flows or the fair value of 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.

Market risk only arises materially in the banking book, since the bank does not operate a significant trading book and generally holds assets until maturity. Only a small component of the banking book is recorded at fair value and all fixed rate financial instruments are hedged such that the main exposure to market risk is interest rate risk, both basis and gap risk.

Management of interest rate risks

Basis risk arises where assets and liabilities re-price with reference to differing short term interest rate benchmarks. The ALCO has set limits to manage basis risk. Basis risk is calculated monthly and reported to the ALCO. At certain interest rate levels, basis risk can become more impactful: in a negative interest rate environment, management decisions to move managed rates in line with the movement of benchmark rates could be influenced by a greater degree by the actions of peers in the market. Frequent stressing of such scenarios is conducted and reviewed regularly with the ALCO and included in the bank's ICAAP.

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.

Gap risk is managed by the bank's Treasury department principally through monitoring interest rate gaps between assets and liabilities based upon the next interest rate re-fixing dates as against the contractual maturity dates of the instruments. The bank uses interest rate swaps to hedge exposures to interest rate risk, as part of its risk management process.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020 (CONTINUED)

30. Financial Risk Management (Continued)

(d) Market risk (Continued)

Exposure to interest rate risk

The following table summarises the repricing profile for the bank's financial assets and liabilities, stated at their carrying amounts, allocated by the earlier of contractual repricing or maturity date.

Group **At 31 March 2020**	**Carrying Amount £000**	**Up to 3 months £000**	**3 to 6 months £000**	**6 to 12 months £000**	**1 to 5 years £000**	**Over 5 years £000**
Assets						
Loans and advances to banks and central banks	**1,536,872**	**1,536,872**	**-**	**-**	**-**	**-**
Loans and advances to customers	**1,785,200**	**654,222**	**65,632**	**98,790**	**800,737**	**165,819**
Debt security financial assets	**1,741,612**	**1,176,989**	**250,000**	**211,558**	**70,689**	**32,376**
Total assets	**5,063,684**	**3,368,083**	**315,632**	**310,348**	**871,426**	**198,195**
Liabilities						
Deposits by banks	**466**	**466**	**-**	**-**	**-**	**-**
Customer accounts	**4,761,856**	**4,274,709**	**302,405**	**125,600**	**59,142**	**-**
Total liabilities	**4,762,322**	**4,275,175**	**302,405**	**125,600**	**59,142**	**-**
Net derivatives	**-**	**1,289,424**	**(200,408)**	**(158,369)**	**(728,838)**	**(201,809)**
Interest rate gap	**301,362**	**382,332**	**(187,181)**	**26,379**	**83,446**	**(3,614)**

Group *At 31 March 2019*	*Carrying Amount £000*	*Up to 3 months £000*	*3 to 6 months £000*	*6 to 12 months £000*	*1 to 5 years £000*	*Over 5 years £000*
Assets						
Loans and advances to banks and central banks	*1,734,116*	*1,734,116*	*-*	*-*	*-*	*-*
Loans and advances to customers	*1,693,340*	*765,247*	*37,060*	*70,650*	*691,426*	*128,957*
Debt security financial assets	*1,231,579*	*500,777*	*153,367*	*215,638*	*119,247*	*242,550*
Total assets	*4,659,035*	*3,000,140*	*190,427*	*286,288*	*810,673*	*371,507*
Liabilities						
Deposits by banks	*60*	*60*	*-*	*-*	*-*	*-*
Customer accounts	*4,366,767*	*3,888,608*	*316,219*	*144,932*	*17,007*	*-*
Total liabilities	*4,366,827*	*3,888,668*	*316,219*	*144,932*	*17,007*	*-*
Net derivatives	*-*	*1,238,195*	*(66,671)*	*(85,048)*	*(714,231)*	*(372,245)*
Interest rate gap	*292,208*	*349,667*	*(192,463)*	*56,308*	*79,435*	*(738)*

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020 (CONTINUED)

30. Financial Risk Management (Continued)

(d) Market risk (Continued)

Exposure to market risk: interest rate risk (continued)

Market movements in interest rates affect the net interest income of the bank.

Gap risk arises on loans, deposits and treasury instruments due to timing differences on re-pricing of assets and liabilities and the shape of the yield curve. Market movements in interest rates affect the net interest income of the bank.

The bank monitors its exposure to gap risk. Consistent with the financial regulator's requirements, as at 31 March 2020, the bank's interest rate gap sensitivity, being the potential benefit to the bank's economic value, resulting from a potential +/- 200bps parallel shift in the yield curve was £0.8m and £0.9m respectively.

This value is monitored and calculated weekly and reported to the ALCO monthly against a Board approved policy limit. The reported interest rate sensitivity as at 31 March 2020 is shown in the table below.

Effect of a change of 2.00% in Sterling Market Rates		
Group	**2020**	*2019*
	£000	*£000*
Net present value sensitivity to:		
Positive shift	**(812)**	*70*
Negative shift	**868**	*19*

The interest rate sensitivities set out above are illustrative only and are based on simplified scenarios in which all managed rates are assumed to be able to move in tandem with changes in the benchmark rates. The figures above represent the effect on net interest income, primarily relating to the small number of unhedged fixed rate loans, arising from a parallel fall or rise in the yield curve. The bank aims to minimise interest rate risk and uses interest rate swaps to hedge exposures on fixed rate loans and investments. Given the bank's approach to managing interest rate risk, as outlined in the Strategic report section 3(d), the net exposure to this risk after hedging is minimal and arises primarily during the period from offering a facility to a customer to the date of acceptance at which point a hedge is put in place.

The bank also assesses the broader impact of basis risk and interest rate changes on future earnings, which is caused by potential time delays in moving managed rates to mirror changes in benchmark rates. As at 31 March 2020, approximately 46% (2019: 37%) of the bank's assets were LIBOR or SONIA linked with the interest earned on the majority of the other assets and interest paid on the bank's liabilities set by the bank. The impact of a delay in adjusting the managed rates to align with a 10bps shift in benchmark rates would impact future earnings in the amount of £300,000 per month. As such the bank closely monitors benchmark rates in order to take pre-emptive action where possible.

Management of currency risk

Foreign currency balances are driven by the requirements of the bank's customers and do not form a significant part of the balance sheet. 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. The bank's Treasury department is responsible for managing currency risk within intra-day and overnight limits established by ALCO and the ARCCo.

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020 (CONTINUED)

30. Financial Risk Management (Continued)

(d) Market risk (Continued)

Exposure to market risk: currency risk

The table below summarises, the net exposure of the bank's monetary assets and liabilities held in individual foreign currencies, expressed in sterling, and the effect of a reasonably possible weakening of the sterling against the US dollar, euro and other currencies by 2%. The analysis assumes all other variables, in particular interest rates remain constant.

Net currency exposure sensitivity analysis			
Group	**2020**		
	£000		
	Net Exposure	**% of net assets**	**Sensitivity**
US dollar	**(230)**	**(0.05)**	**(5)**
Euro	**512**	**0.10**	**10**
Other	**68**	**0.01**	**1**
Total	**350**	**0.06**	**6**

Net currency exposure sensitivity analysis			
Group	*2019*		
	£000		
	Net Exposure	*% of net assets*	*Sensitivity*
US dollar	*941*	*0.22*	*19*
Euro	*458*	*0.10*	*9*
Other	*45*	*0.01*	*1*
Total	*1,444*	*0.33*	*29*

A strengthening of sterling against the above currencies would have resulted in an equal but opposite effect to the amounts shown above.

(e) 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 third 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020 (CONTINUED)

30. Financial Risk Management (Continued)

(e) Fair values of financial assets and liabilities (Continued)

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 the carrying value.
- Treasury bills and other eligible bills: the fair value is determined using market prices.
- Derivatives: the fair value is the 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 the carrying value.
- Loans and advances to customers: For variable rate loans which re-price in response to changes in market rates, the fair value has been estimated as the carrying value. For fixed rate loans, the fair value approximates to the carrying value adjusted for hedging and any required allowance for credit risk.
- Residential mortgage-backed securities (RMBS): For RMBS the fair value is the carrying value. The carrying value is determined using SONIA rates.
- Debt and equity securities: the carrying value is a proxy for the fair value of listed investment securities and are based upon quoted market prices where available. Unlisted investment securities are based upon net asset valuations provided by the fund managers.
- Investment in equity shares: no market value is readily available and therefore the cost is the carrying value which is also a proxy for the fair value.
- Deposits from banks and customers: the fair value of deposits with no stated maturity, which includes non-interest bearing deposits, is the amount repayable on demand and equates approximately to the fair value.

The recognition and measurement provisions of FRS 102 Section 11 and the disclosure requirements of FRS 102 Section 34 have been adopted in respect of financial instruments for the fair value hierarchy disclosures.

The bank's financial instruments have been categorised using a fair value hierarchy that reflects the extent of judgement used in the valuation. These levels are based on the degree to which the fair value is observable and are defined as follows:

- Level 1: Quoted prices (unadjusted) in active markets for identical instruments.
- Level 2: Valuation techniques based on observable inputs either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: Valuation techniques not based on observable market data (unobservable inputs).

The table below categorises the bank's financial instruments held at fair value according to the method used to establish the fair value at the balance sheet date.

Valuation Hierarchy				
				2020
Group	**Level 1**	**Level 2**	**Level 3**	**Total**
	£000	**£000**	**£000**	**£000**
Equity securities	**5,928**	**-**	**110**	**6,038**
Derivative financial assets	**-**	**31**	**-**	**31**
	5,928	**31**	**110**	**6,069**
Derivative financial liabilities	**-**	**37,128**	**-**	**37,128**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020 (CONTINUED)

30. Financial Risk Management (Continued)

(e) Fair values of financial assets and liabilities (Continued)

Valuation Hierarchy				
				2019
Group	*Level 1*	*Level 2*	*Level 3*	*Total*
	£000	*£000*	*£000*	*£000*
Equity securities	*5,003*	*-*	*101*	*5,104*
Derivative financial assets	*-*	*2,105*	*-*	*2,105*
	5,003	*2,105*	*101*	*7,209*
Derivative financial liabilities	*-*	*80,184*	*-*	*80,184*

The table above includes financial assets as reported in Note 13 and derivative assets and liabilities as reported in Note 12.

The equity securities include a small legacy investment portfolio held in Messrs Hoare Trustees which is in the process of being wound down under the discretion of the ALCO. By the end of the year the portfolio had fallen to £109,819 *(2019: £101,000).*

During the year the bank invested in a long term global growth investment fund at a cost of £5,000,000, which had a market value of £5,927,606 at 31 March 2020.

By the end of the year, the aggregate value of the investment portfolio reported in the above table had risen to £6,038,636 *(2019: £5,104,000)*. These investments are measured at the market share price as at 31 March 2019.

(f) Capital management

The bank's capital management for regulatory purposes (unaudited) is detailed in the Directors' Report on pages 14 and 15.

31. Segmental Information

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020 (CONTINUED)

32. Related Party Transactions

C. Hoare & Co. follows FRS 102 Section 33 'Related Party Disclosures' to identify and disclose its related parties and related parties transactions.

The bank's related parties consist of key management personnel with authority and responsibility for planning, directing, and controlling the financial and operating activities of C. Hoare & Co., directly or indirectly. The Board of Directors of the bank along with one other partner, who is not a director, three members of the management team (the CFO, the Head of Risk and Compliance and the Head of Business Services) are considered to be key management personnel with significant influence for the purposes of FRS 102.

Related Party Transactions		
Group	**2020**	*2019*
	£000	*£000*
Loans and advances	**10,188**	*10,104*
Customer deposits	**6,638**	*9,901*
Total income	**14**	*15*
Operating expenses	**97**	*66*

Key management personnel compensation		
Group	**2020**	*2019*
	£000	*£000*
Aggregate emoluments	**1,828**	*1,753*
Pension contributions	**40**	*40*
	1,868	*1,793*

The bank included related party transactions with key management personnel as at 31 March 2020 for loans and advances of £10.2m (*2019: £10.1m)* and deposits of £6.6m *(2019: £9.9m).*

The bank provides banking services to the bank's charitable trust, The Golden Bottle Trust, however no charitable donation was made during the year *(2019: £3.5m)*.

In addition, the bank provided tax and trustees services to key management personnel and their close family members. The fees from these services amounted in aggregate to £14.0k *(2019: £14.9k).*

During the year, the bank received rental income of £97.0k *(2019:£66.0k)* from a related party, where the lease was subject to formal contract terms and conditions.

33. Ultimate Controlling Party

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

34. Charged Assets

As at 31 March 2020 £0.5m *(2019: £0.5m)* 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.