
C. Hoare & Co.

Annual Report and
Consolidated Financial Statements
Year Ended 31 March 2012



Company Number. 240822

WEDNESDAY



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COMPANIES HOUSE

C. HOARE & CO.
CHAIRMAN'S FOREWORD
FOR THE YEAR ENDED 31 MARCH 2012

Once again I am pleased to report that the Bank has had a good year. The final out turn slightly ahead of 2011, shows the confidence which our customers still have in us.

Uncertainty in the UK, continental Europe and in the developed world generally has led us to maintain significant levels of cash reserves. Our customers have indicated their approval of this approach by increasing the deposits they hold with the Bank.

Work on our Fleet Street offices began in earnest during the year, and is almost complete. We look forward to welcoming customers to our improved facilities during the second half of 2012. This completes a period of significant investment in the Bank's physical infrastructure. On other fronts we face the constant requirement to keep abreast of regulation and change in the industry.

Our detailed results for the year to 31 March 2012 are set out in the following pages. After a period of limited contraction last year, our balance sheet once again demonstrates further growth in our banking business with an increase of some 15% in customer deposit monies. Our lending and investment management activities are also still growing strongly. In order to support this growth we continue to build our capital resources by retaining profits we make in the business.

The family remain sole shareholders. With unlimited liability they continue to be closely involved in strategy and risk management as members of the Board as well as playing key roles in the day-to-day running of the Bank.

I would like to offer the Board's thanks to David Hall who retired from the Bank in September 2011 after 10 years' service as a consultant and latterly director on the Board. I am pleased to report that Charles Pink joined the Board in March. He brings wide experience of retail banking both in the UK and overseas.

We have been fortunate in that we have not found it necessary to change our business model which remains consistent through the years. Regulatory pressure is now being brought to bear across the industry to restore both greater accountability to management and improved transparency around pricing. We believe our customers take comfort from our traditional, conservative approach to banking and investment advice.

Lord Wilson of Dinton
Chairman

C. HOARE & CO.
DIRECTORS' REPORT
FOR THE YEAR ENDED 31 MARCH 2012

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 2012

The Financial Statements were approved by the Board on 21 June 2012

1 PRINCIPAL ACTIVITIES

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

2 RESULTS AND DIVIDENDS

The financial results for the year are set out in the profit and loss account on page 12. Underlying business growth continues to be strong despite the weakness in the UK eurozone and global economies. The results for the year were lifted by £1.5m of gains realised on residential properties sold early in the year, these were offset somewhat by ongoing investment in the business much of which has been driven by regulation. Overall profit before tax increased by 14.5% to £25.0m, growth which is broadly in line with growth in the balance sheet. Retained profits for the year of £18.4m (2011: £16.1m) will be used to strengthen reserves and support future growth.

The Board recommends an ordinary share dividend for the year of £50 per share (2011: £50) payable on 19 July 2012.

3 BUSINESS REVIEW

Performance

The Board and management continuously assess the performance of the business including monitoring a range of key performance indicators such as the capital ratio, net interest margin, cost and income growth rates, cost to income ratio and return on capital, as well as non-financial measures such as headcount, customer take-on rate and profile, and risk related measures via the risk management framework and risk register.

The last twelve months have been characterised by continuing economic uncertainty in the UK and overseas as governments struggle with their deficits. We expect this uncertainty to continue for some time to come. While the UK has remained relatively stable, overseas the eurozone crisis continues to be the dominant driver of uncertainty, adding to fears over economic growth prospects for not only the eurozone but the UK and much of the rest of the world.

Against this backdrop we have seen a steady increase in customer deposit balances over the second half of the year, reaching a record £2,071m at year-end. This is similar to the customer behaviour observed during the credit crisis of 2008. As a result, aggregate customer deposits continue to run slightly ahead of our long term trend and we are conscious of the risk that some of these deposits may leave us in search of higher yields, should confidence return. Our stated policy remains not to compete on price, we aim to pay a fair rate to our depositors, consistent with the low risk nature of the Bank's balance sheet and superior customer service.

The Bank continued to de-risk its money market book during the year as the Board chose to forgo return for lower risk. This was triggered by concerns about placing funds with other banks, particularly those in continental Europe. At the year-end, the Bank held the equivalent of 30% of customers' deposits at the Bank of England and had just one residual exposure to a bank in a weaker European economy via a floating rate note, which is expected to mature at par in June 2012.

The customer lending book grew by 9% during the year to £951m. We have been consistent in our approach to lending in terms of both our credit criteria and pricing and we remain willing lenders to the right customers. There were neither material loans recognised as impaired during the year nor significant write-offs. Despite this good experience, the Board is aware that the UK economy is weak at present and that consequently, there may be a higher risk of loss within the lending book, even though our customers tend to undertake borrowing at relatively low levels of gearing.

C. HOARE & CO.
DIRECTORS' REPORT (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2012

This growth in lending combined with a low interest deposit book as customers also prioritise safety over return mitigated the reduced return from the conservatively positioned money market book and kept our net interest margin at 2.6% consistent with the previous year. Net interest income increased by £3.4m or 7%.

Our investment management business demonstrated further growth in funds under management of 11% including the effect of market falls. Excluding this effect, net new funds were £129m or 15%. Our commitment to and ongoing investment in this business has been recognised, we are beginning to see customers new to the Bank attracted by the services we offer and were pleased to have been voted 'Investment Team of the Year' in the 2011 STEP Private Client Awards and to win two Private Asset Managers ("PAM") awards for 'Image & Reputation - HNW Clients' and 'Investment Product or Service Innovation' for the Master Charitable Trust.

Fees from investment management, foreign exchange, cash administration and advisory business grew to £15.0m. Overall income grew by 9% to £78m.

Operating expenses grew broadly in line with income, reflecting increased activity and investment in the business.

Excluding performance-related pay, underlying operating expenses increased by 10% over 2011. Staff costs comprise 67% of the Bank's cost base and, excluding bonus payments, these increased by 8%. The Bank continues to invest in both people and information technology, although the Bank's investment plan is increasingly dominated by regulatory driven change, an effect which is being felt across the industry and which is, over time, likely to increase costs for all banks.

The implementation of the new investment management system during the year triggered an increase in both depreciation and running costs, the latter as a result of some additional non-recurring expenses incurred while bedding the system in. The system has delivered a number of improvements in the management of customer portfolios.

The FSCS Levy continues to be a large and volatile item within the Profit and Loss Account. During the year the Bank benefited from a change in apportionment methodology, which reduced the provision for future levies and resulted in a credit to the Profit and Loss Account for the year. While this change of methodology may result in lower charges in future years, there remains scope for the interest rates charged on the underlying loans to increase and the cost of recovering any capital shortfall on these loans through the levy is still uncertain. Until the situation is resolved, there remains the risk that the levy costs will increase. It is possible other amounts may become due to the FSCS, for example due to failures in the broader financial services industry.

Residential properties owned by the Bank were sold during the year. These realised a gain of £1.5m, which has been recorded in profit for the year.

Work on some of the Bank's head office buildings in Fleet Street is nearing completion. The resulting accommodation is designed to complement the existing building and banking hall and will offer improved customer meeting facilities, a new customer reception area and function room, as well as a more modern working environment for staff.

Excluding the impact of bad debts, investment income and income from property sales, the Bank's cost to income ratio as reported to the Board increased from 60% to 64%, mainly due to increased staff and technology costs.

The Bank's defined benefit pension scheme was closed to future accrual in 2007 and by March 2008 the Scheme was fully funded on an FRS 17 basis. Subsequent economic events took their toll on the Scheme's investments, which prompted the Board to recommence contributions into the Scheme. The Bank continues to pay contributions into the Scheme in line with the Recovery Plan that was agreed with the Trustee in March 2011. This commits the Bank to making further payments to the Scheme for the next two financial years. Details of this commitment are set out in Note 3 to the Financial Statements. Despite these additional contributions, the deficit has increased during the year as falling interest rate expectations have increased the present value of the Scheme's liabilities by more than performance and contributions increased the value of the Scheme's assets.

C. HOARE & CO.
DIRECTORS' REPORT (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2012

In accordance with accounting standard FRS 30 'Heritage Assets' various artefacts acquired over many years have been included in the Bank's balance sheet. The Board does not believe the value of these items has changed materially since they were last independently valued in the year ended 31 March 2010 and they remain at £9.6m which was at the low end of the valuer's range. Further detail is given in Note 18 to the Financial Statements.

The Board maintains a strong philanthropic culture within the Bank. One of the Bank's key non-financial performance indicators is the proportion of staff that share the Bank's values and donate to charity through the Bank's "Give as You Earn" scheme. As at 31 March 2012, 45% of staff chose to give in this way (2011: 37%). The Bank's charitable trust (The Golden Bottle Trust) further increases the value of staff participation by double matching the staff contributions. The Bank also encourages staff to give up some of their own time to charitable causes by matching the time taken with paid leave up to a maximum of two days each year.

In aggregate shareholders' funds have increased by £12.4m (8%) during the year, primarily as a result of the year's profits, offset by the increase in the FRS 17 pension deficit.

During the year, the Bank's subsidiary Mitre Court Property Holdings Limited disposed of all the property it held. This company is expected to be wound up during the coming year. The Bank also created a new subsidiary during the year, C Hoare & Co EIG Management Limited, whose purpose is to hold the Group's participation in a European Economic Interest Group ("EEIG") which represents the interests of Groupement Europeen de Banques ("GEB"), a European association of mid-sized private banks, of which C Hoare & Co is a member.

Future Developments

The weakness of the global economy and in particular the UK economy remains a concern for the Board. The Bank begins the coming financial year with a very conservatively positioned money market book with high levels of liquidity. The main themes for 2012/13 are: if and when there will be increased appetite for risk, whether when and by how much interest rates might increase, and whether existing or new catalysts will threaten the global economy. These themes exist against a background of changing regulation, which is increasing costs and driving capital ratios higher. Against this background, ensuring the Bank continues to generate sufficient profits to build capital to match future growth in requirements will be a focus for the coming year and thereafter.

The Retail Distribution Review ("RDR") takes effect from 1 January 2013. This requires the Bank to disclose the nature of financial advice it gives to customers as either "restricted" or "independent". The Board and management have assessed the impact of this on the Bank's advisory and investment management businesses and are pleased to report that the Bank's existing transparent and independent approach is already well aligned to providing "independent" advice as defined by the new rules. Thus we expect RDR to have little effect on the economics of the Bank, if anything, it may improve our opportunity to attract and retain customers over the longer term.

The forthcoming split of the FSA may result in a different approach to regulation, in particular we expect to see more penalties and fines imposed on industry participants by the Financial Conduct Authority. We also expect overseas regulation to have an increasing impact on the Bank, in particular from the EU and US, notably FATCA, the Foreign Account Tax Compliance Act, which will impinge further on the way we deal with US persons.

Principal risks and uncertainties

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

The Board and management continually assess the Bank's risk profile and risk management procedures and are satisfied that the Bank's overall business profile continues to be well managed from a risk perspective.

C. HOARE & CO.
DIRECTORS' REPORT (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2012

The Bank's governance structure includes a number of committees focused on managing the principal risks faced by the Bank. These include

- The Asset/Liability Management Committee (ALCO) which meets on a monthly basis. It is the responsibility of the ALCO to oversee the matching of the Bank's assets and liabilities and manage liquidity in a formal and co-ordinated manner. Membership of the ALCO comprises several Partners, Directors and a number of the Bank's senior managers under the Chairmanship of Miss V E Hoare.
- The Credit Policy Committee which oversees customer pricing, security and overall exposure guidelines and sets customer lending parameters for approval by the Board. This committee is chaired by an experienced member of the Bank's management with participation of up to five Partners.

The Bank has an established risk management framework. Monitoring and measurement of risks is based upon a series of policies in line with principles established by the FSA, the Bank's principal regulator. Key risks are monitored by reference to leading indicators which are designed to highlight potential problem areas well in advance. The principal risks faced by the Bank are

a) Credit Risk

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

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

All lending is undertaken within limits which are regularly reviewed by either the ALCO (wholesale) or the Credit Policy Committee (customer) and approved by the Board.

b) Liquidity Risk

The Bank is supervised by the FSA on the same basis as major UK financial institutions. The FSA's approach to liquidity management takes account of the underlying characteristics of the deposit base and establishes bank specific liquidity requirements along similar lines to those used to set capital requirements. The Bank was the first small bank to be reviewed by the FSA as part of the introduction of new rules for liquidity management and we remain in dialogue with the FSA following that review. Notwithstanding the ongoing dialogue, the change in regulatory approach has not led us to change our own well established liquidity management criteria, nor is it expected to. These criteria include that lending and other long term investments should not normally exceed 70% of retail deposits. Liquidity is managed daily by the Bank's Treasury department under the supervision of the ALCO.

c) Interest Rate Risk

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

d) Foreign Currency Risk

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

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

C. HOARE & CO.
DIRECTORS' REPORT (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2012

e) Derivatives

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

Derivatives are carried at fair value and shown in the balance sheet as separate components of assets and liabilities. Fair value gains and losses on derivatives are recognised in the Profit and Loss Account.

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

f) Trading Book

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

g) Other risks

The risks described above principally relate to positions reflected in the balance sheet of the Bank. Other risks are also managed including operational risks (such as fraud, transaction errors and systems failures). These are tracked and any losses recorded in the Bank's operational risk register which is reviewed regularly by management and the Board. Operational risks include risks associated with the growing advisory and investment management businesses, these also give rise to other categories of risk such as regulatory compliance risks (for example product suitability risk).

h) Reputational risk

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

Detailed disclosures on interest rate risk, foreign exchange risk and the use of derivatives are set out in Notes 11 and 34 in accordance with FRS 29 'Financial Instruments: Disclosures'.

4 CAPITAL MANAGEMENT

The Bank is supervised and regulated by the FSA and regularly reports its capital adequacy position to the FSA. The Bank follows the Standardised Approaches to Credit Risk and to Operational Risk under the Capital Requirements Directive, more commonly known as Basel II.

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

- Tier 1 capital which includes the share capital, reserve fund and the audited retained profits and losses from previous years plus any regulatory adjustments.
- Tier 2 capital which includes the property investment property and heritage assets revaluation reserves, the available-for-sale reserve in respect of equity investments and the collective allowance for impairment.

Various limits are applied to elements of the Bank's regulatory capital. For instance, qualifying Tier 2 capital cannot exceed Tier 1 capital and there are restrictions on the amount of collective impairment allowances that may be included as part of Tier 2 capital. Currently, the Bank is not constrained by any of these limits.

For purposes of its credit risk capital requirements, risk-weighted assets are determined according to ratings established under Basel II to reflect the varying levels of risk attached to assets and off-balance sheet exposures.

The Bank's policy is to have a strong capital base to provide resilience, maintain customer, creditor and market confidence and sustain future development of the business. There have been no material changes to the Bank's management of capital during the year.

C. HOARE & CO
DIRECTORS' REPORT (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2012

4 CAPITAL MANAGEMENT (CONTINUED)

The Bank's regulatory capital ratio increased year on year from 18.11% to 18.86% with Tier 1 increasing from 14.83% to 15.87%. The capital increase from the year's retained profits of £18.4m was reduced by the increase in the deficit on the defined benefit pension scheme. 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 table below summarises the Bank's regulatory capital, risk-weighted assets and capital ratios. In accordance with the FSA's requirement, the Bank's available capital resources (i.e. regulatory capital) is measured against its capital resources requirement (CRR) as defined under Pillar 1 of Basel II. The FSA has set an Individual Capital Guidance (ICG) for the Bank, calibrated by reference to the CRR. A key input to the FSA's ICG setting process (which addresses the requirements of Pillar 2 under Basel II) is the Bank's Internal Capital Adequacy Assessment Process (ICAAP). The Bank submitted its ICAAP to the FSA in September 2009 and the FSA advised the Bank of its ICG in March 2010. The FSA agreed to a further reduction in the Bank's ICG in February 2011.

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

The Bank's regulatory capital position at 31 March was as follows:

	2012	<i>2011</i>
	£000	<i>£000</i>
Tier 1 capital		
Ordinary share capital	120	120
Reserve Fund	22,598	22,748
Profit and loss account	122,290	109,320
	<hr/>	<hr/>
Total Tier 1 capital	145,008	<i>132,188</i>
	<hr/>	<hr/>
Tier 2 capital		
Property revaluation reserve	14,279	14,279
Investment property revaluation reserve	866	2,058
Heritage assets revaluation reserve	9,600	9,600
Available-for-sale reserve gains (equities)	926	1,893
Collective Impairment Allowance	1,600	1,370
	<hr/>	<hr/>
Total Tier 2 capital	27,271	<i>29,200</i>
	<hr/>	<hr/>
Total regulatory capital	172,279	<i>161,388</i>
	<hr/>	<hr/>
Risk-weighted assets (unaudited)	913,499	<i>891,133</i>
	<hr/>	<hr/>
Capital ratios (unaudited)		
Total regulatory capital expressed as a percentage of risk weighted assets	18.86%	<i>18.11%</i>
Total Tier 1 capital expressed as percentage of risk weighted assets	15.87%	<i>14.83%</i>

The Bank's Pillar 3 disclosures, as required under Basel II (implemented in the European Union by the Capital Requirement Directive), are available on the Bank's website: www.hoaresbank.co.uk

C. HOARE & CO.
DIRECTORS' REPORT (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2012

5 AUDIT & COMPLIANCE COMMITTEE

The Audit & Compliance Committee is responsible for monitoring compliance with, and the effective operation of the risk management framework. The members of the committee are Mr H C Hoare, Sir David Hoare Bt, Mr D J Hall (until September 2011), Mr C J S Pink (from March 2012), Mrs L C Powers-Freeling, Mrs A S Hopewell and the independent chairman Mr I R Peacock. The committee meets six times per year, it receives reports from the external auditors, reviews the annual Financial Statements and receives regular reports from the Internal Audit department, Compliance department, Money Laundering Reporting Officer and the Data Protection and Risk Officer. Additionally, the committee reviews the operation and effectiveness of the Bank's internal financial procedures. The Internal Audit department operates to a work programme agreed with the committee based upon risk assessment.

6 PARTNERS AND THE BOARD

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

Mr H C Hoare *
Sir David Hoare Bt *
Mr R Q Hoare OBE *
Mr A S Hoare *
Miss V E Hoare *
Mr S M Hoare *
Mrs A S Hopewell *
Lord Wilson of Dinton (Chairman)
Mr D J Hall, retired 30 September 2011
Mr J S J Marshall (Chief Executive Officer)
Mr I R Peacock
Mr C J S Pink, appointed 20 March 2012
Mrs L C Powers-Freeling

Mr C J S Pink has offered himself for re-election at the Annual General Meeting to be held on 19 July 2012. Mr Pink also joined the Audit & Compliance Committee, the Remuneration Committee and the Nominations Committee.

The Board includes seven Directors (those marked with an asterisk in the list above) who are all descendants of the Bank's founder and are the Bank's only shareholders. They are known as Partners and all work in the business. Part of their role is to ensure the continuation of the Bank's long-held culture, values and approach to business.

The Bank has professional indemnity insurance for the Directors.

7 EMPLOYEES

The Bank had 340 employees on a full time equivalent basis as at 31 March 2012 (2011: 327). The Bank is an equal opportunities employer and recruits the most suitable applicant for any given vacancy regardless of race, sex, age or ethnicity. The Bank recognises its obligation to give disabled persons full and fair consideration for all vacancies and to ensure that such persons are not discriminated against on the grounds of their disability. Employees who become disabled during their working life will be retained in employment wherever possible and given help with rehabilitation and training.

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

C. HOARE & Co.
DIRECTORS' REPORT (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2012

8. CHARITABLE AND POLITICAL DONATIONS

During the year the Bank made charitable donations of £1,400,000 (2011 £1,000,000) to the Bank's charitable trust, The Golden Bottle Trust, whose objective is the continuation of the philanthropic commitments and ideals of the Hoare family

The Bank did not make any political donations during the year (2011 £nil)

9. POLICY AND PRACTICE ON THE PAYMENT OF SUPPLIERS

Subject to receiving the associated goods or services to a satisfactory standard, the Bank's policy and practice is to pay suppliers promptly, usually in advance of the supplier's credit terms

10. LAND AND BUILDINGS

Land and buildings are carried in the balance sheet at estimated market value

11. INDEPENDENT AUDITORS

PricewaterhouseCoopers LLP were appointed as the Company's auditors during the current financial year and, pursuant to Section 487 of the Companies Act 2006, they will be deemed to be reappointed and will therefore continue in office

12. 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

13. STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Annual Report and the Financial Statements in accordance with applicable law and regulations

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the group and parent company financial statements in accordance with UK Generally Accepted Accounting Practice (UK Accounting Standards and applicable law)

Under company law the Directors must not approve the Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that period

In preparing these Financial Statements, the Directors are required to

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

C. HOARE & Co.
DIRECTORS' REPORT (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2012

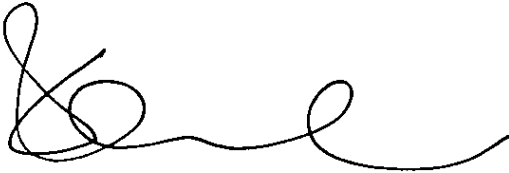
13. STATEMENT OF DIRECTORS' RESPONSIBILITIES (CONTINUED)

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 UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

By Order of the Board

28 June 2012



D Green
Company Secretary
37 Fleet Street
London
EC4P 4DQ
Registration number 240822

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

We have audited the group and parent company financial statements ("the Financial Statements") of C Hoare & Co for the year ended 31 March 2012 which comprise the Consolidated Profit and Loss Account the Consolidated Balance Sheet the Company Balance Sheet the Consolidated Cash Flow Statement, the Consolidated Statement of Total Recognised Gains and Losses and related Notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

Respective responsibilities of directors and auditors

As explained more fully in the Statement of Directors' Responsibilities set out on pages 9 and 10 the Directors are responsible for the preparation of the Financial Statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Financial Statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the Financial Statements

- give a true and fair view of the state of the group's and the parent company's affairs as at 31 March 2012 and of the group's profit and cash flows for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the Financial Statements have been prepared is consistent with the Financial Statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if in our opinion

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



Jeremy Jensen (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
7 More London Riverside London, SE1 2RT

28 June 2012

C. HOARE & CO.
CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 MARCH 2012

	Note	2012 £000	2011 £000
Continuing operations			
Interest receivable		58,556	53,489
Interest payable		(7,359)	(5,699)
Net interest income	2	51,197	47,790
Dividend income		552	69
Other finance costs	3	(360)	(459)
Fees and commissions receivable		20,808	19,877
Fees and commissions payable		(398)	(468)
Net fees and commissions income		20,410	19,409
Dealing profits	4	4,958	4,002
Other operating income	5	1,732	1,166
Total income		78,489	71,977
Operating expenses			
Administrative expenses	6	(49,241)	(47,793)
Depreciation		(3,050)	(1,955)
Total operating expenses		(52,291)	(49,748)
Impairment losses on loans and advances		(1,523)	(181)
Impairment recovery/(losses) on available-for-sale assets		309	(228)
Profit on ordinary activities before tax		24,984	21,820
Tax on profit on ordinary activities	8	(6,565)	(5,682)
Profit for the financial year	27	18,419	16,138

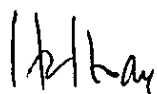
The Notes on pages 17 to 63 form an integral part of these Financial Statements

C. HOARE & CO.
CONSOLIDATED BALANCE SHEET
31 MARCH 2012

	Note	2012 £000	2011 £000
Assets			
Cash and balances at central banks		631,372	172,401
Items in course of collection from banks		5,170	3,330
Derivative financial instruments	11	105	299
Loans and advances to banks	12	153,499	348,159
Loans and advances to customers	13	951,488	869,180
Debt securities and other available-for-sale financial assets	15	487,835	554,784
Tangible fixed assets	17	35,317	33,095
Heritage Assets	18	9,600	9,600
Deferred tax	19	111	72
Other assets	20	378	476
Prepayments and accrued income	21	6,262	6,435
		<hr/>	<hr/>
Total assets		2,281,137	1,997,831
		<hr/>	<hr/>
Liabilities			
Deposits by banks	22	476	10
Customer accounts	23	2,070,722	1,802,672
Derivative financial instruments	11	5,536	1,105
Deferred tax	19	63	589
Other liabilities	24	8,834	11,248
Accruals and deferred income	25	11,222	14,718
Defined benefit pension scheme liability net of deferred tax	3	15,140	10,760
		<hr/>	<hr/>
Called-up share capital	26	120	120
Reserve fund	27	22,598	22,748
Revaluation reserves	27	24,136	24,541
Profit and loss account	27	122,290	109,320
		<hr/>	<hr/>
Shareholders' funds		169,144	156,729
		<hr/>	<hr/>
Total liabilities		2,281,137	1,997,831
		<hr/>	<hr/>
Memorandum items.			
- Contingent liabilities (guarantees)	28	30,011	28,617
- Commitments	28	275,527	283,057

The Notes on pages 17 to 63 form an integral part of these Financial Statements.

These Financial Statements were approved by the Directors on 21 June 2012 and were signed on their behalf by



H C HOARE
 Director
 28 June 2012



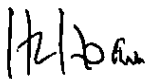
R Q HOARE
 Director
 28 June 2012

C. HOARE & CO.
COMPANY BALANCE SHEET
31 MARCH 2012

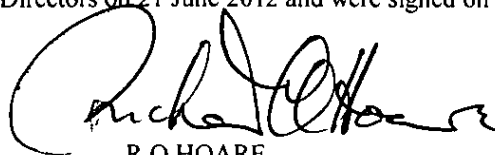
	Note	2012 £000	2011 £000
Assets			
Cash and balances at central banks		631,372	172,401
Items in course of collection from banks		5,170	3,330
Derivative financial instruments	11	105	299
Loans and advances to banks	12	153,499	348,159
Loans and advances to customers	13	951,488	869,180
Available-for-sale financial assets	15	484,944	550,751
Shares in group undertakings	16	10	10
Tangible fixed assets	17	35,317	31,175
Heritage assets	18	9,600	9,600
Deferred tax	19	111	72
Other assets	20	378	474
Prepayments and accrued income	21	6,262	6,435
		2,278,256	1,991,886
Total assets			
Liabilities			
Deposits by banks	22	476	10
Customer accounts	23	2,070,722	1,802,672
Deposits to subsidiary companies	23	12,753	12,418
Derivative financial instruments	11	5,536	1,105
Deferred Tax	19	-	192
Other liabilities	24	8,298	11,031
Accruals and deferred income	25	11,209	14,705
Defined benefit pension scheme liability net of deferred tax	3	15,140	10,760
Called-up share capital	26	120	120
Reserve fund	27	21,148	21,148
Revaluation reserves	27	23,210	21,456
Profit and loss account	27	109,644	96,269
Shareholders' funds		154,122	138,993
Total liabilities		2,278,256	1,991,886
Memorandum items:			
- Contingent liabilities (guarantees)	28	30,011	28,617
- Commitments	28	275,184	282,617

The Notes on pages 17 to 63 form an integral part of these Financial Statements.

These Financial Statements were approved by the Directors on 21 June 2012 and were signed on their behalf by



H C HOARE
 Director
 28 June 2012



R Q HOARE
 Director
 28 June 2012

C. HOARE & Co.
CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 MARCH 2012

	Note	2012 £000	2011 £000
Cash flows from operating activities			
Profit before tax		24,984	21,820
Adjustments for			
Non-cash items included in profit before tax	29	3,736	6,045
Change in operating assets	29	(92,025)	(37,954)
Change in operating liabilities	29	261,362	(181,826)
Contributions paid to defined benefit schemes		(2,000)	(1,000)
Tax paid		(5,767)	(8,843)
		<hr/>	<hr/>
Net cash flow from operating activities		190,290	(201,758)
		<hr/>	<hr/>
Cash flows from investing activities			
Purchase of investment securities		(1,238,122)	(1,327,896)
Sale and maturity of investment securities		1,310,922	1,509,016
Purchase of tangible fixed assets		(6,846)	(5,899)
Sale of tangible fixed assets		1,572	1,616
		<hr/>	<hr/>
Net cash used in investing activities		67,526	176,837
		<hr/>	<hr/>
Cash flows from financing activities			
Equity dividends paid		(6)	(6)
		<hr/>	<hr/>
Net cash used from financing activities		(6)	(6)
		<hr/>	<hr/>
Net increase/(decrease) in cash and cash equivalents		257,810	(24,927)
Cash and cash equivalents 1 April	29	412,925	437,852
		<hr/>	<hr/>
Cash and cash equivalents 31 March	29	670,735	412,925
		<hr/>	<hr/>

The Notes on pages 17 to 63 form an integral part of these Financial Statements.

C. HOARE & CO.
CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
FOR THE YEAR ENDED 31 MARCH 2012

	Note	2012 £000	2011 £000
Profit for the financial year		18,419	<i>16,138</i>
Valuation loss/(gains) on Investment properties taken to equity	27	(1,503)	<i>(1,027)</i>
Deferred tax arising on valuation gains taken to equity		311	<i>(311)</i>
		(1,192)	<i>(1,338)</i>
Actuarial gains/(losses) recognised in the pension scheme	3	(7,020)	<i>6,835</i>
Deferred tax arising on (gains)/losses in the pension scheme		1,305	<i>(2,194)</i>
Change in corporation tax rate		(398)	<i>(290)</i>
Tax credit on additional contributions paid		520	<i>280</i>
		(5,593)	<i>4,631</i>
Available-for-sale investments			
Valuation gains/(losses) taken to equity		1,404	<i>(1,494)</i>
Tax arising on valuation gains/losses taken to equity		(617)	<i>682</i>
	27	787	<i>(812)</i>
Total gains and losses recognised since the last annual report		12,421	<i>18,619</i>

The Notes on pages 17 to 63 form an integral part of these Financial Statements.

C. HOARE & CO.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2012

1 ACCOUNTING POLICIES

Accounting policies have been applied consistently in dealing with amounts which are considered material to the Financial Statements and are unchanged from 2011

(a) Basis of preparation

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

(b) Basis of consolidation

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

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

(c) Foreign currencies

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

(d) Interest

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

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

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

(e) Fees and commissions

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

C HOARE & CO.
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2012

1. ACCOUNTING POLICIES (CONTINUED)

(e) Fees and commissions (continued)

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

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

(f) Dealing profits

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

(g) Dividend income

Dividend income is recognised when the right to receive income is established Usually this is the ex-dividend date for equity securities Dividend income is reflected as a component part of other operating income

(h) Pension costs

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

The defined benefit scheme's assets are measured using market values its liabilities are measured using a projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability The scheme's deficit is recognised in full The movement in the deficit is split between operating charges and finance items which are charged to the Profit and Loss Account and actuarial gains and losses which are recognised in the Statement of Total Recognised Gains and Losses in accordance with FRS 17 A full actuarial valuation of the scheme is undertaken every three years and was last undertaken as at 1 April 2010

Contributions payable to the defined contribution scheme are charged to the Profit and Loss Account

(i) Taxation

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

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

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

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

C. HOARE & CO.
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2012

1 ACCOUNTING POLICIES (CONTINUED)

(i) Taxation (continued)

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

(j) Dividends payable

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

(k) Cash and cash equivalents

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

(l) Classification of financial assets and liabilities

In accordance with FRS 26 the Bank classifies issued instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instrument Deposits are initially measured at fair value plus transaction costs and subsequently measured at their amortised cost using the effective interest method except where the Bank chooses to carry the liabilities at fair value through profit or loss

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

(m) Financial assets and liabilities

(i) Recognition

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

(ii) Derecognition

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

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

(iii) Offsetting

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

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

C. HOARE & CO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2012

1 ACCOUNTING POLICIES (CONTINUED)

(m) Financial assets and liabilities (continued)

(iv) Amortised cost measurement

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

(v) Fair value measurement

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

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

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

These disclosures are included in note 34 to the Financial Statements

(vi) Identification and measurement of impairment

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

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

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

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

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

C HOARE & Co.
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2012

1 ACCOUNTING POLICIES (CONTINUED)

(m) Financial assets and liabilities (continued)

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

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

(n) Loans and advances to banks and customers

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

(o) Derivative financial instruments

(i) Derivative financial instruments

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

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

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

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

(ii) Derivative instruments and hedging activities

The Bank may designate a derivative as either a hedge of the fair value of a recognised fixed rate asset or liability or an unrecognised firm commitment (fair value hedge). All derivatives are recorded as assets or liabilities on the balance sheet at their respective fair values, with unrealised gains and losses recorded either in reserves or in the Profit and Loss Account, depending on the purpose for which the derivative is held. Derivatives that did not meet the criteria for designation as a hedge under FRS 26 at inception or fail to meet the criteria thereafter, are accounted for in other assets with changes in fair value recorded in the Profit and Loss Account.

Changes in the fair value of a derivative that is designated and qualifies as a fair value hedge, along with the corresponding gain or loss on the hedged asset or liability that is attributable to the hedged risk, are both recorded in the Profit and Loss Account as other operating income. To the extent of the effectiveness of a hedge, changes in the fair value of a derivative that is designated and qualifies as a cash flow hedge are recorded in reserves. For all hedge relationships, ineffectiveness resulting from differences between the changes in fair value or cash flows of the hedged items and changes in the fair value of the derivative are recognised in the Profit and Loss Account as other operating income.

C. HOARE & CO.
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2012

1 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 quarterly basis whether the derivative used in the hedging transaction has been highly effective in offsetting changes in fair value or cash flows of the hedged item and whether the derivative is expected to continue to be highly effective.

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

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. When a cash flow hedge is discontinued but the hedged cash flow or forecasted transaction is still expected to occur, gains and losses that were accumulated in reserves are amortised or accreted into the Profit and Loss Account. Gains and losses are recognised in the Profit and Loss Account immediately if the cash flow hedge was discontinued because a forecasted transaction did not occur.

(p) Tangible fixed assets and depreciation

Land and buildings and investment properties are included at the latest professional market valuation.

Tangible fixed assets other than land and buildings and investment properties are carried at cost less accumulated depreciation. Cost includes the original purchase price of the asset and any costs attributable to bringing the asset into use. Depreciation is provided on all such assets, on a straight line basis at rates calculated to write off the cost of the asset less estimated residual value over its expected useful economic life (3-10 years) from the date the asset is brought into use. No depreciation is charged on land and buildings as the Directors consider the amount to be immaterial. In accordance with SSAP 19 'Accounting for Investment Properties' depreciation is not provided on investment properties that are held as freeholds or on leases having more than 20 years unexpired. This is a departure from the Companies Act 2006 which requires all tangible assets to be depreciated. In the opinion of the Directors this departure is necessary for the financial statements to give a true and fair view and comply with applicable accounting standards which require properties to be included in the financial statements at market value. The effect of depreciation is implicitly reflected in the valuation of investment properties and the amount attributable to this factor cannot reasonably be separately identified or quantified by the valuers. Had the provisions of the Act been followed, net assets would not have been affected but revenue profits would have been reduced for this and earlier years and revaluation surpluses/deficits would have correspondingly increased / decreased.

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

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.

C. HOARE & CO.
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2012

I ACCOUNTING POLICIES (CONTINUED)

(q) Investment property

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

(r) Heritage assets

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

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

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

(s) 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.

(t) 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.

(u) Financial guarantees

The Bank issues guarantees on behalf of its customers. In the majority of cases, the Bank will hold collateral against the resultant exposure or have a right of recourse to the customer, or both. In addition, the Bank issues guarantees on its own behalf. The main types of guarantees provided are financial guarantees given to banks and financial institutions on behalf of customers to secure loans, overdrafts or other banking facilities, including stock borrowing indemnities and standby letters of credit. Other guarantees provided include performance guarantees, advance payment guarantees, tender guarantees, guarantees to Her Majesty's Revenue and Customs and retention guarantees. The nominal principal amount of these guarantees is set out in Note 28.

(v) Accounting judgements and estimates

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

- Impairment of financial assets, pages 20, 21, 38 and 39
- Land and buildings and investment properties valuation, pages 22, 40 and 41
- Heritage assets, pages 23 and 42
- Defined benefit pension scheme liability, pages 18 and 25 to 31

C. HOARE & CO.
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2012

2 NET INTEREST INCOME

	2012	2011
	£000	£000
Interest income		
Available-for-sale investments	7,415	6,942
Loans and advances to customers	47,846	43,197
Loans and advances to banks	3,295	3,350
	58,556	53,489
Interest expense		
Deposits from banks and customers	(5,692)	(4,871)
Derivative liabilities	(1,667)	(828)
	(7,359)	(5,699)
Net interest income	51,197	47,790

Included within interest income is £1,133,000 (2011 £1,207,000) in respect of impaired financial assets

C. HOARE & CO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2012

3 PENSION AND OTHER POST-RETIREMENT BENEFITS

The Bank operated a defined benefit pension scheme until 1 December 2007 when it was closed to further accrual and all staff that were members at that date were made deferred members all benefits accrued to that date were enhanced and then preserved Contributions to the defined benefit scheme for the year ended 31 March 2012 were £2 000 000 (2011 £1,000,000) and the charge to the Profit and Loss Account was £nil (2011 £2 200 000) The Bank now operates a defined contribution scheme which has become the main retirement scheme for all employees the cost of that scheme for the year was £3 130 000 (2011 £2 874 000) There were no outstanding or prepaid contributions to the defined benefit scheme at either the beginning or the end of the financial year

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

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

The principal actuarial assumptions at the balance sheet date were

	2012	2011
	%	%
Rate of increase in salaries	n/a	n/a
Rate of increase in pensions in payment and deferred pensions	3 20	3 50
Discount rate at 31 March	4 60	5 50
Expected return on plan assets at 31 March		
- Equities	7 50	7 50
- Liability Driven Investments ("LDI")	3 90	4 90
- Property	6 00	6 00
- Other & cash	0 50	0 50
Inflation assumption	3 20	3 50

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

C. HOARE & Co.
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2012

3 PENSION AND OTHER POST-RETIREMENT BENEFITS (CONTINUED)

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

	2012	<i>2011</i>
Retiring today		
Males	28 1	<i>27 9</i>
Females	31 0	<i>30 8</i>
Retiring in 20 years time		
Males	31.4	<i>31 2</i>
Females	34 2	<i>34 0</i>

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

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

Assumption	<i>Change in Assumption</i>	<i>Impact on scheme liabilities</i>
Discount rate	+/- 0.5%	-/+ £8.6m
Rate of life expectations upon retirement at aged 60	<i>Increase by 1 year</i>	+ £2.8m
Rate of increase in pensions payable and deferred pensions	+/- 0.5%	+/- £8.6m

C. HOARE & CO.
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2012

3. PENSION AND OTHER POST-RETIREMENT BENEFITS (CONTINUED)

Scheme assets and liabilities

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

The liabilities of the defined benefit scheme are measured by discounting the best estimate of future cash flows to be paid out by the scheme using the projected unit method. This amount is reflected in the scheme surplus or deficit as detailed below. As at 31 March 2012 the valuations of scheme assets less liabilities show a deficit of £19,921,000 (2011 £14,541,000).

An alternative method of valuation to the projected unit method is a solvency basis this is the cost of buying out the existing pensions in payment and the accrued entitlements of the current and deferred members as at the balance sheet date. As at 31 March 2012 this was calculated to be £179m (2011 £163m).

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

	2012	<i>2011</i>	<i>2010</i>	<i>2009</i>	<i>2008</i>
	£000	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Equities	29,471	<i>31,409</i>	<i>31,287</i>	<i>18,580</i>	<i>24,438</i>
LDI Investment	57,614	<i>49,677</i>	<i>45,745</i>	<i>38,117</i>	<i>-</i>
Bonds	-	<i>-</i>	<i>-</i>	<i>-</i>	<i>36,124</i>
Property	2,019	<i>2,022</i>	<i>1,960</i>	<i>8,069</i>	<i>11,748</i>
Other and cash	518	<i>249</i>	<i>1,199</i>	<i>914</i>	<i>7,969</i>
Total market value of assets	89,622	<i>83,357</i>	<i>80,191</i>	<i>65,680</i>	<i>80,279</i>
Present value of scheme liabilities	(109,543)	<i>(97,898)</i>	<i>(99,908)</i>	<i>(74,252)</i>	<i>(78,023)</i>
Deficit in scheme	(19,921)	<i>(14,541)</i>	<i>(19,717)</i>	<i>(8,572)</i>	<i>2,256</i>
Related deferred tax asset	4,781	<i>3,781</i>	<i>5,521</i>	<i>2,400</i>	<i>(631)</i>
Net pension scheme liability	(15,140)	<i>(10,760)</i>	<i>(14,196)</i>	<i>(6,172)</i>	<i>1,625</i>

C HOARE & CO.
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2012

3 PENSION AND OTHER POST-RETIREMENT BENEFITS (CONTINUED)

	2012	<i>2011</i>
	£000	<i>£000</i>
Changes in the fair value of the scheme assets		
Opening fair value of scheme assets at 1 April	83,357	<i>80,191</i>
Expected return on assets	4,918	<i>4,934</i>
Actual less expected return on assets	3,072	<i>924</i>
Contributions from employer	2,000	<i>1,000</i>
Benefits paid	(3,852)	<i>(3,692)</i>
Conversion of additional variable contributions	127	<i>-</i>
	<hr/>	<hr/>
Closing fair value of scheme assets at 31 March	89,622	<i>83,357</i>
	<hr/>	<hr/>
Actual return on assets	7,990	<i>5,858</i>
Changes in the present value of the pension obligation	2012	<i>2011</i>
	£000	<i>£000</i>
Opening pension obligation at 1 April	97,898	<i>99,908</i>
Service cost	-	<i>-</i>
Past service cost	-	<i>2,200</i>
Interest cost	5,278	<i>5,393</i>
Actuarial loss on liabilities due to experience	664	<i>1,571</i>
Actuarial loss/(gain) on liabilities due to assumption changes	9,428	<i>(7,482)</i>
Benefits paid	(3,852)	<i>(3,692)</i>
Conversion of additional variable contributions	127	<i>-</i>
	<hr/>	<hr/>
Closing pension obligation at 31 March	109,543	<i>97,898</i>
	<hr/>	<hr/>

C. HOARE & Co.
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2012

3 PENSION AND OTHER POST-RETIREMENT BENEFITS (CONTINUED)

Movement in deficit during the year	2012	<i>2011</i>	<i>2010</i>
	£000	<i>£000</i>	<i>£000</i>
Deficit as at 1 April	(14,541)	(19 717)	(8 572)
Current service cost	-	-	-
Past service cost	-	(2 200)	-
Employer contributions	2,000	1 000	500
Other financial cost	(360)	(459)	(1 353)
Actuarial gains/(losses)	(7,020)	6 835	(10,292)
	<hr/>	<hr/>	<hr/>
Deficit as at 31 March	(19,921)	(14,541)	(19 717)
	<hr/>	<hr/>	<hr/>

The following items are recognised in the Profit and Loss Account

Analysis of other pension costs included within the Profit and Loss Account under Administrative expenses	2012	<i>2011</i>
	£000	<i>£000</i>
In respect of defined benefit scheme		
- Current service cost	-	-
- Past service cost	-	2 200
	<hr/>	<hr/>
	-	2,200
In respect of defined contribution scheme		
- Current service cost	3,130	2,874
	<hr/>	<hr/>
Included within Administrative expenses (Note 6)	3,130	5 074
	<hr/>	<hr/>
Analysis of other pension costs included within the Profit and Loss Account under Other finance costs		
Interest on liabilities	5,278	5 393
Expected return on assets	(4,918)	(4 934)
	<hr/>	<hr/>
Other finance costs	360	<i>459</i>
	<hr/>	<hr/>

The expected return on the scheme assets is arrived at by applying the expected returns on plan assets at 31 March 2012 as detailed above to the scheme assets at the same date to estimate a full year's income for 2012/13. The expected returns on bonds are an estimate of the yield to redemption for an average portfolio. For equities it is the expected long term return from distributions and capital growth and for property and cash it is the expected long term return on deposits. These values are provided by the Bank's independent actuaries.

C. HOARE & CO.
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2012

3. PENSION AND OTHER POST-RETIREMENT BENEFITS (CONTINUED)

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

Analysis of amounts recognised in STRGL	2012 £000	2011 £000	2010 £000	2009 £000	2008 £000
Actual return less expected return on assets	3,072	924	14,274	(16,084)	(4,526)
Experience gains and losses arising on liabilities	(664)	(1,571)	2,182	311	2,250
Changes in assumptions	(9,428)	7,482	(26,748)	5,548	12,357
Actuarial gain/(loss)	(7,020)	6,835	(10,292)	(10,225)	10,081
Adjustment to reversal/ (recognition) of balance sheet asset	-	-	-	2,256	(2,256)
Actuarial gain/(loss) recognised in STRGL	(7,020)	6,835	(10,292)	(7,969)	7,825
Actual return less expected return on assets as a percentage of scheme assets	3.43%	1.11%	17.80%	-24.48%	-5.64%
Experience gains and losses arising on liabilities as a percentage of the present value of scheme liabilities	0.61%	1.60%	2.18%	0.42%	2.88%
Actuarial gain/ (loss) as a percentage of the present value of scheme liabilities	-6.41%	6.98%	-10.30%	-13.77%	12.92%
				2012 £000	2011 £000
Cumulative value of actuarial (losses) recognised in STRGL				(28,286)	(21,266)

Future funding obligations

The most recent triennial actuarial valuation was carried out as at 1 April 2010. As the scheme is closed to future accrual there are no further employer contributions required to support future service. As at 1 April 2010 the actuarial valuation showed a £14m deficit in respect of past service funding and it was agreed that the Bank would reduce this deficit by a series of contributions over 4 years with £2m paid in the current financial year (2011 £1m). The Bank is continuing to work with the Trustees to explore ways to stabilise the scheme deficit through an investment strategy to minimise the mismatch between the liabilities and the assets of the scheme.

In the year to 31 March 2011 the Bank established a pledged asset in its balance sheet for the benefit of the scheme. This comprised of a charged deposit in favour of the Hoare's Bank Pension Trustees Limited. The deposit was held with a third party financial institution. As a result of the Board's decision to derisk the Bank's exposure to other financial institutions the Trustees allowed the whole balance to be recalled during the year ended 31 March 2012, the balance was £19,717,000 at 31 March 2011.

C. HOARE & CO.
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2012

3 PENSION AND OTHER POST-RETIREMENT BENEFITS (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 statement of investment principles (SIP). This was developed in conjunction with the trustee and its appointed investment advisers. The spread of investments at 31 March was as follows:

% of total scheme assets	31 March 2012	31 March 2011
LDI Investments	64%	60%
Global Equities	24%	29%
Property	2%	2%
Diversified Growth	9%	9%
Cash	1%	-
Total	100%	100%

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

C HOARE & CO.
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2012

4 DEALING PROFITS

	2012	<i>2011</i>
	£000	<i>£000</i>
Dealing profits	4,958	<i>4,002</i>

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

5. OTHER OPERATING INCOME

	2012	<i>2011</i>
	£000	<i>£000</i>
Rental income	492	<i>446</i>
Profit on sale of fixed assets	1,501	<i>1,454</i>
Hedging result		
- gain/(loss) on hedged items attributable to hedged risk	3,139	<i>(628)</i>
- loss/(gain) on hedging instruments (swaps)	(2,967)	<i>318</i>
Net hedging result	172	<i>(310)</i>
Increase in value of derivative contracts	117	<i>150</i>
Losses on sale of available-for-sale investments	(550)	<i>(574)</i>
	1,732	<i>1,166</i>

C. HOARE & Co.
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2012

6 EMPLOYEE INFORMATION AND ADMINISTRATIVE EXPENSES

	2012	<i>2011</i>
	£000	<i>£000</i>
Staff costs		
- wages and salaries	28,445	<i>26,148</i>
- social security costs	3,585	<i>3,165</i>
- pension costs (Note 3)	3,130	<i>5,074</i>
Other administrative expenses	14,081	<i>13,406</i>
	<hr/>	<hr/>
Total administrative expenses	49,241	<i>47,793</i>
	<hr/>	<hr/>

The average full time equivalent ("FTE") number of persons employed by the Bank (including Directors) during the year analysed by category was as follows

	2012	<i>2011</i>
	FTE	<i>FTE</i>
Full time	284.2	<i>275.4</i>
Part time	28.6	<i>26.4</i>
Contractors and agency staff	25.9	<i>24.1</i>
	<hr/>	<hr/>
Total average full time equivalent headcount	338.7	<i>325.9</i>
	<hr/>	<hr/>

All persons are employed by C Hoare & Co, the Bank's subsidiaries have no direct employees

	2012	<i>2011</i>
	£000	<i>£000</i>
AUDITORS' REMUNERATION		
Remuneration payable to the auditor in respect of		
- Statutory audit of the company and consolidated financial statements	97	<i>103</i>
- Statutory audit of the subsidiaries' financial statements	14	<i>15</i>
- Other services pursuant to legislation	15	<i>13</i>
- Taxation advisory services	-	<i>2</i>
- Other services	-	<i>47</i>
	<hr/>	<hr/>
	126	<i>180</i>
	<hr/>	<hr/>

C. HOARE & CO.
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2012

7 EMOLUMENTS OF DIRECTORS

	2012	<i>2011</i>
	£000	<i>£000</i>
Aggregate emoluments	6,334	<i>6,997</i>
- Pension contributions	104	<i>99</i>
- Supplementary pensions paid to former Directors' widows	85	<i>80</i>
	<hr/> 6,523 <hr/>	<hr/> <i>7,176</i> <hr/>
Highest paid Director		
- emoluments	1,054	<i>1,189</i>
- pension contributions	-	<i>-</i>
- accrued pension entitlement (increase)	12	<i>6</i>
	<hr/> 228 <hr/>	<hr/> <i>216</i> <hr/>
Cumulative accrued pension entitlement of highest paid director at 31 March	228	<i>216</i>
	<hr/> 5 <hr/>	<hr/> <i>5</i> <hr/>
Number of Directors accruing benefits under the Bank's pension schemes at the year end	5	<i>5</i>

C. HOARE & CO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2012

8 TAX ON GROUP PROFIT ON ORDINARY ACTIVITIES

	2012	2011
Current tax	£000	£000
UK Corporation tax on profits of the period	6,359	5,724
Adjustments in respect of previous periods	33	112
	6,392	5,836
Total current tax (Note 8(a))	6,392	5,836
Deferred tax (Note 8(b))	169	(138)
Change in tax rate	4	(16)
	6,565	5,682
Total tax on ordinary activities	6,565	5,682

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

The tax assessed for the period £6 392 000 (2011 £5 836 000) is lower (2011 lower) than the standard rate of corporation tax in the UK of 26% (2011 28%). The differences are explained below

	2012	2011
	£000	£000
Profit on ordinary activities before tax	24,984	21,820
	6,496	6 109
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 26% (2011 28%)	6,496	6 109
Effects of		
- 20% (2011 21%) corporation tax on subsidiary	(5)	(5)
- Permanent disallowables	181	72
- Timing differences on capital allowances	197	(33)
- Research & development capital expenditure	-	(280)
- Pension contributions	(426)	465
- Net chargeable gains	311	109
- Accounting profit on disposal of investments	(395)	(777)
- Non deductible impairment of investments	-	64
- Adjustment to tax charge in respect of previous periods	33	112
	6,392	5 836
Current tax charge for the period	6,392	5 836

8(b) Factors affecting the deferred taxation charge

	2012	2011
	£000	£000
Timing difference on capital allowances	(255)	314
Prior year adjustment	(3)	12
Deferred tax on pension scheme	427	(464)
	169	(138)
Deferred tax (credit)/charge	169	(138)

C. HOARE & CO.
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2012

8 TAX ON GROUP PROFIT ON ORDINARY ACTIVITIES (CONTINUED)

In addition to the tax charge in the Profit and Loss Account detailed above £1 305 000 (2011 £2,194,000 charge) has been credited to the Statement of Total Recognised Gains and Losses in respect of actuarial losses in the pension scheme. As the Bank paid additional pension contributions in excess of the service costs for the scheme (Note 3) a tax credit of £520 000 (2011 £280 000) has been included in the Statement of Total Recognised Gains and Losses.

The reduction in UK corporation tax from 1 April 2012 (from 26% to 24%) is expected to reduce the Group's charge for corporation tax in future years. The deferred tax calculation anticipates this reduction in rate.

9 GROUP PROFIT DEALT WITH IN THE FINANCIAL STATEMENTS OF C HOARE & CO

£16 505 000 (2011 £13,487,000) of the Group profit attributable to shareholders relates to the Company. As permitted by Section 408 of the Companies Act 2006 the Profit and Loss Account of the Company has not been presented separately.

10 DIVIDENDS

The aggregate of dividends comprises

	2012	<i>2011</i>	2012	<i>2011</i>
	per share	<i>per share</i>	£000	<i>£000</i>
Ordinary shares (declared)	£50	<i>£50</i>	6	<i>6</i>

C. HOARE & CO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2012

11 DERIVATIVE FINANCIAL INSTRUMENTS

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

	2012 Notional amount Group and Company £000	2012 Fair value Group and Company £000	2011 <i>Notional</i> <i>amount</i> <i>Group</i> <i>and</i> <i>Company</i> <i>£000</i>	2011 <i>Fair</i> <i>value</i> <i>Group</i> <i>and</i> <i>Company</i> <i>£000</i>
Derivative assets				
Trading				
Exchange rate contracts				
Forward foreign exchange contracts	20,190	105	41,696	123
Interest rate contracts				
Interest rate swaps – Hedging instruments	-	-	11,615	176
Total derivative assets	<u>20,190</u>	<u>105</u>	<u>53,311</u>	<u>299</u>
Derivative liabilities				
Trading				
Exchange rate contracts				
Forward foreign exchange contracts	10,252	105	28,605	112
Interest rate contracts				
Interest rate swaps – Trading	-	-	69,000	130
Interest rate swaps – Hedging instruments	97,021	5,431	44,985	863
Total derivative liabilities	<u>107,273</u>	<u>5,536</u>	<u>142,590</u>	<u>1,105</u>

12. LOANS AND ADVANCES TO BANKS

	2012 Group £000	2012 Company £000	2011 <i>Group</i> <i>£000</i>	2011 <i>Company</i> <i>£000</i>
Repayable on demand	39,363	39,363	240,524	240,524
Other loans and advances				
Remaining maturity				
- over 5 years	6,161	6,161	28,146	28,146
- over 1 year but less than 5 years	-	-	-	-
- 1 year or less but over 3 months	-	-	-	-
- 3 months or less	107,975	107,975	79,489	79,489
	<u>153,499</u>	<u>153,499</u>	<u>348,159</u>	<u>348,159</u>

C. HOARE & CO.
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2012

13 LOANS AND ADVANCES TO CUSTOMERS

	2012	2012	2011	2011
	Group	Company	Group	Company
	£000	£000	£000	£000
Remaining maturity				
- over 5 years	22,609	22,609	22,254	22,254
- 5 years or less but over 1 year	74,030	74,030	59,666	59,666
- 1 year or less but over 3 months	31,930	31,930	17,324	17,324
- 3 months or less	831,533	831,533	777,152	777,152
Allowance for impairment losses (Note 14)	(8,614)	(8,614)	(7,216)	(7,216)
Total loans and advances to customers	951,488	951,488	869,180	869,180
Of which repayable on demand or at short notice	822,919	822,919	767,935	767,935

Included in the above loans and advances to customers are fixed rate loans which have been hedged against interest rate risk using interest rate swaps. The value of lending hedged at 31 March 2012 was £75.8m (2011 £56.6m)

14 ALLOWANCE FOR IMPAIRMENT LOSSES ON LOANS AND ADVANCES

	2012	2011
	£000	£000
Specific allowances for impairment		
Balance at 1 April	5,846	5,828
Impairment loss for the year		
- Charge for the year	1,339	1,591
- Recoveries	(46)	(1,460)
Net charge	1,293	131
Write-offs	(125)	(113)
Balance at 31 March	7,014	5,846
Collective allowance for impairment		
Balance at 1 April	1,370	1,320
Impairment loss for the year		
- Charge for the year	230	50
Balance at 31 March	1,600	1,370
Total specific and collective impairment allowances	8,614	7,216

C. HOARE & CO.
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2012

15 DFBT SECURITIES AND OTHER AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2012	2012	2011	2011
	Group	Company	Group	Company
	£000	£000	£000	£000
Bank and building society certificates of deposit	237,229	237,229	235,280	235,280
Debt securities with readily determinable fair values	252,455	252,455	320,518	320,518
Equity securities (unlisted)	6,002	1	7,289	1
Less specific allowances for impairment	(7,851)	(4,741)	(8,303)	(5,048)
Total available-for-sale financial assets	487,835	484,944	554,784	550,751

Of the total of £252m of debt securities shown above

- net of impairment £49m are due to mature within one year of the balance sheet date (2011 £68m)
- £21.3m (2011 nil) are fixed rate securities 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 also hedge the foreign currency risk

16 INVESTMENTS IN SUBSIDIARIES

The Company has the following investments in subsidiaries

Shares at cost	Principal Activity	%	2012	2011
		Owned	£000	£000
Messrs Hoare Trustees 20 shares of no par value	Trustee company	100	-	-
Mitre Court Property Holding Company 10 000 Ordinary £1 shares	Property investment company	100	10	10
Hoare's Bank Pension Trustees Limited 1 Ordinary £1 share	Pension scheme trustee	100	-	-
Hoares Bank Nominees Limited 72 Ordinary £1 shares	Nominee company	100	-	-
C Hoare & Co. EIG Management Limited 1 Ordinary £1 share	Holding company	100	-	-
Total			10	10

All subsidiary companies are incorporated in England and Wales and are 100% owned directly by C Hoare & Co. During the financial year there were no changes in the ownership of the subsidiary companies other than the creation of a new subsidiary C Hoare & Co. EIG Management Limited. The principal activity of this subsidiary is to hold the Group's participation in a European Economic Interest Group ("EEIG") which represents the interests of Groupement Européen de Banques ("GEB") a European association of mid-sized private banks of which the C Hoare & Co. is a member.

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.

C. HOARE & CO.
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2012

17 TANGIBLE FIXED ASSETS

Group	Land and Buildings £000	Investment Properties £000	Equipment £000	Total £000
Cost or valuation				
1 April 2011	<i>18,544</i>	<i>5,695</i>	<i>26,643</i>	<i>50,882</i>
Additions	-	-	6,846	6,846
Disposals	-	(1,564)	(5,498)	(7,062)
31 March 2012	18,544	4,131	27,991	50,666
Accumulated depreciation				
1 April 2011	-	-	<i>17,787</i>	<i>17,787</i>
Charge for year	-	-	3,050	3,050
Disposals	-	-	(5,488)	(5,488)
31 March 2012	-	-	15,349	15,349
Net book value 31 March 2012	18,544	4,131	12,642	35,317
Net book value 31 March 2011	<i>18,544</i>	<i>5,695</i>	<i>8,856</i>	<i>33,095</i>

C. HOARE & Co.
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2012

17 TANGIBLE FIXED ASSETS (CONTINUED)

Company	Land and Buildings £000	Investment Properties £000	Equipment £000	Total £000
Cost or valuation				
1 April 2011	<i>18,544</i>	<i>3,775</i>	<i>26,643</i>	<i>48,962</i>
Additions	-	356	6,846	7,202
Disposals	-	-	(5,498)	(5,498)
31 March 2012	18,544	4,131	27,991	50,666
Accumulated depreciation				
1 April 2011	-	-	17,787	17,787
Charge for year	-	-	3,050	3,050
Disposals	-	-	(5,488)	(5,488)
31 March 2012	-	-	15,349	15,349
Net book value 31 March 2012	18,544	4,131	12,642	35,317
Net book value 31 March 2011	<i>18,544</i>	<i>3,775</i>	<i>8,856</i>	<i>31,175</i>
	2012 Group £000	2012 Company £000	2011 Group £000	2011 Company £000
Land and buildings occupied for own activities				
- Net book value	15,500	15,500	<i>15,500</i>	<i>15,500</i>
At cost				
- Land and buildings	4,235	4,235	<i>4,235</i>	<i>4,235</i>
- Investment properties	3,294	3,294	<i>3,357</i>	<i>2,939</i>
	7,529	7,529	<i>7,592</i>	<i>7,174</i>

The Company's land and buildings and investment properties were valued on the 31 March 2009 by AtisReal Chartered Surveyors. The Directors are not aware of any material change in value and therefore the valuations are unchanged from the previous year. All valuations are on the basis of open market values. Given the age of the Company's properties, it is not practicable to reliably estimate their historical cost.

The subsidiary Mitre Court Property Holding Co. sold two properties during the year. Capital gains tax of £292,000 arose upon these disposals.

C. HOARE & CO.
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2012

17 TANGIBLE FIXED ASSETS (CONTINUED)

	2012 Group £000	2012 Company £000	<i>2011 Group £000</i>	<i>2011 Company £000</i>
Future capital expenditure				
Contracted but not provided in the Financial Statements	3,592	3,592	7,815	7,815

18 HERITAGE ASSETS

	2012 Paintings £000	2012 Artefacts £000	2012 Total £000	<i>2011 Paintings £000</i>	<i>2011 Artefacts £000</i>	<i>2011 Total £000</i>
Valuation 1 April	8,300	1,300	9,600	8,300	1,300	9,600
Movement	-	-	-	-	-	-
Valuation 31 March	8,300	1,300	9,600	8,300	1,300	9,600

Having been in business for over 300 years the Bank has over this time acquired a number of artefacts mostly in the form of paintings an extensive coin collection and the Bank's own ledgers. These heritage assets are no longer used in the day to day running of the Bank but remain in the Bank as part of the Bank's Museum.

Following the introduction of FRS 30 (Accounting for Heritage Assets) in June 2009 the Board commissioned an external valuer (Messrs Christie's) to undertake a full valuation of the collection as at 31 March 2010. The Directors are not aware of any material change in value since that date and therefore the valuations are unchanged. It has not been practicable to estimate the cost of acquisition of the heritage assets, they were not recognised in the Financial Statements prior to the adoption of FRS 30. There were no acquisitions or disposals during year.

The valuations were based on commercial markets including recent transaction information from auctions where similar types of paintings held by the Bank and the figure included in the Financial Statements is based on the lower end of the range indicated.

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

C. HOARE & CO.
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2012

19. DEFERRED TAX

Deferred tax assets are attributable to the following

	2012	2012	<i>2011</i>	<i>2011</i>
	Group	Company	<i>Group</i>	<i>Company</i>
	£000	£000	<i>£000</i>	<i>£000</i>
Deferred tax asset				
Fixed assets (equipment)	58	58	-	-
Transition to FRS 26 on 1 April 2006	53	53	72	72
	<u>111</u>	<u>111</u>	<u>72</u>	<u>72</u>
Total deferred tax assets	111	111	<i>72</i>	<i>72</i>
Deferred tax liability				
Fixed assets (equipment)	-	-	192	192
Transition to FRS 26 on 1 April 2006	63	-	86	-
Gain on disposal of investment properties	-	-	311	-
	<u>63</u>	<u>-</u>	<u>589</u>	<u>192</u>
Total deferred tax liability	63	-	<i>589</i>	<i>192</i>

The deferred tax balance at 31 March 2012 does not include any amounts in respect of the Bank's defined benefit pension scheme liability which is shown on the balance sheet after deduction of a deferred tax asset of £4,781,000 (2011 £3,781,000). The movement in this balance reflects the increase in the pension scheme's deficit slightly offset by a reduction in the corporation tax rate from 26% to 24% (Note 3).

20. OTHER ASSETS

	2012	2012	<i>2011</i>	<i>2011</i>
	Group	Company	<i>Group</i>	<i>Company</i>
	£000	£000	<i>£000</i>	<i>£000</i>
Settlement balances	279	279	474	474
Other assets	99	99	2	-
	<u>378</u>	<u>378</u>	<u>476</u>	<u>474</u>
Total other assets	378	378	<i>476</i>	<i>474</i>

Settlement balances relate to unsettled transactions at the year end

C. HOARE & CO.
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2012

21 PREPAYMENTS AND ACCRUED INCOME

	2012 Group £000	2012 Company £000	2011 Group £000	2011 Company £000
Interest receivable	2,443	2,443	3,200	3,200
Other debtors and prepayments	3,819	3,819	3,235	3,235
	<u>6,262</u>	<u>6,262</u>	<u>6,435</u>	<u>6,435</u>

22 DEPOSITS BY BANKS

	2012 Group £000	2012 Company £000	2011 Group £000	2011 Company £000
Repayable on demand	476	476	10	10

23. CUSTOMER ACCOUNTS

	2012 Group £000	2012 Company £000	2011 Group £000	2011 Company £000
With agreed maturity dates or periods of notice				
By remaining maturity				
- 2 years or less but over 1 year	6,130	6,130	395	395
- 1 year or less but over 3 months	72,748	72,748	60,689	60,689
- 3 months or less but not repayable on demand	581,715	581,715	581,782	581,782
	<u>660,593</u>	<u>660,593</u>	<u>642,866</u>	<u>642,866</u>
Repayable on demand	1,410,129	1,410,129	1,159,806	1,159,806
	<u>2,070,722</u>	<u>2,070,722</u>	<u>1,802,672</u>	<u>1,802,672</u>
Including amount due to the Pension Fund	<u>508</u>	<u>508</u>	<u>289</u>	<u>289</u>
Amount due to Subsidiary Companies		<u>12,753</u>		<u>12,418</u>

C. HOARE & CO
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2012

24 OTHER LIABILITIES

	2012	2012	<i>2011</i>	<i>2011</i>
	Group	Company	<i>Group</i>	<i>Company</i>
	£000	£000	<i>£000</i>	<i>£000</i>
Corporation tax	3,764	3,249	2,497	2,299
Settlement balances	5,029	5,029	8,685	8,685
Other liabilities	41	20	66	47
	<u>8,834</u>	<u>8,298</u>	<u>11,248</u>	<u>11,031</u>

Settlement balances relate to unsettled transactions at the year end

25 ACCRUALS AND DEFERRED INCOME

	2012	2012	<i>2011</i>	<i>2011</i>
	Group	Company	<i>Group</i>	<i>Company</i>
	£000	£000	<i>£000</i>	<i>£000</i>
Interest payable	1,071	1,071	622	622
Other creditors and accruals	10,151	10,138	14,096	14,083
	<u>11,222</u>	<u>11,209</u>	<u>14,718</u>	<u>14,705</u>

Other creditors and accruals relate to accrued expenses at the year end and include £768,000 (2011 £1.7m) in respect of the FSCS Levy (Note 28)

26 CALLED-UP SHARE CAPITAL

	2012	2012	<i>2011</i>	<i>2011</i>
	Group	Company	<i>Group</i>	<i>Company</i>
	£000	£000	<i>£000</i>	<i>£000</i>
Authorised allotted called-up and fully paid 120 Ordinary shares of £1,000	<u>120</u>	<u>120</u>	<u>120</u>	<u>120</u>

C. HOARE & CO.
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2012

27 RESERVES	2012 Group £000	2012 Company £000	2011 Group £000	2011 Company £000
(i) Reserve Fund				
At 1 April	22,748	21,148	22,748	21,148
Movement for the year	(150)	-	-	-
31 March	<u>22,598</u>	<u>21,148</u>	<u>22,748</u>	<u>21,148</u>

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.

	2012 Group £000	2012 Company £000	2011 Group £000	2011 Company £000
(ii) Property revaluation reserve				
At 1 April	14,279	14,279	14,279	14,279
Transfer	-	-	-	-
Movement for the year	-	-	-	-
31 March	<u>14,279</u>	<u>14,279</u>	<u>14,279</u>	<u>14,279</u>
(iii) Investment property revaluation reserve				
At 1 April	2,058	866	3,396	866
Transfer	-	-	-	-
Movement for the year	-	-	240	-
Sale(s) of freehold property	(1,503)	-	(1,267)	-
Deferred tax on property sale(s)	311	-	(311)	-
31 March	<u>866</u>	<u>866</u>	<u>2,058</u>	<u>866</u>
(iv) Heritage assets revaluation reserve				
At 1 April	9,600	9,600	9,600	9,600
Movement for the year	-	-	-	-
31 March	<u>9,600</u>	<u>9,600</u>	<u>9,600</u>	<u>9,600</u>

C. HOARE & CO.
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2012

27 RESERVES (CONTINUED)	2012 Group £000	2012 Company £000	2011 Group £000	2011 Company £000
(v) Available-for-sale reserve				
At 1 April	(1,396)	(3,289)	(584)	(1,536)
Fair value gains/(losses) taken to equity	582	1,520	253	(373)
Amounts transferred to profit and loss	205	234	(1,065)	(1,380)
Net Movement	787	1,754	(812)	(1,753)
31 March	(609)	(1,535)	(1,396)	(3,289)
Total revaluation reserves	24,136	23,210	24,541	21,456
(vi) Profit and loss account				
At 1 April	109,320	96,269	88,557	78,157
Retained profit for the year	18,419	18,974	16,138	13,487
Gains/Losses recognised under FRS 17	(5,593)	(5,593)	4,631	4,631
Transfer to Available-for-sale reserve	-	-	-	-
Transfer from Reserve Fund	150	-	-	-
Dividends paid	(6)	(6)	(6)	(6)
31 March	122,290	109,644	109,320	96,269
(vii) Total reserves	169,024	154,002	156,609	138,873
Reconciliation of movement in shareholders' funds		2012		2011
		£000		£000
Opening shareholders' funds		156,729		138,116
Profit for the financial year		18,419		16,138
Dividends		(6)		(6)
Available-for-sale reserve gains/(losses)		1,404		(1,494)
Tax thereon		(617)		682
Property revaluation reserve gains		-		240
Sale of Freehold Property		(1,503)		(1,267)
Deferred tax thereon		311		(311)
Actuarial (losses)/gains		(7,020)		6,835
Deferred tax and tax credits thereon		1,427		(2,204)
Total movement in shareholders' funds		12,415		18,613
Closing shareholders' funds		169,144		156,729

C. HOARE & CO.
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2012

27 RESERVES (CONTINUED)

Amounts recorded in the revaluation reserves exclude the anticipated tax impact of any subsequent realisation. An exception to this arose in the previous financial year in respect of the anticipated gains on properties under offer at year end. Where there is a tax effect in the year of revaluation, for example on available-for-sale investments that are treated as loan relationships under HMRC rules, then the actual tax effect is included in the reserve movement.

28 CONTINGENT LIABILITIES AND COMMITMENTS

The table below discloses the nominal principal amounts of contingent liabilities and commitments undertaken for customers as at 31 March 2012.

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, should contracts be fully drawn upon and customers default. Consideration has not been taken of any possible recoveries from customers for payments made in respect of such guarantees under recourse provisions or from collateral held.

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

	2012	2012	<i>2011</i>	<i>2011</i>
	Group	Company	<i>Group</i>	<i>Company</i>
	£000	£000	<i>£000</i>	<i>£000</i>
Contingent liabilities				
- Letters of credit	5,272	5,272	5,272	5,272
- Performance bonds and other transaction-related contingencies	44	44	52	52
- Other guarantees	24,695	24,695	23,293	23,293
	<hr/>	<hr/>	<hr/>	<hr/>
Total contingent liabilities (guarantees)	30,011	30,011	28,617	28,617
	<hr/>	<hr/>	<hr/>	<hr/>
Commitments				
- Undrawn formal standby facilities, credit lines and other commitments to lend (Less than 1 year maturity)	275,184	275,184	282,617	282,617
- Uncalled subscription monies	343	0	440	0
	<hr/>	<hr/>	<hr/>	<hr/>
Total commitments	275,527	275,184	283,057	282,617
	<hr/>	<hr/>	<hr/>	<hr/>

C. HOARE & Co.
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2012

28 CONTINGENT LIABILITIES AND COMMITMENTS (CONTINUED)

Uncalled subscription monies

At 31 March 2012 a subsidiary company had uncalled subscription monies payable in respect of equity shares of £343 000 (2011 £440 000)

FSCS Levy

The Financial Services Compensation Scheme ('FSCS') has provided compensation to consumers following the collapse of a number of deposit takers such as Bradford & Bingley plc. The compensation paid out to consumers under the FSCS has been funded through loans from the Bank of England and HM Treasury to the FSCS: these loans total £20 billion (2011 £20 billion). Under the FSCS Levy rules, all deposit takers, including C Hoare & Co, will be required to pay a proportion of any irrecoverable principal amounts on the loans. Deposit takers are also obligated to share the interest costs of the loans and the management expenses of the FSCS. The proportion of the total Levy charged to each bank is determined by the Bank's market share of deposits protected under the FSCS.

The Bank accrued £0.8m at 31 March 2012 (2011 £1.7m) in respect of its estimated share of the management expenses and interest costs for the 2011/12 and 2012/13 levy years and its estimated share of the expected irrecoverable principal amounts on the outstanding loans. This accrual is based on the Bank's estimated share of total market protected deposits at 31 December 2010 and 2011. The charge to the Profit and Loss Account for the year was a net credit of £289 000 (2011 £64,000 net credit) comprising accruals totalling £768 000 for estimated future levies offset by releases of £1 057 000 relating to levy payments and revisions to the carried forward accrual.

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

C. HOARE & CO.
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2012

29 CONSOLIDATED CASH FLOW STATEMENT

	2012	<i>2011</i>
	£000	<i>£000</i>
Non-cash items included in profit before tax		
Increase in provisions for bad debts	1,523	181
Loans and advances written off/(back) net of recoveries	125	113
Net charge in respect of defined benefit schemes	360	2,659
Depreciation	3,050	1,955
Exchange translation differences on investment securities	(64)	1,789
Loss on sale of investment securities	552	574
Profit on sale of tangible fixed assets	(1,501)	(1,454)
Impairment (gains)/losses on investment securities	(309)	228
	<hr/>	<hr/>
Total non-cash items included in profit before tax	3,736	<i>6 045</i>
	<hr/>	<hr/>
Change in operating assets		
Decrease/ (increase) in prepayments and accrued income	174	(1 089)
Decrease/(increase) in other assets	98	(179)
Net decrease/(increase) in cheques in course of collection	(1,840)	2 043
Net increase/(decrease) in loans and advances to banks	(6,501)	44 691
Net increase in loans and advances to customers	(83,956)	(83 420)
	<hr/>	<hr/>
Total change in operating assets	(92,025)	<i>(37 954)</i>
	<hr/>	<hr/>
Change in operating liabilities		
(Decrease)/increase in accruals and deferred income	(7,178)	4,794
Increase in other liabilities	24	619
Net increase/(decrease) in customer accounts	268,050	(187 249)
Net increase in deposits by banks	466	10
	<hr/>	<hr/>
Total change in operating liabilities	261,362	<i>(181 826)</i>
	<hr/>	<hr/>
Cash and cash equivalents		
Cash and balances at the Bank of England	631,372	172 401
Loans and advances to banks repayable on demand	39,363	240 524
	<hr/>	<hr/>
Total cash and cash equivalents	670,735	<i>412,925</i>
	<hr/>	<hr/>

C HOARE & Co.
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2012

30. SEGMENTAL INFORMATION

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

31 DIRECTORS' LOANS

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

	2012	2011
	£000	£000
Loans and credit transactions		
- Aggregate amount outstanding	4,688	5,032
- Number of persons	7	8

These loans are fully secured on normal business margins

32 ASSETS PLEDGED TO SECURE LIABILITIES

At 31 March 2012 the amount of assets pledged by the Bank to secure liabilities in respect of Lloyd's Guarantees given on behalf of customers was £nil (2011 £5,328,000) The secured liabilities outstanding amounted to £nil (2011 £5,328,000) The pledged assets are inter-bank deposits with the financial institution underwriting the guarantees to Lloyd's of London

In the year to 31 March 2011 the Bank established a pledged asset in its balance sheet for the benefit of the defined benefit pension scheme This comprised of a charged deposit in favour of Hoare's Bank Pension Trustees Ltd The deposit was held with a third party financial institution The whole balance was recalled during the year ended 31 March 2012 at 31 March 2011 the balance was £19 717 000

33 RELATED PARTY TRANSACTIONS

During the 2010/11 financial year the following directors Mr R Q Hoare Mr A S Hoare Miss V E Hoare Mr S M Hoare and Mrs A S Hopewell made provision for additional capital funding for the Bank by way of a £10 000 000 subordinated debt facility to be drawn if required If drawn this debt would have qualified as lower Tier 2 capital for regulatory purposes The term of the facility was set from 1 October 2010 to 31 March 2012 It expired unused at the end of the term and has not been renewed The facility was put in place on arms-length terms approved by independent directors

C. HOARE & CO.
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2012

34 FINANCIAL RISK MANAGEMENT

(a) Introduction and overview

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

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

The primary risks affecting the Bank are explained in the Directors' Report on pages 4 to 6

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

Risk management framework

The Board has overall responsibility for the establishment and oversight of the Bank's risk management. The Board has developed a risk management framework and established a risk register to monitor significant identified risks within the organisation.

The Asset/Liability Management Committee (ALCO) meets on a monthly basis and is charged with overseeing the matching of the Bank's assets and liabilities to review financial market activity and manage liquidity.

The Credit Policy Committee oversees customer pricing, security and overall exposure guidelines and sets lending parameters for approval by the Board.

The Bank, through its training and management standards and procedures, aims to develop and maintain a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Audit & Compliance Committee is responsible for monitoring compliance with and the effective operation of the risk management framework. Internal Audit undertake regular and ad-hoc reviews of risk management controls and procedures, the results of which are presented to the Audit & Compliance Committee, senior management and the Board.

The Bank has a number of other committees to oversee operational risk areas such as Information Security and Disaster Recovery.

(b) Credit risk

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

Management of credit risk

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

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

C. HOARE & Co.
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2012

34 FINANCIAL RISK MANAGEMENT (CONTINUED)

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

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

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

Exposure to credit risk

The table below analyses the lending assets and investment securities

The Bank continues to hold £5,048,000 (issue value) of securities issued by Washington Mutual Bank Inc which entered administration in 2008 and as a result, the position was fully impaired in the financial year 2008/9. In March 2012 a distribution of £0.3m was received in relation to the position and this was credited to the Profit and Loss Account during the year. Subsequent to year-end a small secondary market has developed in the securities however the Bank has chosen not to realise the position preferring to hold it in anticipation of future recoveries. Given that a high level of uncertainty remains over the value and timing of any future recoveries the impairment has not been reversed at 31 March 2012.

The AIG credit risk exposure continues to improve. All eligible loan advances were fully drawn (£28,263,000) and there have been distributions from the core investment totalling £5,287,000 (2011 £3,373,000) which have been used to pay down the loan balances. These loans were made available to a number of customers who had invested in the AIG Enhanced Fund to allow them to receive cash in advance of the three year redemption lock-out announced by AIG following the run on the fund's assets in September 2008. These loans were made at the C Hoare & Co base rate on a non-recourse basis and rely upon the redemption of the underlying investments, including any gains to repay the capital and accumulated interest with an underpinning guarantee of the principal from the UK subsidiary of AIG ("Alico"). The net asset value of the underlying investments held as security increased to 96.87p as at 15 March 2012 (2011 96.08p) and Alico has announced that it expects to honour its guarantee to repay £1 per unit in early July 2012 when the fund is due to be closed. As at 31 March 2012 the total loan balance outstanding was £25,499,000 (2011 £26,635,000) including interest of £2,523,000 (2011 £1,745,000). This interest is above the level of the Alico guarantee and as a result has been fully provided for and is expected to be fully written off once the fund has been closed.

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

C. HOARE & CO.
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2012

34. FINANCIAL RISK MANAGEMENT (CONTINUED)

£000	Loans and advances to customers		Loans and advances to banks		Available-for-sale financial assets	
	2012	2011	2012	2011	2012	2011
Balance sheet						
Carrying amount	951,488	<i>869,180</i>	153,499	<i>348,159</i>	487,835	<i>554,784</i>
Individually impaired	31,379	<i>32,456</i>	-	-	8,274	<i>9,916</i>
Allowance for impairment	(7,014)	<i>(5,846)</i>	-	-	(7,851)	<i>(8,303)</i>
Carrying Amount	24,365	<i>26,610</i>	-	-	423	<i>1,613</i>
Assets not subject to impairment nor on watch list	803,225	<i>747,249</i>	153,499	<i>348,159</i>	487,412	<i>553,171</i>
Watch list loans						
- High risk	7,471	<i>4,027</i>	-	-	-	-
- Medium risk	118,027	<i>92,664</i>	-	-	-	-
Allowance for collective Impairment	(1,600)	<i>(1,370)</i>	-	-	-	-
Carrying amount	951,488	<i>869,180</i>	153,499	<i>348,159</i>	487,835	<i>554,784</i>
Off balance sheet						
- Guarantees	24,695	<i>23,293</i>	-	-	-	-
- Letters of credit and performance bonds	5,316	<i>5,324</i>	-	-	-	-
- Commitments	275,184	<i>282,617</i>	-	-	343	<i>440</i>
Total credit risk exposure	1,256,683	<i>1,180,414</i>	153,499	<i>348,159</i>	488,178	<i>555,224</i>

C. HOARE & Co.
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2012

34 FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit quality of assets not subject to impairment

	2012	<i>2011</i>
	£000	<i>£000</i>
Loans and advances to banks, by rating		
- Aaa to Aa3	12,958	<i>223,365</i>
- A1 to A3	140,541	<i>119,466</i>
- Baa1 to Baa3	-	<i>5,328</i>
- Ba1 to Ba3	-	-
- B1 to B3	-	-
- Caa1 and below	-	-
- Not rated	-	-
	<hr/>	<hr/>
Unimpaired loans and advances to banks	153,499	<i>348,159</i>
	<hr/>	<hr/>
Available-for-sale financial assets by rating		
- Aaa to Aa3	265,512	<i>522,407</i>
- A1 to A3	202,920	<i>11,913</i>
- Baa1 to Baa3	2,111	<i>6,530</i>
- Ba1 to Ba3	-	-
- B1 to B3	-	-
- Caa1 and below	14,400	<i>9,900</i>
- Not rated	2,469	<i>2,421</i>
	<hr/>	<hr/>
Unimpaired available-for-sale financial assets	487,412	<i>553,171</i>
	<hr/>	<hr/>

C. HOARE & CO.
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2012

34 FINANCIAL RISK MANAGEMENT (CONTINUED)

The credit risk classifications used in the preceding table are

Individually impaired loans and securities

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

Watch list loans

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

Allowances for impairment

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

Write-off policy

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

Collateral

The Bank holds collateral against loans and advances to customers in the form of charges over property, investment securities, other assets and guarantees. Estimates of fair value are based upon the value of collateral assessed at the time of borrowing and generally are not updated, except when required by regulation. Further lending is required or a loan is assessed as impaired. Collateral is not held against loans to other banks or investment securities. At 31 March 2012, the value of property collateral recorded against customer facilities was £2,030m (2011 £1,810m). The estimated value of collateral against the impaired customer loans and advances was £0.4m (2011 £2.2m).

Renegotiated lending

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

(c) Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations from its financial liabilities.

Management of liquidity risk

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

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

Management of liquidity risk (continued)

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

Exposure to liquidity risk

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

£000	Carrying Amount	Next day	Less than 1 month	1 to 3 months	3 months to 1 year	Over 1 year
As at 31 March 2012						
Balance sheet						
Deposits from banks	476	476	-	-	-	-
Deposits from customers	2 070,722	1 486 756	363 854	141,235	72 747	6 130
Off balance sheet						
Undrawn customer facilities	275 184	275 184	-	-	-	-
Guarantees Letters of Credit and Performance Bonds	30 011	30 011	-	-	-	-
Total Liabilities	2,376,393	1,792,427	363,854	141,235	72,747	6,130
	<i>Carrying Amount</i>	<i>Next day</i>	<i>Less than 1 month</i>	<i>1 to 3 months</i>	<i>3 months to 1 year</i>	<i>Over 1 year</i>
As at 31 March 2011						
Balance sheet						
Deposits from banks	10	10	-	-	-	-
Deposits from customers	1 802 672	1 298,404	309 275	133 909	60 689	395
Off balance sheet						
Undrawn customer facilities	282,617	282 617	-	-	-	-
Guarantees Letters of Credit and Performance Bonds	28 617	28,617	-	-	-	-
Total Liabilities	2,113,916	1,609,648	309 275	133 909	60,689	395

C. HOARE & CO.
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2012

34 FINANCIAL RISK MANAGEMENT (CONTINUED)

Exposure to liquidity risk (continued)

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

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

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

(d) Market risk

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

Management of market risk

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

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

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

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

C. HOARE & Co.
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2012

34 FINANCIAL RISK MANAGEMENT (CONTINUED)

Exposure to market risks - interest rate risk

A summary of the Bank's interest rate gap position is as follows

£000	Carrying Amount	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Over 5 years
As at 31 March 2012						
Assets						
Loans and advances to banks and central banks	784 499	783 678	-	-	-	821
Loans and advances to customers	951 488	864 838	-	510	74 017	12 123
Interest bearing available-for-sale financial assets	484,944	412 844	50 061	-	9 401	12 638
Total assets	2,220,931	2,061,360	50,061	510	83,418	25,582
Liabilities						
Deposits by banks	476	476	-	-	-	-
Customer accounts	2 070 722	1 991 844	43 882	28 866	6 130	-
Total liabilities	2,071,198	1,992,320	43,882	28,866	6,130	-
Derivatives	-	97 021	-	(400)	(73 971)	(22 650)
Interest rate gap	149,733	166,061	6,179	(28,756)	3,317	2,932
£000	<i>Carrying Amount</i>	<i>Up to 3 months</i>	<i>3 to 6 months</i>	<i>6 to 12 months</i>	<i>1 to 5 years</i>	<i>Over 5 years</i>
As at 31 March 2011						
Assets						
Loans and advances to banks and central banks	520 158	519 568	-	-	-	590
Loans and advances to customers	869 180	800 242	-	6,284	53,580	9,074
Interest bearing available-for-sale financial assets	550 750	399,202	151 548	-	-	-
Total assets	1 940,088	1 719 012	151 548	6,284	53,580	9 664
Liabilities						
Deposits by banks	10	10	-	-	-	-
Customer accounts	1 802 672	1,741,587	33,918	26,772	395	-
Total liabilities	1,802,682	1,741 597	33,918	26 772	395	-
Derivatives	-	125 600	(65 000)	(4 000)	(48,350)	(8,250)
Interest rate gap	137,406	103 015	52 630	(24 488)	4,835	1 414

C. HOARE & CO.
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2012

34 FINANCIAL RISK MANAGEMENT (CONTINUED)

Exposure to market risk – interest rate risk (continued)

The principal market risk to which the Bank is exposed is the risk of loss from fluctuations in the future cash flows because of a change in interest rates. Interest rate risk is managed by the Bank's Treasury Department principally through monitoring interest rate gaps with assets and liabilities based upon the next interest re-fixing date as against the contractual maturity of the instruments. The ALCO oversees management of this risk.

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

Effect of a change to 2.00% in Sterling Market Rates	31 March	<i>31 March</i>
	2012	<i>2011</i>
	£000	<i>£000</i>
Net Present Value Sensitivity to		
Positive shift	(288)	<i>111</i>
Negative shift	325	<i>(77)</i>

The interest rate sensitivities set out above are illustrative only and are based on simplified scenarios. The figures represent the effect on net interest income and fixed interest security values arising from a parallel fall or rise in the yield curve and do not take into account the effect of any further actions to mitigate the effect. The values remain low as the Treasury Department has taken a short term view on interest rates.

Exposure to market risk – currency risk

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

	2012	<i>2011</i>
	£000	<i>£000</i>
US dollar	992	<i>69</i>
Euro	53	<i>180</i>
Other	887	<i>810</i>
	<hr/>	<hr/>
Total	1,932	<i>1,059</i>
	<hr/>	<hr/>

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

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2012

34 FINANCIAL RISK MANAGEMENT (CONTINUED)

(e) Operational risk (unaudited)

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's processes personnel fraud technology and infrastructure and from external events such as those arising from legal and regulatory requirements

Operational risk management objectives

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

Responsibilities

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

- The first line of defence has direct responsibility for strategy management and control of risk and includes all staff and management working within or managing business units and the Board
- The second line of defence co-ordinates facilitates and oversees the effectiveness and integrity of the operational risk management framework and includes the Chief Financial Officer the Risk Management Function and the Compliance Department
- The third line of defence provides independent assurance and challenge across all business functions in respect of the integrity and effectiveness of the operational risk management framework and includes Internal Audit the Audit & Compliance Committee and external assurance providers

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

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

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

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

C. HOARE & CO.
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2012

34 FINANCIAL RISK MANAGEMENT (CONTINUED)

(f) Fair values of financial assets and liabilities

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

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

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

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

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2012

34 FINANCIAL RISK MANAGEMENT (CONTINUED)

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

Group	2012	2012	2012	2012
Valuation Hierarchy	Level 1	Level 2	Level 3	Total
	£000	£000	£000	£000
Bank and building society - certificates of deposit	237,229	-	-	237,229
Equity securities (unlisted)	-	2,891	-	2,891
Debt securities with readily determinable fair values	247,715	-	-	247,715
Derivative financial assets	-	105	-	105
Total financial assets	484,944	2,996	-	487,940
Derivative financial liabilities	-	5,536	-	5,536
Group	2011	2011	2011	2011
Valuation Hierarchy	Level 1	Level 2	Level 3	Total
	£000	£000	£000	£000
Bank and building society - certificates of deposit	235,280	-	-	235,280
Equity securities	-	4,034	-	4,034
Debt securities with readily determinable fair values	315,470	-	-	315,470
Derivative financial assets	-	299	-	299
Total financial assets	550,750	4,333	-	555,083
Derivative financial liabilities	-	1,105	-	1,105

The table above includes available-for-sale financial assets as reported in Note 15 and derivative assets and liabilities as reported in Note 11. The Bank does not hold any financial assets or liabilities measured under Level 3 of the hierarchy.

(g) Capital management

The Bank's capital management for regulatory purposes is detailed in section 4 of the Director's Report on pages 6 and 7.

35 ULTIMATE CONTROLLING PARTY

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