Annual Report for the year ended 31 March 2022

C. Hoare & Co.
PRIVATE BANKERS SINCE 1672

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Chairman's Foreword

This has been another turbulent year for the British economy. It started as the UK emerged from 'lockdown' and the evolution of the coronavirus through the year continued to create challenges for government, business and people alike. Fortunately, the economy recovered rapidly, and the virus seems at last to be receding. However, COVID-19 casts a long shadow, not least in terms of supply chain disruption and the upsurge in inflation. More recently, Russia's invasion of Ukraine has left a trail of human misery not seen in Europe for many years, as well as creating yet more uncertainty in commodity markets and pushing the annual rate of inflation to 9%, the highest since 1982.

In the light of these events, the strategy that has served C. Hoare & Co. well over the last 350 years remains as relevant as ever. We focus on the UK. We prioritise customer service, and quality over quantity. We invest for the future, stay small and avoid the exotic. Above all, we seek to be good bankers and good citizens and we strive to embed this purpose in all that we do.

In terms of the bank's performance, ultra-loose monetary policy supported significant deposit growth of 20.7% which, combined with a 10.3% increase in lending, drove strong balance-sheet growth as well as a considerable increase in underlying profit from our core activities. However, higher interest rates inevitably resulted in mark-to-market losses on the bank's Treasury book, which meant overall profits remained subdued at £16.5 million vs £16.1 million in the prior year.

The Bank of England finally raised interest rates in December 2021 and again in February 2022. This has allowed the bank not only to provide higher interest to depositors but also to restore some of the net-interest margin eroded in recent years. Profitability should return to more normal levels in 2022-23, though the potential for continued interest-rate volatility, as well as further mark-to-market impacts, remains. As explained in last year's Annual Report, the investment reserve was created to make the bank's excess capital work by investing globally and, ideally, outside banking. In effect, it insures the bank against near-zero interest rates. The investment case has been proven in that the performance of the reserve has been inversely related to that of the banking book and, in the twin interests of resilience and stability, we will keep the reserve under review.

Chairman's Foreword *continued*

The Board is determined that the bank should remain capitalised well above levels required by the regulator. The common equity tier 1 capital ratio ended the year at 21.0%, with tier 1 capital standing at £382.0 million. The bank's liquidity is also strong, with £1.84 billion on deposit at the Bank of England.

Despite the rise in inflation, our costs remained under control. The increase of 5.8% on the year was largely due to the reinstatement of staff bonuses to pre-pandemic levels, reflecting the improvement in the bank's core performance and the strong financial outlook. Continued cost diligence meant that costs, excluding bonuses, were broadly flat year over year despite the inflationary headwinds. The increase in staff headcount from 451 (Full Time Equivalent) in 2020/21 to 464 was in the main accounted for by new joiners recruited to support the approved transformation plan.

An additional £7 million spend was approved in 2021 to accelerate the bank's two-year transformation plan; this will be achieved by simplifying processes, refreshing our technology, embedding hybrid working and improving our resilience through further investment in security, fraud prevention, risk and controls, and regulatory compliance. Such measures will ensure the bank is well placed for the future.

Impairment charges remained low at £1.5 million, below the historic average and with no new material impairments. Impairment was slightly up on the prior year, mainly due to reducing the valuation of the collateral held against our most significant impaired loan. Excluding this loan, security for other problem loans either retained or increased their value, with two significant sales achieved in the course of the year.

Diana Brightmore-Armour took up the reins as Chief Executive Officer in June and has already had a very positive impact on the bank. India Gary-Martin replaced her as a non-executive director. Rennie Hoare has joined the Board, and Amy Rodwell became the first 12th-generation partner.

Finally, I would like to thank everybody working at the bank, who rose impressively to the challenges of the last year and have adapted admirably to the new hybrid-working environment. And I would like to say a big thank you to our customers. Whether your families have been banking with Hoare's for 350 years, or you joined the bank last week, we aim to give you the best possible service and are grateful for your trust.

Nick Macpherson

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

Strategic Report

The Directors present their Strategic Report on C. Hoare & Co. and its subsidiaries ("the bank") for the year ended 31 March 2022.

1. Statement of Directors' Responsibility under Section 172 of the Companies Act

Section 172 Statement

Our purpose is to be good bankers and good citizens. We recognise that our purpose can only be achieved by addressing the interests of all stakeholders, including customers, colleagues, regulators, owners, suppliers and the wider community in which we operate.

Section 172 of the Companies Act requires us to confirm that our Directors have acted in a way that is most likely to promote the success of the bank for the benefit of its members as a whole. As a business underpinned by purpose, we pay close regard to matters set out in Section 172, but in all our decision making we also take into consideration our values and purpose.

Consequences of long-term decisions

The strong financial position of the bank, coupled with its ownership structure, allows the Board to set, and maintain, a long-term perspective when making decisions. The Board actively participates with the management team ("MT") in the setting of culture and strategy. Any significant decision, or shift in strategic direction, is discussed at the Board with the broader MT, who represent and bring forward considerations of various key stakeholders.

Our strategy is customer-led and founded on purpose in all that we do. In 2021, we refreshed our strategy to ensure we remain sustainable for the decades to come. The first step is the move to operate as a simpler, faster, better bank by 2023.

Fostering strong relationships with our stakeholders

As good bankers and good citizens, we seek to build strong relationships with our customers, suppliers and regulators. The Board regularly discusses how to engage with key stakeholders, both from a governance and strategic perspective. All matters submitted to the Board include analysis of which stakeholders will be impacted and how their interests have been considered. There is also a requirement to explain the impact of each matter on our purpose.

Our business is based on personal relationships. Our colleagues are integral to the business and play a critical role in delivering strategy. The talent, engagement and wellbeing of those who work at the bank is a major area of focus for the Board. The Board receives regular reports on a wide range of people issues. The partners engage with people across the bank every day in formal and informal settings; this allows them to develop a deep understanding of colleagues' perspectives on a wide range of matters.

Trust is a key component in all relationships, and we conduct our relationships in an open and transparent way. In our most recent customer survey, the vast majority of customers confirmed that C. Hoare & Co. is first choice for all banking needs, while more customers than ever said they expect to remain with us in the medium term. Nearly all customers trust the bank to do the right thing for them, and also for society.

Suppliers

We are committed to acting ethically and with integrity in all our supplier relationships. Where possible, we build longstanding relationships with our suppliers and make clear our expectations of business behaviour. This has included supporting our smaller suppliers throughout the pandemic by speeding up our payment processes to assist their cash flows.

Regulators

The relationship with our regulators is open and constructive. We have regular and ongoing dialogue with our Prudential regulators, across a range of subject matters. We view this dialogue as being of mutual benefit, especially during times of market disruption.

The Board actively promotes discussion on our wider impact, with time devoted to climate change, the investment strategies for pension assets, and our relationship with customers involved in industries seen as potentially harmful to social or environmental health.

For more information on how the bank engages with its key stakeholders, please see sections 3-7 of this report.

2. Key Strategic Metrics as Good Bankers and Good Citizens

CUSTOMER SATISFACTION

81% ↑ 6.0% YoY

The percentage of customers who are 'very satisfied' in all aspects of their relationship with the bank.

COLLEAGUE ENGAGEMENT

81% ↓ 1.0% YoY

The percentage of colleagues who find their roles engaging at the bank.

MEAN GENDER PAY GAP

2% ↓ 17.0% YoY

Reporting carried out March 2021, in line with regulatory requirements.

CARBON FOOTPRINT

410t ↑ 10.9% YoY

Measured in carbon tonnes.
Location-based method used.

PROFIT BEFORE TAX

£16.5m ↑ 2.7% YoY

MASTER CHARITABLE TRUST

£52.3m ↓ 2.4% YoY

The amount donated across all MCT funds to support charities globally.

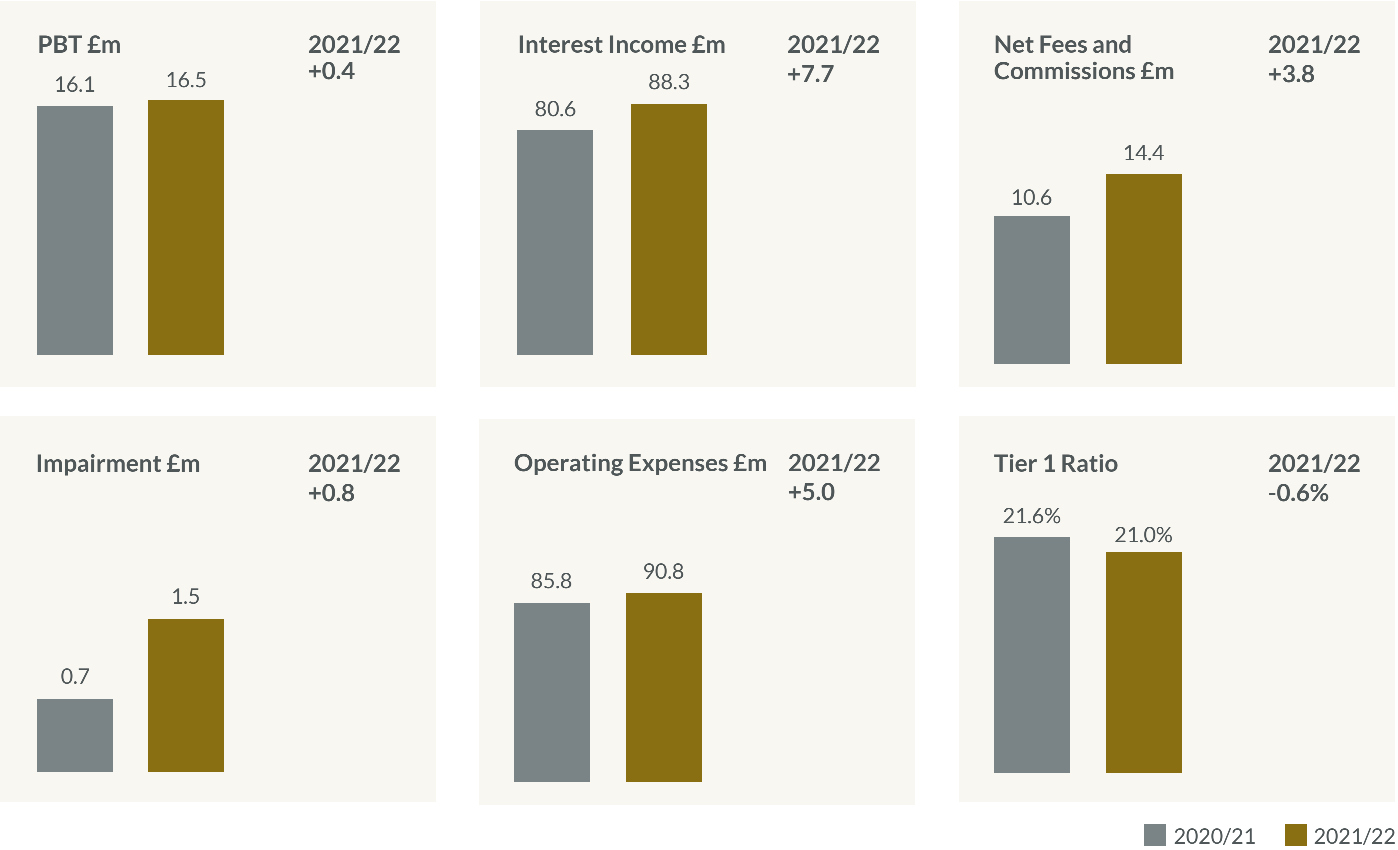
DEPOSIT BALANCES

£6,689m ↑ 20.7% YoY

LENDING BALANCES

£2,045m ↑ 10.3% YoY

Financial Performance Review and the Market Environment



Financial Performance

Profit before tax (PBT) increased by £0.4m to £16.5m in 2021/22 (2020/21 PBT: £16.1m). This was supported by net interest income from core activities of £88.3m which showed an increase of £7.7m (2020/21: £80.6m), driven by a 10.3% increase in customer lending, a 20.7% increase in customer deposits, and three increases in base rate which reached 0.75% in March 2022. Costs increased £5.0m in 2021/22 to £90.8m (2020/21: £85.8m), mainly due to staff costs and bonuses associated with investment in technology and reversal of one-off actions taken during the COVID-19 pandemic. Inflationary headwinds were largely offset by underlying savings.

2021/22 PBT was adversely affected by mark-to-market losses on Treasury investments amounting to £7.5m due to the market's expectation of base rates rising above 2% in 2022/23. These investments are expected to pull back close to par in the medium term given no impairment of the underlying assets and stabilisation in the market's expectation of future UK base rate movements. This contrasts with a £4.7m mark-to-market gain in 2020/21, arising principally from diversified equity investments. Excluding investment movements, PBT would have been significantly above prior year.

Impairments increased £0.8m to £1.5m in 2021/22 (2020/21: £0.7m). Increased impairment was mainly due to existing impaired loans. No new material impairments were made during 2021/22 and impairment levels remain below the existing 5-year average. Potential problem loans continue to be monitored and the loan book is expected to stay resilient to wider economic uncertainty.

The addition of prior year audited profits to Tier 1 capital was offset by changed treatment of intangibles, meaning that Tier 1 capital remained stable at £382m. Despite the 10.3% increase in lending and further diverse investments, the bank remains well capitalised with its Tier 1 ratio near 21%, 0.6% lower than prior year.

The bank maintained its commitment to philanthropy with a £1.5m donation to the Golden Bottle Trust in line with prior year. Expected margin improvement in 2022/23 arising from base rate increases should mean that donations to the Golden Bottle Trust can increase in the coming year.

Market Overview

Despite the emergence of two new COVID-19 variants, the UK maintained minimal restrictions from July 2021 onwards. The economy is now above pre-pandemic levels with unemployment back at 4%. While the risk remains of new COVID-19 variants, it is now seen as a secondary risk to the UK economy after inflation and escalation of the Ukraine-Russia war.

Reduction of COVID-19 restrictions across the globe saw a steep rise in demand, which global supply chains struggled to meet, causing inflation to accelerate. The 2% Bank of England inflation target was exceeded in May 2021.

Energy and commodities are the main drivers of steepening inflation, and this was exacerbated by war breaking out in Europe during February 2022. Whilst primarily a human tragedy, the secondary impact of the war has been a surge in commodity prices, since Russia is a key global exporter of oil and gas, and both Ukraine and Russia amongst the top 10 wheat-producing countries of the world.

Oil prices closed at $105 per barrel in March 2022 and although significantly below their peak of $128, they are still circa 50% higher than pre-COVID levels. Gas price increases have been even more acute with UK futures closing March 2022 circa 600% higher than pre-COVID, but below the early March peak of 549p per Therm.

With the UK energy price cap increasing 54%, UK inflation increased to 9% in April 2022 with a further reset in the energy price cap. Real household disposable income is expected to fall substantially in 2022, and with inflation likely to remain higher for longer, independent economic forecasters are expecting GDP growth to be limited over the coming years.

Despite increased market uncertainty, the bank's conservative UK-centric lending portfolio remains resilient and free from material new impairment. The bank closely monitors a lending watch list and maintains a prudent approach to new lending. As we exit from an exceptionally low base-rate environment, the bank's profits are expected to improve.

However, a higher base rate is likely to lead to increased competition for deposits, placing downward pressure on margins and making the 20.7% deposit growth rate of 2021/22 a challenge to repeat. Increased competition in lending is also expected to reduce the amount of base-rate increase that can be passed on to customers.

The technology shift in banking has accelerated during the pandemic, along with the emergence of challenger banks. The shift in the market adds to uncertainty about deposit and loan pricing and increases the potential for further price competition compared to 2009, when interest rates were last above 0.75%.

The bank's high-quality tailored customer service, in tandem with increased investment in technology, means the bank is well positioned to remain nimble and alert to customers' changing needs. Our exemplary service, unrivalled customer experience and prudent approach will leave the bank resilient to external uncertainty and well positioned for continued growth in the years ahead.

3. Customers

The bank prides itself on providing an empathetic customer experience. Relationships of deep trust are founded on shared values of honesty, empathy, excellence and social responsibility.

Every customer has a personal relationship manager who offers them a comprehensive range of services tailored to their individual needs. This includes everything from day-to-day banking and flexible lending to specialist services from our Treasury, Farms & Estates, Family Offices & Family Businesses, City Professionals, Entrepreneurs, and Arts, Culture & Entertainment teams and support with philanthropic giving via our Master Charitable Trust. We now have relationship managers established across the country in East Anglia, Yorkshire / Humber, the South West and the North West, looking after customers in those regions and working alongside local professional advisors. We have continued to recruit staff to ensure we maintain the highest standards of service.

Customers tell us that openness, trust and reciprocity are abundantly present in the experience they have with us. This has a direct impact on the types of products and services we offer. We seek to embed purpose into all our products and services to align with our customers' values.

We also seek to engage with our customers in other ways. Before joining the bank, every prospective customer has a meeting with a partner to ensure they share our values.
In this way, we curate lively communities based on shared interests such as entrepreneurship and philanthropy.

The pandemic continued to impact our business. Having set ourselves up quickly as a 'virtual' private bank in March 2020, we moved this year to a hybrid operating model. Our goal is to ensure we adapt quickly to changing circumstances and continue to provide excellent customer service, both virtually and in person.

This year we have continued to see a strong flow of new business from our existing customers and a record number of introductions from the professional firms with which we work closely. Our response times, compared to those of the competition, have also been good despite the challenging environment. Customers continue to value the bank's personal service day to day; this has seen us attract new customers. Our customer satisfaction levels and net promoter scores have increased year on year.

Although the pandemic continued to make large physical gatherings challenging, we hosted, when appropriate, a number of smaller in-person events. These sat alongside our programme of virtual events. Virtual events proved incredibly popular with customers and demonstrated our ability to be flexible and adapt to the changing environment while hosting hundreds of customers on live webinars. These events, and the way in which we have continued to establish and maintain personal connections in the bank community, received particularly warm commendation in our customer survey.

Recognising that our customers' lifestyles are changing, and that they have increasingly high expectations of instant, error-free interactions, we this year delivered an enhanced mobile app, along with a number of features to improve usability, including biometric login. We also extended the hours of payments to cover seven days per week, as well as increasing the hours that our telephone channel is managed by the relationship teams.

4. Colleagues

The bank has a caring performance culture that is articulated in our core values and the behaviours we need to demonstrate if we are to live up to those values. Our success in achieving this caring performance culture was clearly noticeable in our latest Colleague Survey where the Colleague Net Promoter Score, Colleague Happiness score, Colleague Engagement score and the Colleague Inclusion score all remained high.

Our shift over the last 12 months to a hybrid operating model has ensured that our colleagues continue to have the opportunity to work flexibly. An increasing number of colleagues are choosing to come into the bank and we are investing in both office space and technology to ensure it is optimised for hybrid working.

The bank is an equal opportunities employer and recruits the most suitable applicant for any given vacancy. We take a number of steps to ensure that we are a truly inclusive employer: When hiring, we insist on a diverse shortlist of candidates; our internal policies support the adoption of flexible work patterns by colleagues in all roles; and we actively encourage open conversations that foster the creation of a more inclusive bank. The impact of such an approach can be seen across the bank, nowhere more so than in our gender pay mean gap, which for the 2022 statutory reporting year was measured at 2% (the average across UK banks currently stands at 34%*).

We made great progress this year in embedding our purpose to be good bankers and good citizens even more deeply in the business. All colleagues were invited to discuss and reflect on their own personal contribution to our purpose: 86% of colleagues reported that they consider their day-to-day activities contribute towards this and colleagues awarded an average score of 7.8 out of 10 when asked how strongly they agreed with the statement that our purpose is a motivating factor in their working for the bank.

*The Gender Pay Gap in The UK Banking Industry in 2022 (ticfinance.co.uk)

5. Community

Social responsibility is one of the bank's core values. We understand that we have a responsibility to give back to our community and to mitigate our environmental impact.

During the year the bank made charitable donations of £1.5m (2021: £1.5m) to the bank's charitable trust, The Golden Bottle Trust ("GBT"). The GBT was set up in 1985 to further the philanthropic aims of the Hoare family and the bank. Each year, the partners donate up to 10% of the bank's profits to the trust.

The GBT has distributed £2.6m (2021: £3.1m) in grants during the year. It has developed an approach where both grants and investments are designed to create a positive impact. Consequently, since 2019 the GBT has been 100% invested into social impact investments; this concept of both grants and investments doing good is known as Total Portfolio Impact. Since 2011, the GBT investment portfolio has included direct debt and equity holdings, in 2016 the GBT co-created a multi-asset social impact investment fund called Snowball IM, and in 2019, the GBT put the final liquid portion of the portfolio into discretionary impact mandates.

Referencing the United Nations Sustainable Development Goals (SDGs), there are four core strands to the GBT's giving:

- Within Good Health and Wellbeing (SDG 3), we support United for Global Mental Health, a charity dedicated to breaking national silos in mental health best practice;
- For Reduced Inequalities (SDG 10), we support a number of charities, including Intermission Youth Theatre, which change the lives of at-risk young people through drama, and Villiers' Park and ThinkForward which offer structured mentoring and training opportunities;
- In support of Climate Action (SDG 13), we have chosen to use a concept called 'ecosystem granting'; this means that rather than focus all our funds on one or two causes, we have supported a wide variety of causes including agro-ecology and the preservation of peatland and sea grass; and
- We work with charities to support SDG 17, Partnership for the Goals. The Fore is a wonderful charity that works to catalyse the growth of smaller charities, while Philanthropy Impact works to increase the quantum of charitable giving through the provision of high quality philanthropy advice.

We have also supported our customers in their philanthropic giving via the Master Charitable Trust (MCT). During the year MCT recorded £52.3m (2021: £53.6m) of donations.

To encourage all our colleagues to give back, we double-match all charitable donations made via our Give-As-You-Earn scheme. As at 31 March 2022, 206 employees were donating via GAYE.

There are a number of ways in which colleagues have contributed to our local community:

- They have partnered with ThinkForward, through the GBT, to support exam skills at local schools;
- They have donated unwanted items of workwear to individuals in Uganda and to Smart Works, a UK charity that helps women gain confidence as they enter the workplace; and
- They have provided food each month to the Malta Soup Kitchen at St James's Church, Spanish Place.

We also began a comprehensive assessment of our performance as a business against the B-Corporation framework; this is a useful mechanism for us to challenge ourselves to be more effective as good bankers and good citizens. While there are many areas where we are doing well, we have set a strategic objective to see year-on-year improvement in our impact. Over the next 12 months we will be focusing on the environmental impact of our operations and our loans, reviewing how we support greater equality, diversity and inclusion, and strengthening the governance of measuring and managing our impact.

We were pleased to release our inaugural impact report in autumn 2021; this set out for the first time, and in an easy-to-read format, our social and environmental impact alongside key data on our colleague, customer, and supplier relationships. This is an important mechanism for us to demonstrate publicly how our purpose as good bankers and good citizens shapes the way we do business, and we will continue to develop this reporting format over the coming years.

To augment our efforts to embed good bankers and good citizens across the business, we have been using the B-Corporation assessment framework. We believe B-Corporation provides a strong baseline for what good business should look like. A wide range of colleagues have helped us evaluate our business practices using the framework, and together have developed a set of priorities for action and setting business-wide metrics to track our impact.

6. Environment

We seek to operate our business in a manner that is sustainable for the long term. Effective management of our carbon footprint is a core part of this strategy. We are committed to becoming net carbon neutral for our scope 1 and 2 emissions by 2025. Our scope 3 greenhouse gas emissions are currently unmeasured, but we are in the process of planning how best to measure and reduce these, while at the same time keeping a close eye on industry standards and best practice as it develops.

We continue to publish both our location-based carbon footprint and our market-based carbon footprint, as this provides the most complete picture of our emissions. The location-based method calculates the amount of carbon the bank, as a business, is emitting. The market-based method calculates the emissions the bank is responsible for through its purchasing decisions. This year we saw an increase in both our location-based and our market-based, carbon footprint. This was primarily driven by an increase in our gas usage as the office reopened following the pandemic. Each year, the conversion factors that feed into the calculation of our emissions are updated. This year there was an reduction in electricity conversion factors, year on year, but conversely, the conversion factors used to convert oil into emissions showed an increase.

We are currently developing our carbon reduction strategy and continue to address underlying operational issues that contribute to our carbon production. This year we upgraded the lighting across our estate to more energy efficient LED lighting and moved our generators and boilers to a bio diesel. All IT equipment is recycled against the WEEE regulations 2006 (Waste of Electrical and Electronic Equipment) or donated to various charities to be reused.

Recycling remains a priority for us, with 80% of our waste being recycled. We partner with Bio Collectors and Greener than Green, waste collectors with a ‘zero to landfill’ policy, to ensure all waste streams are recycled where possible. Unrecyclable waste is not sent to landfill and instead goes through a ‘waste to energy process’ and is made into fuel blocks or sources for electrical power stations. We also partner with Bio-Bean who convert all our coffee grounds into biomass pellets for bio fuel, and we are phasing out the use of all single-use sachets in our canteen. To date, we have chosen to pro-actively look for ways to reduce our scope 1 and 2 emissions, rather than offsetting them, as we feel the voluntary carbon offset market is not sufficiently mature. We also have plans in place to work with our customers to promote and encourage natural capital, biodiversity loss reversal and regenerative farming projects, through events and bringing together likeminded individuals. We see these issues as equally important as our carbon footprint and are ones where we believe we can, with the right partners, have an impact. Through grants made from the Golden Bottle Trust we are also broadening our understanding in areas such as seagrass and the restoration of peatland.

Emissions Summary (Market-Based)

Scope	Emissions Source Market-Based	Energy Use kWh	Emissions kgCO2e	Emissions tCO2e	Intensity Ratio tCO2e/£mil	Energy Use kWh	Emissions kgCO2e	Emissions tCO2e	Intensity Ratio tCO2e/£mil
		2022				2021			
Scope1 (Direct)	Fuel use for travel by owned and leased vehicles (fleet)	55,051	12,651	12.7	0.1	55	13	0.0	0.00
	Natural gas consumed in offices	639,588	117,147	117.2	1.1	376,181	69,168	69.2	0.67
	Gas Oil consumed by boilers and back-up generators	53,573	13,757	13.8	0.1	150,392	38,609	38.6	0.38
Scope2 (Indirect)	Electricity consumed in offices (including EV charging)	1,253,135	21,507	21.5	0.2	1,121,596	22,605	22.6	0.22
TOTAL		2,001,347	165,062	165.2	1.5	1,648,224	130,395	130.4	1.27

Emissions Summary (Location-Based)

Scope	Emissions Source Location-Based	2022 Energy Use kWh	2022 Emissions kgCO2e	2022 Emissions tCO2e	2022 Intensity Ratio tCO2e/£mil	2021 Energy Use kWh	2021 Emissions kgCO2e	2021 Emissions tCO2e	2021 Intensity Ratio tCO2e/£mil
Scope1 (Direct)	Fuel use for travel by owned and leased vehicles (fleet)	55,051	12,651	12.7	0.1	55	13	0.0	0.0
	Natural gas consumed in offices	639,588	117,147	117.1	1.1	376,181	69,168	69.2	0.7
	Gas Oil consumed by boilers and back-up generators	53,573	13,757	13.8	0.1	150,392	38,609	38.6	0.4
Scope2 (Indirect)	Electricity consumed in offices (including EV charging)	1,253,135	266,078	266.0	2.4	1,121,596	261,489	261.5	2.6
TOTAL		**2,001,347**	**409,633**	**409.6**	**3.7**	**1,648,224**	**369,279**	**369.3**	**3.6**

The following methodology has been applied to calculate the required energy and carbon data for Streamlined Energy and Carbon Reporting (SECR):

- Energy consumption data for gas and other fuels used at the bank's properties has been gathered in the form of supplier invoices and/or half hourly data, where available. For any periods where data was unavailable monthly consumptions were calculated based on a variance analysis between 2021 and 2022;
- Oil is used for an oil-fired boiler plant and backup generator plant. A summary of emissions for gas and oil used by the properties is included in the tables above;
- Fuel and/or mileage data has been provided for each vehicle owned/leased by C. Hoare & Co.;
- In the absence of actual mileage data for employee travel, the bank utilised total financial claims made for travel by employees. The total amount of claims was divided by £0.45/mile to estimate the total mileage. The assumption was made that the fuel type was petrol;
- The total energy data associated with each data source has been collated to calculate the total energy usage;
- Total energy usage has been converted to greenhouse gas (GHG) emissions by applying the appropriate 2020 UK Government GHG Conversion Factors for Company Reporting, in line with the GHG Protocol Corporate Standard methodology; and
- The selected metric for the emissions intensity ratio is income. Carbon emissions have been reported for each category per £130m (2021: £102.6m) total income for the reporting period.

7. Governance

Founded in 1672 by Sir Richard Hoare, C. Hoare & Co. has been owned by the Hoare family for 12 generations. The current shareholders, or partners, are fully engaged in all aspects of our business and meet with colleagues and customers on a daily basis. The partners' deep understanding of the needs of private banking customers, developed over twelve generations, ensures the continuation of the bank's culture, values and purpose.

The Board is the key governance body responsible for the overall strategy, business performance and risk management of the bank. It is comprised of a mix of independent non-executive directors, the Chief Executive Officer ("CEO") and partners. The Board delegates day-to-day executive management of the bank to the CEO who directs the Management Team to deliver against the bank's strategy. More details of the roles and responsibilities of the Board, the Management Team and the other bank committees can be found in section 7.1.2.

The bank is authorised and subject to prudential regulation and supervision by the Prudential Regulation Authority (PRA) and subject to conduct regulation and supervision by the Financial Conduct Authority (FCA). The PRA and the FCA also apply the Senior Managers and Certification Regime (the SMCR) which imposes a regulatory approval, individual accountability and fitness and propriety framework in respect of senior or key individuals within the bank. The bank maintains a Management Responsibilities Map which describes its management and governance arrangements in line with the requirements and expectations of the UK Senior Managers Regime. Training on the SMCR is provided to all those who hold Senior Manager Function responsibilities to ensure they are able to discharge their duties appropriately, and to ensure all staff understand how the SMCR Conduct Rules apply to their roles.

The bank is also subject to regulatory initiatives undertaken by the UK Payment Systems Regulator (PSR) as a participant in payment systems regulated by the PSR, and it engages with the Information Commissioner's Office and HMRC. Our engagement with regulators ensures we serve our stakeholders' best interests and provides us with important oversight on how we manage the various elements of our business model.

Our approach is to conduct our business, including our tax affairs, in a transparent manner, complying with relevant legislation and submitting payments and reporting on a timely basis.

As a private bank dedicated to excellence in personal service, we partner with numerous organisations to deliver strategic, financial and / or operational benefits. We believe we are responsible for ensuring that the organisations with whom we choose to partner share our values and operate in an ethical manner. The governance of our supplier network is of paramount importance. The bank's 'Supplier Management Council' provide oversight of business-as-usual activities of the supplier network. This supplements a defined function and operating model that provides the framework, monitoring, and reporting methodology for supplier management oversight. This approach ensures that key services affecting the bank's ability to do business are readily identified and that governance is in place to support those partnerships and relationships. The success of our control system is founded on honest, open relationships with our key suppliers. To ensure confidence in the robustness and integrity of our supply chain, we have established regular dialogue with critical suppliers and cooperation to overcome challenges to the bank's service(s). This ongoing engagement successfully prevented disruption to the bank's operation through both Brexit and the pandemic.

The partners play a critical role in continuing to uphold the philanthropic traditions of the bank, as well as encouraging customers to give effectively. Every year, Alexander Hoare publishes a Summer and Winter Letter in which he shares his thoughts on the progress of the bank. He is also the chair of Snowball; co-founded in 2016 by the Golden Bottle Trust. This multi-asset social-impact investment fund looks to democratise social impact investment. With fellow partner Rennie Hoare, Alexander hosts a series of talks every winter which, among other things, showcases the best charities and social enterprises discovered by the bank.

7.1 Risk Management and Governance Structure

The Company and Group's business is stable and concentrates on the supply of banking and ancillary services to generations of customers. The bank experiences regular patterns of income and expenditure, which are well understood by the bank's Management Team ("MT"). This stability enables the Board and MT to monitor risks closely and to detect and manage emerging challenges at an early stage.

The bank's approach to risk management is to maintain balance between risk and potential reward, thereby achieving strategic objectives without exposing the bank to unacceptable residual risk. The principal risks affecting the bank are explained in the next section.

The Risk Management Framework ("RMF") comprises the risk governance structures, risk appetite, risk monitoring framework and bank policies necessary to achieve the bank's risk management objectives.

These objectives are:

i. to articulate and communicate the Board's risk appetite and ensure that the bank's risk profile operates within its defined parameters;

ii. to ensure significant risks are identified, measured, managed, monitored and reported in a consistent and effective manner across the bank;

iii. to re-assess on a regular basis capital requirements and liquidity impacts implied by the bank's risk exposures;

iv. to collect and report all components of risk information in order to provide a comprehensive view of the bank's risk exposure both to the Board and to its Committees, allowing them to evaluate risk-adjusted performance against strategic objectives; and

v. to ensure a robust risk-governance structure and risk culture is maintained.

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

The RMF is based on the principles and guidance prescribed by the Committee of Sponsoring Organisations and is reviewed and approved at least annually by the Board.

7.1.1 Risk Appetite Statement

Board Strategic Objective

The Hoare family vision is "to continue to be the preeminent private bank in the UK". With this in mind, the bank's strategic objective is to build profitable long-term relationships with its customers and to offer an exceptional and personalised service.

Board Approved Risk Appetite Statement and Risk Appetite Metrics

In order to meet its strategic objectives, the bank is willing to take risk consistent with the bank's values, provided it does not threaten the bank's reputation or sustainability. The Board articulates the level of risk that the bank is willing to accept in achieving its strategic objectives both in total and for individual risk categories. This is articulated in the Risk Appetite Statement which is reviewed and updated at least annually.

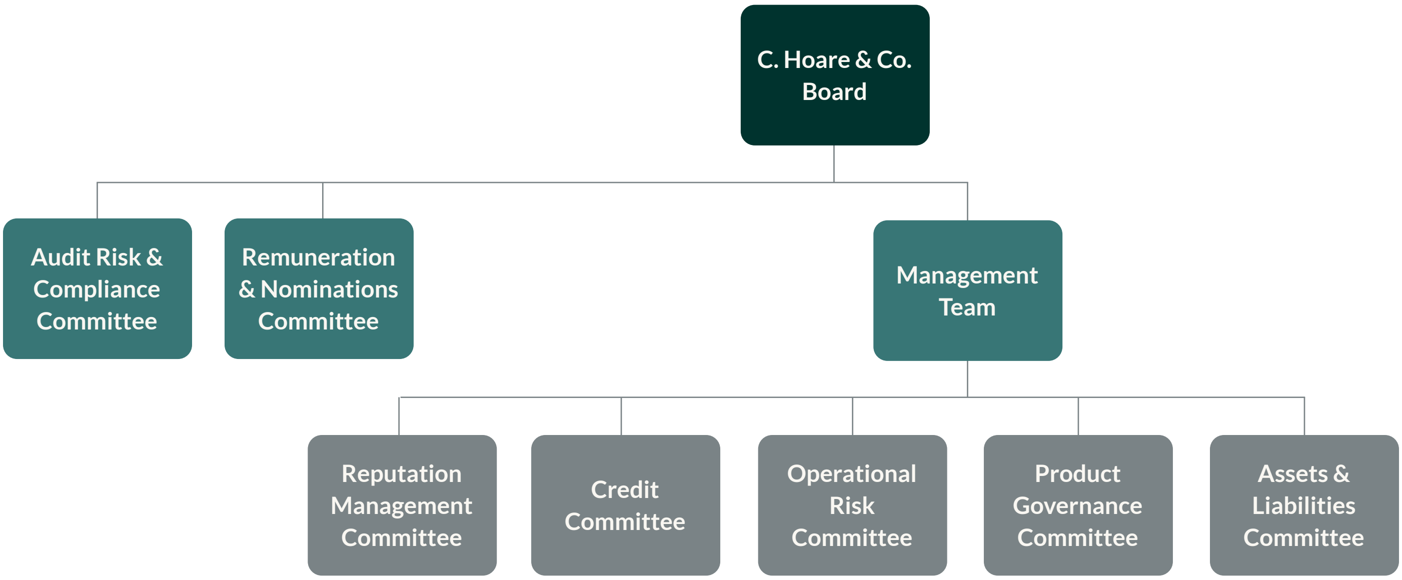
The Board also articulates the level of risk the bank is willing to accept, both quantitatively and qualitatively, through the use of key risk indicators and early warning indicators.

7.1.2 Governance Structure

The Board of Directors ("the Board"), its committees, sub-committees and the Three Lines of Defence model form the bank's risk management governance structure.

The primary structure for the current year is shown below:

Table 1: Governance Structure



Board of Directors

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

- Audit, Risk & Compliance Committee (“ARCCo”);
- Remuneration & Nominations Committee (“RemCo”); and
- Management Team (“MT”).

The Board is responsible for providing leadership in the following areas:

i. Development, implementation and monitoring of effective policy, governance and procedures at the bank;

ii. Development of the bank’s culture;

iii. Setting of strategic objectives and the monitoring of implementation thereof by MT;

iv. Oversight and approval of the allocation and maintenance of the bank’s capital, funding and liquidity and the stress thereof; and

v. Guidance and oversight of key functions delegated to MT, ensuring that the bank operates within the RMF and remains compliant with all relevant regulation.

Remuneration & Nominations Committee

RemCo, in coordination with the partners, is responsible for providing leadership over:

i. Appointment of Directors and MT members, ensuring robust succession planning;

ii. A formal, transparent and rigorous process of selection and oversight of Partner Directors and Non-Executive Directors; and

iii. The setting of principles, parameters and governance over the bank’s remuneration policy, including the review and approval of senior management remuneration and that of Non-Executive Directors and material risk takers (colleagues whose actions are deemed to have material impact on the bank’s risk profile).

Audit, Risk & Compliance Committee

ARCCo is responsible for assisting and advising the Board in its oversight of the following areas:

i. Safeguarding the independence of, and providing oversight over, the performance of internal audit, compliance and risk functions;

ii. Ensuring effective management and maintenance of the bank’s capital, funding (where applicable) and liquidity and the reporting thereof;

iii. Independence, autonomy and effectiveness of the bank’s policies and procedures on financial crime, whistleblowing and recovery planning / resolution;

iv. Monitoring the effectiveness of the RMF, ensuring that the bank operates in a manner consistent with its risk appetite and strategy.

Management Team

The Board delegates day-to-day executive management of the bank to the Chief Executive Officer (“CEO”) who directs MT to deliver against the bank’s strategy. MT is responsible for assisting and advising the Board in its oversight of the following areas:

i. Development and maintenance of the firm’s business model as set by the Board;

ii. Adoption of the bank’s culture in the day-to-day management of the bank;

iii. Allocation of all prescribed responsibilities and monitoring the effective implementation of policies and procedures at the bank;

iv. Induction, training and professional development of all bank colleagues with special emphasis on senior managers and key function holders;

v. Ensuring that compliance, risk management, treasury, finance and other operational functions operate within the RMF of the bank;

vi. Managing the allocation and maintenance of the bank’s capital, funding (where applicable) and liquidity in compliance with requirements of the regulatory authorities;

vii. Ensuring the integrity of the bank's financial, management and regulatory reporting; and implementing the firm's internal stress-tests and ensuring accuracy and timeliness of information provided to the regulatory authorities in this respect.

Membership of MT is made up by the following individual roles:

- Chief Executive Officer ("CEO");
- Head of Banking;
- Chief Financial Officer ("CFO");
- Chief People Officer;
- Head of Treasury;
- Chief Risk and Compliance Officer ("CRO");
- Chief Technology and Operations Officer ("CTOO");
- Chief Customer Officer ("CCO"); and
- General Counsel, Company Secretary and Head of Business Services.
- Head of Internal Audit also attends.

MT has in turn established the following sub-committees to support its responsibilities:

i. Asset & Liability Committee ("ALCo");

ii. Credit Committee ("CCo");

iii. Product Governance Committee ("PGCo");

iv. Operational Risk Committee ("ORCo"); and

v. Reputation Management Committee ("RMCo").

Asset and Liability Committee

ALCo oversees the bank's balance sheet, including its free capital. It is also responsible for allocating funds within the balance sheet with the aim of managing liquidity, currency risk, capital adequacy and profitability.

Credit Committee

CCo oversees the bank's approach to customer and counterparty credit risk. It reviews and approves the credit risk appetite and lending parameters, oversees the overall lending portfolio and sanctions individual deals against delegated authority limits. It is also responsible for monitoring all credits that are considered heightened risk.

Product Governance Committee

PGCo provides oversight and leadership on the bank's product and service proposition, aligning it to the bank's strategy and core customer needs.

Operational Risk Committee

ORCo oversees the bank's operating risks and controls. It is responsible for monitoring the internal and external operational risk environments and the tracking, testing of and improvement to existing controls.

Reputation Management Committee

RMCo is designed to discuss all potential threats and steps that might impact the bank's reputation with its various stakeholders.

Three Lines of Defence Model

A Three Lines of Defence model has been adopted by the bank to embed the RMF.

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

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

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

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

Third Line of Defence ("3LoD") – Internal Audit

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

Evaluation of the Board

The annual Board Effectiveness Review was conducted internally. The 2022 evaluation took the form of a confidential questionnaire which assessed the performance of the Board as well as informal feedback from the Non-Executive Directors. The questions covered Board effectiveness, Board composition, Board dynamics, succession planning and training. The feedback was collated by the Company Secretary and discussed by the Board in March 2022. Overall, the survey produced a positive set of results, confirming the effectiveness of the Chairman, the Board's understanding of the culture and values of the bank, the clarity of the Bank's strategy, and the effectiveness of the Board in testing and developing that strategy. When asked about risks and opportunities, the main risks identified concern technology issues, the ambitious change programme and retaining talent. The main opportunities identified concerned business growth. A number of actions are planned to ensure the Board addresses key themes identified in the feedback over the course of the next year.

7.2 Principal Risks and Uncertainties

The Board has ultimate responsibility for identifying and managing the bank's principal risks in order to achieve its strategic objectives. ARCCo and MT provide oversight and monitor the effectiveness of internal controls and risk management processes and reports thereon to the Board. The following section sets out the principal risks and uncertainties to which the bank is exposed and how these risks are mitigated.

(a) Customer Credit Risk

Customer Credit risk is the risk of financial loss arising from a borrower failing to meet its contractual financial obligations. The risk arises from loans and advances to customers of the bank. The bank seeks to limit loan losses by maintaining a conservative credit portfolio managed via a robust credit risk framework. As part of that framework, the bank has established risk appetite metrics aligned to its lending policy. The bank's customer credit risk exposures and performance against risk appetite are monitored and reported to the CCo, MT, ARCCo and the Board. The bank conducts stress tests to ensure that the bank remains within its risk appetite.

(b) Treasury Credit Risk

Treasury credit risk is governed by risk appetite limits assigned to counterparties to ensure that credit is only extended to high quality counterparties, where credit limits are determined in accordance with their respective credit ratings. In addition, there is a maximum exposure limit for all institutions, in line with the bank's regulatory reporting requirements on large exposures. The bank's policy is to lend to a restricted list of financial institutions, with the main selection criteria being the stability and reputation of the institution.

ALCo regularly reviews the authorised list of bank counterparties and authorises any amendments to the approved list of counterparties and their respective credit limits. ALCo will also give ongoing consideration to changes in external credit ratings and amend counterparty limits as appropriate.

(c) Capital Risk

Capital risk is the risk of insufficient capital being available to support the strategic objectives of the bank. The bank's policy is to maintain a stable capital base in line with the capital risk appetite established by the Board.

The bank's regulatory capital and leverage ratios are monitored closely to ensure that the bank meets both current and future known regulatory requirements both under business planning and within stressed forecast positions. The bank's current and forecast capital positions are reported monthly to ALCo and MT and to the Board.

The bank maintains a minimum capital appetite threshold that ensures capital remains above the regulatory minimum even in a stress scenario. The minimum threshold is dynamic and refreshed following each 5-year-plan cycle and Internal Capital Adequacy Assessment Process ("ICAAP"). Capital adequacy is assessed on an annual basis through the ICAAP, and more frequently in the event of a material change in capital. The ICAAP is the bank's own assessment of its capital needs and is based on stress testing scenarios measuring the impact of material risks affecting the bank. The ICAAP is presented at least annually to ALCo, MT and ARCCo for review and challenge, and ultimately to the Board for review, challenge and approval.

(d) Liquidity and Funding Risk

Liquidity risk is the risk that the bank is unable to meet its liabilities as they fall due. The risk arises from mismatches in the timing of cash flows.

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

The bank does not use wholesale banking to source funds. Instead, the bank funds its operation through customer deposits in the form of current accounts and savings deposits. Although a significant proportion of customer deposits are repayable on demand, they have behaviourally remained stable and reliable through historic periods of market stress.

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

The bank assesses adequacy of its liquidity through the annual Internal Liquidity Adequacy Assessment Process ("ILAAP"), and more frequently in the event of a material change in liquidity. The ILAAP is the bank's own assessment of its liquidity needs and is based on stress testing and scenario analysis of the impact of material risks affecting the bank. The ILAAP is presented at least annually to ALCo, MT and ARCCo for review and challenge, and ultimately to the Board for review, challenge and approval.

(e) Market Risk

Market risk is the risk that changes in market prices, such as interest rates, equity prices, foreign exchange rates and credit spreads, will affect the bank's future cash flows or the fair value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, whilst optimising the return on residual risk taken. Market risk is principally a concern in the banking book since the bank does not operate a significant trading book. Instead, the bank generally holds assets until maturity (consistent with the articles of the Capital Requirements Regulation) and makes investments on a long term basis. The bank also holds an investment portfolio, primarily as a source of income diversity to complement core banking activities. The portfolio is subject, in part, to equity market price movements.

All investments depend on Board approval of allocated capital and are subject to limits and controls monitored by ALCo. The bank's market risk exposures arise from:

- **Interest Rate Risk**

The majority of fixed rate loans are hedged to minimise exposure to interest rate risk, though yield curve and basis risk still remain. A component of the banking book is also recorded at fair value.

Interest rate risk (basis) arises from an imperfect correlation between the bank's lending and deposit rates. The bank has set limits to manage basis risk, as measured by the value of earnings at risk. This ratio is monitored monthly at ALCo.

Interest rate risk (yield curve) is managed by the bank's Treasury department, principally through monitoring the net present value of potential income sensitivity arising from interest rate gaps between assets and liabilities across a range of possible stress scenarios. As part of the risk management process, the bank uses interest rate swaps to hedge exposures to interest rate risk. ALCo approves the use of specified derivative instruments within agreed limits and business activities.

- **Foreign Currency Risk**

Foreign currency risk arises from foreign currency needs of the bank's customers and, less materially, from US dollar-denominated investments (see below). Neither exposure forms a significant part of the balance sheet.

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

The foreign exchange dealers have authority to deal in forward foreign exchange contracts within specified limits, to meet customer requirements. The resultant positions are independently monitored and reported monthly on a currency-by-currency basis to ALCo.

A small portion of the bank's investments are made in US dollar-denominated funds, which give rise to FX risk exposure on the undrawn components of those commitments. There are limits established for unmatched FX exposures in the bank's investments that are monitored and reported to ALCo, but typical practice has been to hedge such exposure.

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

- **Inflation Risk**

The combination of the COVID-19 pandemic, the Ukraine-Russia war, movements in global oil and gas prices and Brexit transition have created economic pressure, particularly with respect to increased inflation. The UK economy may experience a more sustained period of higher inflation which is expected to put pressure on the bank's costs over the medium term.

Increased inflation is expected to be matched by an increase in the Bank of England base rate, which will positively impact the bank's interest income. The bank is also mindful that rising interest rates may impact borrowers, particularly in their ability to afford loan repayments and interest costs. The bank has an established credit risk framework, as mentioned in the credit risk section, to support the evaluation of customer affordability and to support our customers' evolving needs.

(f) Operational Risk

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

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

Colleagues have adapted well to hybrid working conditions following COVID-19. The bank has closely monitored colleague well-being throughout the pandemic, and absences due to sickness remain low. Colleague turnover rates have been within risk appetite levels and the bank has inducted a number of subject-matter experts to support its change agenda.

Each department is responsible for operating within the bank's risk appetite and owns the management of the individual risks directly linked to its business operations. This includes identifying, mitigating, monitoring and reporting risks and ensuring that activities are undertaken within policy requirements. The Risk department is responsible for establishing, documenting and implementing effective risk management practices within the bank and for providing oversight of the risk management and reporting process. (please also refer to the Three Lines of Defence above).

The key elements of the Operational Risk Framework are:

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

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

(g) Concentration Risk

The bank acknowledges that the nature of its business model creates a level of concentration risk. The bank is comfortable that concentration risk is accepted and monitored to appropriate levels.

(h) Conduct Risk

The bank expects the conduct and treatment of its colleagues, third-party suppliers and customers to be consistent with the bank's values. Conduct risk consideration is embedded in product and service-design principles and processes, to ensure that resultant products and services align to the bank's values.

The bank has established a robust set of systems and controls, including regular training of staff. Risk appetite metrics for Conduct risk have been established and are monitored by ORCo, MT, ARCCo and the Board.

(i) Reputational Risk

The bank's standing in the eyes of its customers, regulators, counterparties, colleagues and the general public is of critical importance to the Board. The bank established RMCo to ensure appropriate focus is maintained over this risk. MT, ARCCo and the Board also monitor a range of associated risk appetite metrics against this risk exposure.

(j) Regulatory Compliance Risk

As a regulated entity, the bank is subject to regulatory requirements. The bank has a dedicated compliance function that provides advice and oversight to the business on regulatory matters and conducts regular monitoring. The bank has also established risk appetite limits that are closely monitored by MT, ARCCo and the Board.

(k) Environmental, Social and Governance ("ESG") Risk (including climate change)

The Board, via a specially constituted internal taskforce, focused upon each of its ESG high priority areas. The bank's approach is set out below.

- **Governance**

In the last year, climate-related issues have become a regular topic on the Board's agenda. It has received updates on the work to implement the PRA's requirements for climate risk, and has received risk and scenario assessment outputs on the impacts of climate risk under different temperature pathway scenarios. Climate change responsibilities have been formalised into the relevant committees of the bank.

Under the Senior Managers Regime, responsibility for climate-related issues sits with the CRO. Other individuals across the organisation support the CRO in this role. The General Counsel is responsible for ensuring the bank complies with Streamlined Energy & Carbon Reporting Regulations, and the CRO is responsible for ensuring the implementation of the PRA's requirements on climate change.

The Chief Customer Officer is responsible for integrating climate change into the bank's business strategy. The bank has also established a climate risk working group which consists of a team of senior individuals across the bank, including the CRO and CFO. This working group is tasked with, and has been providing, review and challenge of the approach and key outputs of the climate risk management framework.

- **Climate Risk Management Framework**

Climate change has the potential to affect the bank directly (company-related risks) and indirectly (predominantly via the lending book). Climate risks are anticipated to arise through both direct physical effects, such as flooding or subsidence, and indirect transitory effects typically associated with the transition to a lower-carbon global economy. The most common transitory risks relate to policy and legal actions, technology changes, market responses, and reputational considerations. Opportunities will also be created as global economies transition towards net zero emissions.

The bank has developed and executed a methodology to assess the key credit risks arising from climate-change, with reference to the publications from the Task Force for Climate related Financial Disclosures and evolving industry practices. The bank continues to assess how climate change can affect the bank through other transmission channels

The bank will continue monitoring the outputs and developments on climate change to inform its thinking and actions.

- **Streamlined Energy & Carbon Reporting Regulations**

The bank continues to monitor and take action to reduce the bank's own carbon footprint: the bank has been monitoring its tier one and tier two emissions in line with the Streamlined Energy & Carbon Reporting Regulations for three years. In its 2019/20 financial accounts, the bank set itself a target of becoming carbon neutral for its tier one and two emissions by 2025. The board, via a specific internal taskforce, is now looking to establish more challenging long-term goals related to climate change.

(l) Technology & Change Risk

The bank's business model is dependent upon the technology platform employed to deliver service to customers of the bank. Technology is increasingly seen as a differentiating factor within the banking industry. MT and the Board have recognised this trend and have consequently devoted significant resource to ensuring that the technology platform evolves to respond efficiently to customer and stakeholder needs. At the same time, cyber security is an increasing threat and the bank continues to invest to ensure the security of its customers and various stakeholders. The change process is subject to review by committee that ensures all change projects delivered are equally responsive and robust.

(m) People Risk

The bank's business model is dependent upon its people and their level of capability and engagement. Having the right people in the right positions with robust skill development and succession planning is key to building a long-term business. To this end, MT, RemCo and the Board are significantly involved in important staff decisions to ensure that the bank successfully attracts, retains and develops talent. The bank's Human Resources function is well resourced and has agreed a people strategy with MT and the Board, which will support the further development of colleagues by providing training and development; this also ensures that appropriate standards and conduct are maintained throughout.

Detailed disclosures on credit risk, liquidity risk, interest rate risk, foreign exchange risk and the use of derivatives are set out in Notes 12 and 31 in accordance with FRS 102 'Financial Instruments: Disclosures'. The bank's capital management is detailed in the Directors' Report on pages 21 to 24.

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

By Order of the Board
16 June 2022

Ms K. White
Company Secretary
C. Hoare & Co.
37 Fleet Street
London
EC4P 4DQ
Registration number: 240822

Directors’ Report

The Directors of C. Hoare & Co. ("the bank" or "the Company") present their Annual Report and audited Consolidated financial statements of the bank 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 2022.

The financial statements were approved by the Board on 9 June 2022.

1. Principal Activities

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

2. Results and Dividends

The financial results for the year are set out in the Statement of Comprehensive Income on page 32.

Total comprehensive income for the year of £18.0m (2021: £4.0m) will be used to strengthen reserves and support future growth.

The Board recommends an ordinary share dividend for the year of £50 per share (2021: £50), resulting in a total dividend of £6,000 payable on 30 June 2022 (2021: £6,000).

3. Capital Management

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 capital management during the year. The primary source of new capital for the bank is retained profits. The Board is conscious of the need for retained profits to be sufficient to grow capital in line with business growth and to meet regulatory driven expectations of higher capital ratios across the industry. The Board is responsible for capital management. The Board, the MT and the ALCo all receive regular reports on the current and forecast level of capital.

The bank continues to proactively monitor developments in the regulatory landscape and to incorporate the impact of forthcoming regulatory changes to the capital forecasts; this ensures that the bank maintains a strong capital base that exceeds minimum regulatory requirements.

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

Under CRD IV, the bank's regulatory capital comprises two tiers:

- Common Equity Tier 1 capital is the highest form of regulatory capital under CRD IV, which includes the share capital; reserve fund; audited retained profits and losses from previous years; property and heritage asset revaluation reserves; plus, any regulatory adjustments; and
- Tier 2 capital, which comprises the bank's collective allowance for impairment.

The bank does not have any Tier 1 capital that is not Common Equity Tier 1.

4. Capital Adequacy Requirements

The bank calculates its Pillar I capital at a consolidated level using the standardised approach to credit risk, market risk and operational risk from the Basel III framework. The regulatory minimum of total capital is calculated at the standard rate of 8% of the risk weighted assets.

Pillar II Supervisory Review Process includes the requirement for the bank to undertake an Internal Capital Adequacy Assessment Process ("ICAAP"). The ICAAP represents an internal aggregated view of the risks faced by the bank, not covered by Pillar 1 framework. Pillar 2A sets out the additional regulatory capital as determined by the PRA, through the issuance of a firm specific Total Capital Requirement ("TCR"), following the Supervisory Review and Evaluation Process ("SREP"). The bank's TCR is 10.9% of Risk Weighted Assets ("RWAs"), of which at least 56.3% must be met with CET1.

Other Capital buffers required to be met from CET 1 capital include:

- Capital Conservation Buffer ("CCoB"), a standard buffer calculated as 2.5% of RWAs, designed to provide for losses in the event of a severe but plausible stress; and

- Countercyclical buffer ("CCyB") is expressed as a percentage of RWAs to the bank's UK exposures. The Financial Policy Committee is responsible for setting the UK countercyclical capital buffer rate, which for the UK is currently set at 0%, with a projected increase of 1% applied from December 2022.

Pillar 3 complements Pillar 1 and Pillar 2 and aims to encourage market discipline by developing a set of disclosure requirements which allow market participants to assess the scope of application of Basel III, capital, risk exposures and risk assessment processes, and hence the capital adequacy of the firm.

The bank's total regulatory capital ratio decreased year on year from 21.9% to 21.2%, while the Common Equity Tier 1 ratio decreased from 21.6% to 21.0%. Regulatory capital was impacted during the year by increased intangible asset deductions. The capital ratios remain comfortably above the regulatory requirements. The increase in total regulatory capital during the year was due to retained profits.

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

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

Group	2022 £000	2021 £000
Common Equity Tier 1 capital		
Ordinary share capital	**120**	120
Reserve fund	**22,598**	22,598
Profit and loss account	**357,097**	340,230
Property revaluation reserve	**24,896**	27,386
Heritage assets revaluation reserve	**10,982**	7,398
Intangible assets adjustment for CRR II treatment	**(26,331)**	(13,091)
Net defined benefit obligation	**(7,373)**	(3,200)
Total Common Equity Tier 1 capital and Total Tier 1 capital	**381,989**	381,441
Tier 2 capital		
Collective Impairment Allowance	**4,403**	4,323
Total Tier 2 capital	**4,403**	4,323
Total regulatory capital (Audited)	**386,392**	385,764
Risk weighted assets	**1,822,244**	1,764,829
Capital ratios		
Total regulatory capital expressed as a percentage of risk weighted assets	**21.2%**	21.9%
Common Equity Tier 1 capital expressed as percentage of risk weighted assets	**21.0%**	21.6%

5. The Board of Directors

Directors of the bank holding office during the year and up to the date of signing the financial statements were as follows:

Mr A. S. Hoare

Miss V. E. Hoare

Mr S. M. Hoare

Miss A. S. Hoare

Mr A. R. Q. Hoare

Mr R. R. Hoare
(appointed 20 April 2022)

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

Ms D. S. Brightmore-Armour
(appointed Chief Executive Officer 14 June 2021)

Mr A. J. McIntyre

Ms J. E. M. Waterous

Ms I. Gary-Martin
(appointed 13 September 2021)

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

6. Disclosure of Information to Auditors

Directors who held office at the date of approval of this Directors' Report confirm that they have made themselves aware of any relevant audit information and that all relevant audit information was shared with the bank's auditors.

7. Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors have prepared the Group and Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law).

Under company law, 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 Company and of the profit or loss of the Group for that period. In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 102, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going-concern basis unless it is inappropriate to presume that the Group and Company will continue in business.

The Directors are also responsible for safeguarding the assets of the Group and Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and Company's transactions, disclose with reasonable accuracy at any time the financial position of the Group and Company, and enable Directors to ensure that the financial statements comply with the Companies Act 2006.

Directors' Report

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

By Order of the Board
16 June 2022

Ms K. White
Company Secretary
C. Hoare & Co.
37 Fleet Street
London
EC4P 4DQ
Registration number: 240822

Independent Auditors' Report to the Members of C. Hoare & Co.

Report on the audit of the financial statements

Opinion

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

- give a true and fair view of the state of the Group's and of the Company's affairs as at 31 March 2022 and of the Group's profit and the Group's cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Consolidated Financial Statements (the "Annual Report"), which comprise: the consolidated and Company balance sheets as at 31 March 2022; the consolidated statement of comprehensive income, the consolidated and Company statement of changes in equity and the consolidated cash flow statement for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit, Risk and Compliance Committee.

Basis for opinion

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

Independence

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

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

We have provided no non-audit services to the Company in the period under audit.

Our audit approach

Overview

Audit scope

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

Key audit matters

- Valuation of provisions for impairment of loans and advances to customers (Group and Company)
- Valuation of Heritage Assets – Paintings (Group and Company)

Materiality

- Overall Group materiality: £1,955,000 (2021: £1,900,000) based on 0.5% of Tier 1 Capital (2021: 0.5% of Tier 1 Capital).
- Overall Company materiality: £1,883,000 (2021: £1,900,000) based on 0.5% of Tier 1 Capital (2021: 0.5% of Tier 1 Capital).
- Performance materiality: £1,466,000 (2021: £1,400,000) (Group) and £1,412,000 (2021: £1,400,000) (Company).

The scope of our audit

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

Key audit matters

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

This is not a complete list of all risks identified by our audit.

Valuation of Heritage Assets -Paintings (Group and Company) is a new key audit matter this year. Impact of COVID-19 (Group and Company), which was a key audit matter last year, is no longer included because we deem our consideration of this matter to be adequately captured by our other key audit matters and not to represent an area of increased audit attention in its own right. Otherwise, the key audit matters below are consistent with last year.

Valuation of provisions for impairment of loans and advances to customers (Group and Company)

Key audit matter	How our audit addressed the key audit matter
The Group and Company have loans and advances to customers of £1,995m (2021: £1,857m) which is net of a provision for impairment of £30m (2021: £29m). This provision is split between a collective provision of £4m (2021: £4m) to account for losses where a loss event may have occurred but is yet to emerge and a specific provision of £26m (2021: £25m) to cover losses on loans where a loss event has occurred. The collective provision is derived from the bank's historical loss rate incurred in the past five years. The specific provision is assessed by reference to the assumed sales price of the collateral held against the exposure. Determining provisions for impairment of loans and advances to customers involves management judgement and is subject to a high degree of estimation uncertainty. Management makes various assumptions when estimating these provisions. The significant assumptions that we focus on in our audit included those with greater levels of management judgement and for which variations had the most significant impact on the provisions. Specifically these related to the incomplete capturing of specific provision indicators. This risk is partially mitigated by the nature of the lending, in particular given the majority of lending is secured, with the value of the collateral typically in excess of the amount of the customer exposure. We considered this a key audit matter because the Directors make subjective judgments over both the timing of recognition and the size of impairment provisions, and individual exposures are in excess of audit materiality.	We held discussions with the Audit Committee covering governance and controls over provisions for impairment of loans and advances to customers with a significant focus on the rationale for the accounts identified within the specific provision. We tested all material loans and advances to customers identified as impaired by management and formed our own judgement as to whether the provisions recorded on these exposures were appropriate. This included assessing: • Relevant evidence about the customer's ability to repay; • The appropriateness of collateral valuation estimates; • External projections of future movements in property price and how these compared to the estimated collateral realisations assumed in the impairment provisions, and • The time period assumed before collateral can be realised. We also assessed the completeness of the credit impairment provision, including by: • Testing a sample of customer accounts identified as 'non-performing' but for which no impairment was recorded, including by obtaining evidence to support how the collateral held is in excess of the exposure; • Testing a sample of performing customer accounts, for example by obtaining evidence customers are servicing the loan; and • Assessing whether the collective provision was appropriate in light of uncertainties relating to the nature of the loan book and the collateral held against most exposures. We evaluated and tested the Credit Risk disclosures made in the Annual Report and Consolidated Financial Statements 2022.
Relevant references in the Annual Report and Consolidated Financial Statements 2022 Note 1: Summary of significant accounting policies (m) Financial assets and liabilities, [page 40 to 41]. Note 2: Critical accounting judgements and estimation uncertainty (a, i) Loan impairment provisions, [page 45]. Note 14: Allowance for Impairment Losses, [page 58]. Note 31: Financial Risk Management (b) credit risk, [page 67 to 71].	

Valuation of Heritage Assets - Paintings (Group and Company)

Key audit matter	How our audit addressed the key audit matter
The Group and Company hold heritage assets of £15m of which £11m relate to paintings, including a £4m revaluation gain during the year. The most significant area where revaluation movements were recognised during the year is in relation to certain high value paintings held by the bank. Management makes various assumptions when estimating the value of these paintings. The significant assumptions that we focus on in our audit included those with greater levels of management judgement and for which variations had the most significant impact on the valuation. Specifically these related to the condition and provenance of the paintings and the comparable sales reference points in the commercial market. Management makes use of experts with specialised skill and knowledge in forming their estimate.	We held discussions with the Audit Committee focused on the key judgements and assumptions including the condition, provenance and recent commercial comparators used in estimating the valuation of the paintings. We tested all material painting assets and formed our own judgement as to whether the valuations attached to these assets were appropriate. This included: • Evaluating valuation reports prepared by management's experts; • Assessing the competence, capabilities and objectivity of a management's expert; • Conducting independent research in relation to the market valuation of comparable assets. • Physically inspecting the condition of the assets; • Examining the provenance attached to the assets. We evaluated and tested the heritage assets disclosures made in the Annual Report and Consolidated Financial Statements 2022.
Relevant references in the Annual Report and Consolidated Financial Statements 2022 Note 1: Summary of significant accounting policies (t) Heritage assets, [page 44]. Note 2: Critical accounting judgements and estimation uncertainty (b, vi) Heritage asset valuations, [page 47]. Note 18: Heritage Assets, [page 61 to 62].	

How we tailored the audit scope

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

The Group has subsidiary entities on which we perform audit testing to statutory materiality levels, but as over 94% of Group profit before tax arises in the Company, for Group audit scoping purposes we consider the Company to be the only significant component. We performed audit work for all financial statement line items in the Company with balances above our materiality level.

Materiality

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

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

	Financial statements - Group	Financial statements - Company
Overall materiality	£1,955,000 (2021: £1,900,000).	£1,883,000 (2021: £1,900,000).
How we determined it	0.5% of Tier 1 Capital (2021: 0.5% of Tier 1 Capital)	0.5% of Tier 1 Capital (2021: 0.5% of Tier 1 Capital)
Rationale for benchmark applied	We considered Tier 1 capital an appropriate benchmark for the year ended 31 March 2022, as it is a key metric for key stakeholders including shareholders and the PRA.	We considered Tier 1 capital an appropriate benchmark for the year ended 31 March 2022, as it is a key metric for key stakeholders including shareholders and the PRA.

For each component in the scope of our Group audit, we allocated a materiality that is less than our overall Group materiality. The range of materiality allocated across components was less than £257,500. Certain components were audited to a local statutory audit materiality that was also less than our overall Group materiality.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% (2021: 75%) of overall materiality, amounting to £1,466,000 (2021: £1,400,000) for the Group financial statements and £1,412,000 (2021: £1,400,000) for the Company financial statements.

In determining the performance materiality, we considered a number of factors - the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls - and concluded that an amount at the upper end of our normal range was appropriate.

We agreed with the Audit, Risk and Compliance Committee that we would report to them misstatements identified during our audit above £98,000 (Group audit) (2021: £95,000) and £94,000 (Company audit) (2021: £94,000) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

Our evaluation of the directors' assessment of the Group's and the Company's ability to continue to adopt the going concern basis of accounting included:

- Performing a risk assessment to identify factors that could impact the going concern basis of accounting including the impact of COVID-19.
- Understanding management's forecasts and stresses with a focus on capital and liquidity risk, and assessing their reasonableness based on historic performance and our testing of the key funding sources of the Group.
- Reading the latest ICAAP and ILAAP and evaluating the consistency with the going concern assessment performed by management.
- Met with the Group's lead regulator, the PRA, and understood their view of the Group and its going concern risk.
- Reading and evaluating the adequacy of the disclosures made in the financial statements in relation to going concern.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's and the Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

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

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Reporting on other information

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

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

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

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic report and Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' report for the year ended 31 March 2022 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

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

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

Auditors' responsibilities for the audit of the financial statements

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

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the Group and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of the rules of the Prudential Regulatory Authority and Financial Conduct Authority, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to management bias in accounting estimates. Audit procedures performed by the engagement team included:

- Enquiries of management, including with Internal Audit, Compliance and Risk, in relation to known or suspected instances of non-compliance with laws and regulation and fraud;
- Evaluation and testing of the operating effectiveness of management's controls designed to prevent and detect fraud and errors in financial reporting;
- Observing the effectiveness of key governance forums and reviewing management information presented at these meetings;
- Reading key correspondence with regulatory authorities;
- Challenging assumptions and judgements made by management in their significant accounting estimates, in particular in relation to the impairment of loans and advances;
- Identifying and testing journal entries, in particular journal entries posted by senior management, journals posted with descriptions indicating a higher level of risk and post close journal entries.

Independent auditors' report to the members of C. Hoare & Co. (Continued)

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

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

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

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the Audit, Risk and Compliance Committee, we were appointed by the directors on 19 December 2011 to audit the financial statements for the year ended 31 March 2012 and subsequent financial periods. The period of total uninterrupted engagement is 11 years, covering the years ended 31 March 2012 to 31 March 2022.

D Brydon

Daniel Brydon (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
16 June 2022

Consolidated Financial Statements

Consolidated Statement of Comprehensive Income

For the year ended 31 March	Note	Group 2022 £000	Group 2021 £000
Interest receivable		94,938	89,772
Interest payable		(6,681)	(9,131)
Net interest income	3	**88,257**	**80,641**
Dividend income / (loss)		**3,587**	**(2)**
Other finance income	4	**79**	**256**
Fees and commissions receivable		15,662	12,490
Fees and commissions payable		(1,274)	(1,864)
Net fees and commissions income		**14,388**	**10,626**
Dealing profits	5	**7,542**	**6,264**
Other operating (expense) / income	6	**(5,041)**	**4,821**
Total income		**108,812**	**102,606**
Operating expenses			
Administrative expenses including staff costs	7	(79,937)	(76,184)
Depreciation	17	(1,717)	(1,964)
Amortisation	16	(9,099)	(7,626)
Total operating expenses		**(90,753)**	**(85,774)**
Impairment charge on loans and advances	14	**(1,522)**	**(730)**
Profit before taxation		**16,537**	**16,102**
Tax on profit	9	**(3,794)**	**(3,848)**
Profit for the financial year		**12,743**	**12,254**
Other comprehensive income / (expense)			
Remeasurement of retirement benefit obligations gain / (loss)	4	5,802	(6,526)
Deferred tax arising on pension scheme (gain) /loss	9	(1,672)	1,036
Revaluation gain / (loss) of property and heritage assets	28	4,895	(2,275)
Deferred tax expense arising on valuation gain and loss	9	(3,801)	(472)
Other comprehensive income / (expense) for the year, net of deferred tax		**5,224**	**(8,237)**
Total comprehensive income for the year		**17,967**	**4,017**

The Notes on pages 37 to 78 form an integral part of these Financial Statements.

Consolidated and Company Balance Sheets

	Note	Group As at 31 March 2022 £000	Group As at 31 March 2021 £000	Company As at 31 March 2022 £000	Company As at 31 March 2021 £000
Assets					
Cash and balances at central banks		1,843,378	1,709,735	1,843,378	1,709,735
Items in course of collection from banks		330	303	330	303
Derivative financial instruments	12	110,851	29,394	110,851	29,394
Financial assets	13	5,204,233	4,159,605	5,204,208	4,159,555
Shares in group undertakings	15	-	-	1	1
Intangible assets	16	17,821	16,067	17,821	16,067
Property and equipment	17	55,428	57,697	55,428	57,697
Heritage assets	18	14,987	9,477	14,987	9,477
Deferred tax asset	19	989	1,677	989	1,677
Other assets	20	3,672	3,266	3,815	3,355
Prepayments and accrued income	21	13,145	13,045	13,118	12,979
Post retirement benefit asset	4	9,831	3,950	9,831	3,950
Total assets		**7,274,665**	**6,004,216**	**7,274,757**	**6,004,190**
Liabilities					
Deposits by banks	22	119,572	-	119,572	-
Customer accounts	23	6,689,431	5,544,294	6,689,431	5,544,294
Deposits to subsidiary companies	23	-	-	12,915	11,910
Derivative financial instruments	12	4,629	21,787	4,629	21,787
Deferred tax liability	19	15,548	10,725	15,548	10,725
Other liabilities	24	2,485	3,318	2,337	3,215
Accruals and deferred income	25	24,557	21,547	24,557	21,547
Provision for other liabilities	26	2,750	4,813	2,750	4,813
Total liabilities		**6,858,972**	**5,606,484**	**6,871,739**	**5,618,291**
Called up share capital	27	120	120	120	120
Reserve fund		22,598	22,598	21,148	21,148
Revaluation reserves	28	35,878	34,784	35,878	34,784
Current year net income		16,867	6,758	16,025	6,032
Retained earnings brought forward		340,230	333,472	329,847	323,815
Total equity		**415,693**	**397,732**	**403,018**	**385,899**
Total liabilities and equity		**7,274,665**	**6,004,216**	**7,274,757**	**6,004,190**
Memorandum items:					
Contingent liabilities	29	22,862	24,960	22,862	24,960
Commitments	29	382,781	397,190	382,781	397,190

The Notes on pages 37 to 78 form an integral part of these Financial Statements. The Financial Statements on pages 32 to 78 were approved by the Board of Directors on 9 June 2022 and signed on its behalf by:

Alexander S. Hoare

Mr A. S. Hoare
Director
16 June 2022

Miss V.E. Hoare
Director
16 June 2022

Consolidated Statement of Changes in Equity

	Note	Called up Share Capital £000	Reserve Fund £000	Revaluation Reserves £000	Retained Earnings £000	Total Equity £000
Balance as at 1 April 2020		**120**	**22,598**	**37,531**	**333,472**	**393,721**
Profit for the financial year		-	-	-	12,254	12,254
Other comprehensive (expense) / income for the year						
Remeasurement of retirement benefit obligations		-	-	-	(6,526)	(6,526)
Deferred tax arising on pension scheme		-	-	-	1,036	1,036
Valuation loss of property and heritage assets	28	-	-	(2,275)	-	(2,275)
Deferred tax arising on valuation losses	28	-	-	(472)	-	(472)
Total comprehensive income for the year		-	-	**(2,747)**	**6,764**	**4,017**
Dividends		-	-	-	(6)	(6)
Balance as at 31 March 2021		**120**	**22,598**	**34,784**	**340,230**	**397,732**
Profit for the financial year		-	-	-	12,743	12,743
Other comprehensive (expense) / income for the year						
Remeasurement of retirement benefit obligations		-	-	-	5,802	5,802
Deferred tax arising on pension scheme		-	-	-	(1,672)	(1,672)
Valuation gain of property and heritage assets	28	-	-	4,895	-	4,895
Deferred tax arising on valuation gain	28	-	-	(3,801)	-	(3,801)
Total comprehensive income for the year		-	-	**1,094**	**16,873**	**17,967**
Dividends		-	-	-	(6)	(6)
Balance as at 31 March 2022		**120**	**22,598**	**35,878**	**357,097**	**415,693**

The Notes on pages 37 to 78 form an integral part of these Financial Statements. 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 properly be applied.

Company Statement of Changes in Equity

	Note	Called Up Share Capital £000	Reserve Fund £000	Revaluation Reserves £000	Retained Earnings £000	Total Equity £000
Balance as at 1 April 2020		**120**	**21,148**	**37,531**	**323,815**	**382,614**
Profit for the financial year		-	-	-	11,528	11,528
Other comprehensive (expense) / income for the year						
Remeasurement of retirement benefit obligations		-	-	-	(6,526)	(6,526)
Deferred tax arising on pension scheme		-	-	-	1,036	1,036
Valuation loss of property and heritage assets	28	-	-	(2,275)	-	(2,275)
Deferred tax arising on valuation loss	28	-	-	(472)	-	(472)
Total comprehensive income for the year		**-**	**-**	**(2,747)**	**6,038**	**3,291**
Dividends		-	-	-	(6)	(6)
Balance as at 31 March 2021		**120**	**21,148**	**34,784**	**329,847**	**385,899**
Profit for the financial year		-	-	-	11,901	11,901
Other comprehensive (expense) / income for the year						
Remeasurement of retirement benefit obligations		-	-	-	5,802	5,802
Deferred tax arising on pension scheme		-	-	-	(1,672)	(1,672)
Valuation gain of property and heritage assets	28	-	-	4,895	-	4,895
Deferred tax arising on valuation gain	28	-	-	(3,801)	-	(3,801)
Total comprehensive income for the year		**-**	**-**	**1,094**	**16,031**	**17,125**
Dividends		-	-	-	(6)	(6)
Balance as at 31 March 2022		**120**	**21,148**	**35,878**	**345,872**	**403,018**

The Notes on pages 37 to 78 form an integral part of these Financial Statements. 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 properly be applied.

Consolidated Cash Flow Statement

Group For year ended 31 March	Note	2022 £000	2021 £000
Net cash from operating activities	30	1,121,381	830,193
Taxation paid		(4,932)	(3,329)
Net cash generated from operating activities		**1,116,449**	**826,864**
Cash flow from investing activities			
Purchase of investment securities		(3,121,342)	(1,647,128)
Sale and maturity of investment securities		2,122,564	1,407,391
Purchase of intangible assets		(10,853)	(1,981)
Purchase of tangible fixed assets		(350)	(1,316)
Proceeds from disposals of tangible assets		-	1
Net cash used in investing activities		**(1,009,981)**	**(243,033)**
Cash flow from financing activities			
Dividend paid		(6)	(6)
Net cash used in financing activities		(6)	(6)
Net increase in cash and cash equivalents		106,462	583,825
Cash and cash equivalents at the beginning of the year		1,811,971	1,228,146
Cash and cash equivalents at the end of the year		**1,918,433**	**1,811,971**
Cash and cash equivalents consists of:			
Cash at bank and in hand		1,843,378	1,709,735
Short term deposits		75,055	102,236
Cash and cash equivalents		**1,918,433**	**1,811,971**

The Notes on pages 37 to 78 form an integral part of these Financial Statements.

Notes to the Financial Statements for the year ended 31 March 2022

1. Summary of Significant Accounting Policies

The principal accounting polices applied in the preparation of these consolidated financial statements are set out below. These policies have been applied consistently in dealing with amounts which are considered material to the financial statements.

a. Basis of preparation

The financial statements have been prepared under the historical cost convention and on a going-concern basis, except that the following assets and liabilities are stated at their fair values: land and buildings, investment properties, heritage assets, financial instruments recognised at fair value through the profit or loss and derivative contracts. The financial statements have been prepared under the provisions of Part XV of the Companies Act 2006 relating to Banking Groups, SI 2008/410, and in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, "The Financial Reporting Standards applicable in the United Kingdom and the Republic of Ireland" (FRS 102). The 2022 figures represent continuing operations unless otherwise disclosed.

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

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

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

b. Going concern

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

- the Group and Company have a strong financial position with high levels of capital and liquidity;
- stress testing has indicated that, even in severe but plausible circumstances, the Group and Company have sufficient capital and liquidity reserves to meet all of the Group and Company's ongoing commitments and remain substantially above minimum levels required by regulation;
- to date of signing, there have been no indications of material deterioration in the customer loan book;
- a very small number of customer requests for contingency lending facilities or adjustment of payment terms relating to COVID-19 were received, assessed and granted. Only a single customer remains on deferral arrangements; and
- to date of signing, customer lending and deposits have continued to grow.

c. Basis of consolidation

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

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

1. Summary of Significant Accounting Policies (Continued)

d. Foreign currencies

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

e. Interest

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

Interest income and expense presented in the Statement of Comprehensive Income include:

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

The bank uses the contractual term, where available, to set the amortisation expected life for its loan arrangement fees. However, for its on-demand loan portfolio, historic data is used to determine the average life of the loan. This analysis is performed on an annual basis and for the year ended 31 March 2022 it has been determined to be three years.

f. Fees and commissions

Income from fees and commission is recognised when the services are performed. Expenses relating to fees and commissions are charged when the services are received. Where fees relate to a product that has an extended life, the fee will be amortised on a straight line basis through the contractual life of the product.

g. Dealing profits

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

These positions are used to provide liquidity and to manage the Bank's liabilities and form part of the banking book. The bank's policy is not to engage in any proprietary trading activities.

h. Retirement benefit obligations

The Company operates a defined benefit pension scheme for certain staff, providing a pension benefit that an employee will receive on retirement dependent upon several factors including age, length of service and final salary. The assets of the scheme are administered separately from those of the Company in a Trustee-administered fund. This scheme was closed to new members with effect from 1 April 2002 and since then staff have been able to join a separate defined contribution or "money purchase" scheme. On 1 December 2007 the defined benefit scheme was closed to future accrual, a "curtailment", and all remaining members were given the option to commence plans with the defined contribution scheme.

The defined benefit scheme's assets are measured using fair values in accordance with the FRS 102 fair value hierarchy. The asset recognised in the balance sheet in respect of the defined benefit scheme is the fair value of the scheme assets at the reporting date less the present value of the defined benefit obligation.

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

1. Summary of Significant Accounting Policies (Continued)

h. Retirement benefit obligations (Continued)

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

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

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

i. Taxation

The Consolidated Statement of Comprehensive Income includes current taxation expense recognised in the period as well as associated deferred tax timing differences including unrealised capital gains. Deferred tax on the fair value movements for pensions, land and buildings and heritage assets are recognised in other comprehensive income.

i) Current tax

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

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

ii) Deferred tax

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

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

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

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

The Group does not net deferred tax assets against deferred tax liabilities.

j. Dividends payable

In accordance with Section 32 ‘Events after the end of the reporting period’, of FRS102, dividends payable are recognised within retained profits once approved by the shareholders.

k. Cash and cash equivalents

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

1. Summary of Significant Accounting Policies (Continued)

l. Classification of financial assets and liabilities

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

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

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

m. Financial assets and liabilities

i) Recognition

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

ii) Derecognition

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

The bank derecognises a financial liability when its contractual obligations are discharged, cancelled or expired.

iii) Offsetting

Financial assets and liabilities are only offset when the criteria set out in section 11 paragraph 11.38A of FRS 102 are met and the net amounts presented in the financial statements does not conflict with paragraph 8 of Schedule 1 to the Regulations.

The bank will only offset income or expenses which are settled on a net basis for the same trade, and will not offset net income and expenses settled from the same counterparty for different trades.

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 rate method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

v) Fair value measurement

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

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

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

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

These disclosures are included in Note 31 to the financial statements and are in line with Section 34 of FRS 102.

1. Summary of Significant Accounting Policies (Continued)

m. Financial assets and liabilities (Continued)

vi) Identification and measurement of impairment

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

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

Objective evidence that financial assets are impaired can include default or delinquency by a borrower, indications of inability to repay or evidence that a borrower or issuer is likely to 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.

n. Loans and advances to banks and customers

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

o. Derivative financial instruments

i) Derivative financial instruments

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

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

The principal derivatives used by the bank are interest rate swaps and forward foreign exchange rate contracts. The fair value of interest rate swaps is the estimated amount that the bank would receive or pay to terminate the swap at the balance sheet date, considering current interest rates and the current creditworthiness of the swap counterparties. The fair value of interest rate swaps includes any interest accrued on the derivative contract. The fair value of forward exchange contracts is their quoted market price at the balance sheet date, being the present value of the quoted forward price.

In accordance with FRS 102 Section 12 other financial instruments issues, derivatives are recognised as trading and recorded at fair value, with changes in fair value recognised in the profit and loss account. Fair values are obtained from quoted market prices in active markets or from dealer price quotations.

ii) Derivative instruments and fair value hedging activities

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

All derivatives are recorded as assets or liabilities on the balance sheet at their respective fair values with unrealised gains and losses recorded in the profit and loss account. Derivatives that did not meet the criteria for designation as a hedge under FRS 102 at inception, or fail to meet the criteria thereafter, are accounted for in other assets with changes in fair value recorded in the profit and loss account.

1. Summary of Significant Accounting Policies (Continued)

o. Derivative financial instruments (Continued)

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 recorded in the profit and loss account as other operating income. The gain or loss in relation to the unhedged element is recorded in the profit and loss account.

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

The bank discontinues hedge accounting prospectively when 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; when the derivative expires or is sold, terminated or exercised; when the derivative is de-designated because it is unlikely that a forecast transaction will occur; or when 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.

iii) IBOR reform

The bank has elected for early adoption of the amendment to FRS102 – Interest rate benchmark reform, which allows entities to apply specific hedge accounting requirements assuming that the interest rate benchmark relevant to the hedge accounting is not altered as a result of the interest rate benchmark reform.

Hedge relationships: The bank's transition from IBOR benchmark rates means that all new treasury transactions after December 2019 are SONIA based. Legacy hedges were converted to SONIA based instruments by December 2021 using International Swap and Derivatives Association (ISDA) protocol or the LCH rulebook amendment.

The bank does not report any cash flow hedges or balances classified as fair value in other comprehensive income and is not expected to apply any temporary relief to its current portfolio.

Financial instruments using amortised cost measurement: All IBOR based customer lending was transitioned to central bank benchmark linked products by September 2021.

p. Intangible assets

Project costs are only recognised as intangible assets when they can be directly attributed to bringing an asset into use. Such costs may include the costs of staff directly employed on a project. Administration costs, other general overhead costs or staff costs not related to the specific asset are excluded. There are minimum thresholds for capitalising expenditure; accumulated costs incurred for a project below these thresholds are expensed through profit and loss.

Amortisation begins in the month the asset is available for use.

Intangible assets are stated at cost less accumulated amortisation and accumulated impairment losses. Amortisation is calculated using straight-line method, to allocate the amortised amount of the assets to their residual values over their estimated useful lives as follows:

- IT general software £50,000 per system and over will be amortised over 4 years; and
- IT infrastructure software will be amortised over 8 years.

Amortisation is included in "administrative expenses" in the profit and loss account.

Where factors, such as technological advancement or changes in market price, indicate that residual value or useful life has changed, the residual value, useful life or amortisation rate are amended prospectively to reflect the new circumstances.

The assets are reviewed for impairment at each reporting date to evaluate if the above factors indicate that the carrying amount may be impaired.

1. Summary of Significant Accounting Policies (Continued)

p. Intangible assets (Continued)

Costs associated with maintaining computer software are recognised as an expense. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the group are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the software so that it will be available for use;
- Management intends to complete the software and use or sell it;
- there is an ability to use or sell the software;
- it can be demonstrated how the software will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development, to use or sell the software are available; and
- the expenditure attributable to the software during its development can be reliably measured.

Other development expenditures that do not meet these criteria are recognised as an expense. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

q. Property, equipment and depreciation

The bank uses the revaluation model to determine the fair value of its land and buildings, which is based on the latest professional market valuation.

Subsequent changes in the fair value of properties are recognised in other comprehensive income and accumulated in equity.

An increase shall be recognised in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss. The decrease of an asset's carrying amount as a result of a revaluation shall be recognised in other comprehensive income to the extent of any previously recognised revaluation increase accumulated in equity, in respect of that asset. If a revaluation decrease exceeds the accumulated revaluation gains accumulated in equity in respect of that asset, the excess shall be recognised in profit or loss.

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

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

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

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

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

- IT hardware £1,000 per unit and over will be depreciated for three years;
- Furniture & office equipment £1,000 per unit and over will be depreciated for four years;
- Plant and machinery £5,000 per unit and over will be depreciated for ten years; and
- Motor vehicles will be depreciated for four years.

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.

1. Summary of Significant Accounting Policies (Continued)

q. Property, equipment and depreciation (Continued)

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.

r. Operating leased assets

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

s. Investment property

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

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

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

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

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

t. Heritage assets

The bank has a collection of artefacts regarded as heritage assets, largely comprising paintings, an extensive coin collection and the bank's own ledgers. These are recorded as heritage assets due to their historical importance. They are held because they contribute to the understanding of the history and culture of the bank.

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

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

Expenditure which, in the Directors' view, is required to preserve or prevent further deterioration is recognised in the profit and loss account as it is incurred.

u. Classification of financial instruments issued by the bank

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

v. Investments in subsidiaries

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

w. Contingent liabilities and commitments

The bank will issue letters of credit, performance bonds and other transaction-related contingencies and other guarantees as part of its normal business. It also provides formal standby facilities, credit lines and other commitments to lend which will remain undrawn or uncalled at year end. The bank records these as contingent liabilities and monitors them against their approved limits.

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.

1. Summary of Significant Accounting Policies (Continued)

w. Contingent liabilities and commitments (Continued)

The main types of guarantees provided are financial guarantees given to banks and financial institutions on behalf of customers to secure loans, overdrafts or other banking facilities, including stock borrowing indemnities and standby letters of credit. Other guarantees provided include performance guarantees, advance payment guarantees, tender guarantees, and guarantees to Her Majesty's Revenue and Customs and retention guarantees.

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

Commitments are where the bank has confirmed its intention to provide funds to a customer or on behalf of a customer in the form of loans, overdrafts and future guarantees, whether cancellable or not, and where the bank has not made payment at the balance sheet date. These are included in these financial statements as commitments. See disclosures at Note 29.

x. Operating expenses

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

y. Recognition and movement of provisions

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

2. Critical Accounting Judgements and Estimation Uncertainty

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

a. Critical judgements in applying the Group's accounting policies

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

i) Loan impairment provisions

The determination of loan impairment provisions is inherently judgemental and relies on management's assessment of a variety of inputs, including the macro environment and data specific to the customer's ability and willingness to repay the loan. The assessment of the most likely customer outcome is made by staff in the respective relationship team with oversight from the risk department.

For individual loan impairment provisions there is a reliance on relationship managers in ensuring the timely identification of subjective indicators of impairment. These subjective indicators are augmented by the observation of objective triggers relating to the ongoing performance of the loan. These triggers are monitored regularly by the risk department.

In determining whether an impairment has been incurred, factors such as late payments, cash flow or income deterioration, and likelihood and timing of planned capital transactions being successfully executed, are considered.

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

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

2. Critical Accounting Judgements and Estimation Uncertainty (Continued)

a. Critical judgements in applying the Group's accounting policies (Continued)

ii) Provisions

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

b. Key accounting estimates and assumptions

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

i) Impairment of Loans (note 1 (m) (vi), note 14 and note 31 (b))

The bank regularly assesses whether there is objective evidence that any loans or securities are impaired. When it has been determined that an impairment has occurred, the estimation is made of what level of impairment is likely and what amount of provision would be needed. The levels of specific provisions are determined giving consideration to the implications of the macro environment and include estimations on property values, expected sales proceeds and the time needed to liquidate collateral, should that become necessary. Consequently property values on impaired loans have been set at conservative levels because of the lack of liquidity and market data available at the date of the balance sheet. An additional 10% reduction in property values could result in a modest increase in provisions of up to £3.4m (2021: £5.0m), whereas if an additional six-month extension to the expected assumed sale date were implemented, it would result in an additional provision of £0.7m (2021: £0.6m).

The collective impairment allowance is subject to estimation uncertainty, as it is calculated using the bank's historical experience, the use of management overlays and the emergence period applied in calculating the provision. The customer portfolio is adequately secured with collateral (the principal part of which is property), with an average loan to value of 43% (2021: 40%), meaning that the collective provision is reasonably well insulated from material movements. A 5% increase / decrease in the bank's loan portfolio would result in a £0.2m (2021: £0.2m) addition / reduction to the collective provision.

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

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

A 5% increase / decrease in assets held by the defined pension scheme assets would result in a £6.8m (2021: £7.0m) gain / loss respectively to Other comprehensive income. A 5% increase / decrease in pension obligations would result in a £6.3m (2021: £6.8m) loss / gain respectively to Other comprehensive income.

iii) Provisions (note 1 (y) and note 26)

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

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

2. Critical Accounting Judgements and Estimation Uncertainty (Continued)

b. Key accounting estimates and assumptions (Continued)

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

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

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

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

Valuation techniques applied by the bank include using net asset values for unquoted investments in funds as its proxy fair value.

A 5% increase / decrease in the net value of derivative contracts would generate a £5.3m (2021: £0.4m) gain / loss respectively to Net Hedging Income.

v) Loan arrangement fees (note 1 (e), note 3 and note 25)

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

The bank uses historic data to determine the expected average duration of its customer lending, which is repayable on demand or at short notice, this analysis is performed annually and for the year ended 31 March 2022, it has been determined to be three years.

vi) Heritage assets (Note 1 (t) and note 18)

Heritage assets are revalued on a regular basis. The bank engages the appropriate independent market experts in this respect. Valuation of certain assets and in particular certain works of art employ subjective assumption, relying upon assumptions of how easily such works of art can be realised. The valuation of the works of art is used to determine the insured value.

A 5% increase / decrease to the revaluation of Heritage assets would generate a £0.5m (2021: £0.4m) gain / loss respectively to Other comprehensive income.

3. Net Interest Income

Group	2022 £000	2021 £000
Interest receivable and similar income		
Interest on debt securities	11,460	10,173
Loans and advances to customers	79,619	77,769
Loans and advances to banks	3,859	1,830
Total interest receivable and similar income	**94,938**	**89,772**
Interest payable and similar charges		
Deposits from banks and customers	(1,339)	(2,163)
Derivatives	(5,342)	(6,968)
Total interest payable and similar charges	**(6,681)**	**(9,131)**
Net interest income	**88,257**	**80,641**

Included within interest income is £221,015 (2021: £183,271) accrued in respect of impaired financial assets. Interest income on loans and advances to customers includes customer arrangement fees earned of £3,567,973 (2021: £3,538,746).

4. Retirement Benefit Obligations

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

Defined benefit scheme

The bank operated a defined benefit pension scheme (the "Scheme") until 1 December 2007 when it was closed to further accrual and all staff that were members at that date were made deferred members; all benefits accrued to that date were enhanced and then preserved. The defined benefit scheme provides a pension based upon the final salary at retirement date or preserved rights as at leaving the scheme or upon curtailment. Contributions to the defined benefit scheme for the year ended 31 March 2022 were £Nil (2021: £Nil). There was no charge (2021: £Nil) to the profit and loss account for past service costs.

The Scheme's assets are held in a separate trustee-administered fund to meet long- term liabilities to past and present staff. Hoare's Bank Pension Trustees Limited (the "Trustee Company") is required to act in the best interest of the scheme's beneficiaries. 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.

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

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

Group	2022 %	2021 %
Pension increases in payment	3.50	3.20
Discount rate	2.80	2.00
Retail price inflation	3.70	3.30

The actuarial assumptions allow for commutation of members' pensions for cash at retirement, where members are expected to commute 20% (2021: 10%) of their pensions at retirement. As at 31 March 2022, the valuation of Scheme assets less liabilities showed a surplus of £9,831,000 (2021: £3,950,000 surplus).

The liabilities of the Scheme are measured by discounting the best estimate of future cash flows to be paid out by the Scheme using the projected unit method This amount is calculated by a qualified independent actuary at the balance sheet date and is reflected in the Scheme asset or liability as detailed below:

Group	2022 £000	2021 £000
Opening net defined benefit asset at 1 April 2021 / 2020	**3,950**	**10,220**
Pension credit in profit & loss	79	256
Actuarial gain / (loss) recognized in other comprehensive income	8,439	(19,861)
(Loss) / gain on assets less interest recognized in other comprehensive income	(2,637)	13,335
Closing net defined benefit asset at 31 March	**9,831**	**3,950**

Future funding obligations

The most recent triennial actuarial valuation was carried out as at 1 April 2019. As the Scheme is closed to future accrual, no further employer contributions are required to support future service. There are no future deficit contributions due under the current schedule of contributions. The bank continues to work with the Trustee Company to explore ways to further stabilise the defined benefit obligation through an investment strategy to minimise volatility and any potential mismatch between the liabilities and assets of the Scheme. The next triennial actuarial valuation will concern the financial situation as at 1 April 2022.

4. Retirement Benefit Obligations (Continued)

Scheme assets and liabilities

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

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

Group	2022 £000	2021 £000
Global equities	8,146	7,468
Diversified growth funds ("DGF")	7,512	7,254
Liability driven investments ("LDI")	12,773	15,590
Index-linked gilts	8,825	-
Short duration credit	20,304	18,493
Property fund index	5,506	4,681
Cash and net current assets	509	7,764
Bulk annuity policy	71,656	78,875
Total fair value of assets	**135,231**	**140,125**
Present value of scheme liabilities	**(125,400)**	**(136,175)**
Pension scheme asset	**9,831**	**3,950**

In accordance with FRS 102 requirements, the deferred tax relating to the defined benefit asset above is now presented with other deferred tax liabilities.

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

Group	2022 £000	2021 £000
Opening fair value of scheme assets at 1 April 2021 / 2020	**140,125**	**128,456**
Interest on assets	2,752	3,167
Actual return on plan assets less interest	(2,637)	13,335
Benefits paid	(5,009)	(4,833)
Closing fair value of scheme assets at 31 March	**135,231**	**140,125**
Actual return on assets	**115**	**16,502**

4. Retirement Benefit Obligations (Continued)

The liabilities of the Scheme are measured by discounting the best estimate of future cash flows to be paid out by the Scheme using the projected unit method. This amount is calculated by a qualified independent actuary at the balance sheet date and is reflected in the Pension scheme asset as detailed below:

Group	2022 £000	2021 £000
Opening defined benefit obligation at 1 April 2021 / 2020	**136,175**	**118,236**
Interest on obligation	2,673	2,911
Actuarial loss / (gain) on liabilities due to experience	3,984	(764)
Actuarial (gain) / loss on liabilities due to assumption changes	(12,423)	20,625
Benefits paid	(5,009)	(4,833)
Closing defined benefit obligation at 31 March	**125,400**	**136,175**

The net finance income or expense recognised in profit and loss is calculated by applying the discount rate to the benefit asset recorded at the beginning of the year; this was £3,950,000 (2021: £10,220,000). The pension income recorded for this year and analysed below of £79,000 (2021: £256,000) was lower than that of the previous year due to the decrease of the fund surplus.

Group	2022 £000	2021 £000
Interest on obligation	(2,673)	(2,911)
Interest on assets	2,752	3,167
Total recognised as Other finance income	**79**	**256**

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

Group	2022 £000	2021 £000
Actual (loss) / gain on plan assets less interest	(2,637)	13,335
Actuarial (loss) / gain due to experience	(3,984)	764
Actuarial gain / (loss) due to assumption changes	12,423	(20,625)
Total recognised in other comprehensive income / (expense)	**5,802**	**(6,526)**

4. Retirement Benefit Obligations (Continued)

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

The Scheme's assets are invested in a range of funds according to the SIP. This was developed in collaboration between the Trustee Company and its appointed investment advisers. The spread of investments as at 31 March was as follows:

% of total scheme assets

Group	2022 %age	2021 %age
Overseas equities	3.8%	3.4%
Diversified growth funds ("DGF")	5.6%	5.2%
Liability driven investments ("LDI")	9.4%	11.1%
Index-linked gilts	6.5%	0.0%
Short duration credit	15.0%	13.2%
UK Property	4.1%	3.4%
Future world fund	2.2%	1.9%
Cash and net current assets	0.4%	5.5%
Bulk annuity policy	53.0%	56.3%
Total	100.0%	100.0%

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

Over recent years, the Scheme has reduced its interest rate and inflation risks through a significant amount of investment in Liability driven investments (LDI) and bonds, the values of which increase and decrease, in line with Scheme liabilities, from changes in interest rates and market implied inflation. The LDI strategy aims to hedge 100% of the interest rate risk and inflation risk on a technical provisions basis.

The Scheme hedges interest rate risk on a statutory and long-term funding basis using gilts whereas AA corporate bonds are implicitly used to set the FRS 102 discount rate. There is therefore some risk of mismatch to the bank, should yields on gilts and corporate bonds diverge.

Defined contribution scheme

The bank operates a defined contribution scheme which has become the main retirement scheme for all staff. During the year ended 31 March 2022, the charge to the Statement of Comprehensive Income was £5,569,000 (2021: £5,514,000), representing contributions payable by the employer in accordance with the scheme's rules. Other pension costs are recorded within the bank's administrative expenses (see note 7).

Group	2022 £000	2021 £000
In respect of defined contribution scheme		
- Current service cost	5,569	5,514
Included within Administrative expenses (Note 7)	**5,569**	**5,514**

5. Dealing Profits

Group	2022 £000	2021 £000
Bank and building society certificates of deposits	-	17
Debt securities	596	8
Foreign Currency	6,946	6,239
Dealing profits	**7,542**	**6,264**

Dealing profits derive from treasury positions, including those foreign currency trades carried out by the bank on behalf of customers.

6. Other Operating (Expenses) / Income

Group	2022 £000	2021 £000
Rental income	624	503
Loss on sale of fixed assets	(2)	-
Loss on sale of financial assets	-	(37)
Hedging result		
- Loss on hedged items attributable to loans	(52,898)	(17,625)
- Loss on hedged items attributable to debt securities	(46,657)	(26,818)
- Gain on hedged items (swaps)	100,138	44,703
Net hedging income	583	260
Unrealised (loss) / profit from financial assets at FVTPL	(7,597)	4,668
(Decrease) / Increase in value of derivative contracts	(4)	2
Investment property revaluation	(285)	(575)
Research and development refund	1,640	-
Total other operating (expenses) / income	**(5,041)**	**4,821**

The above table includes unrealised losses of £5,000 (2021: £37,000 loss) arising from changes in market value on Level 3 financial assets and unrealised losses of £285,000 (2021: £575,000 loss) arising from revaluation of the bank's investment properties.

7. Administrative Expenses including Staff Costs

Group	2022 £000	2021 £000
Staff costs		
- Wages and salaries and other short term benefits	41,084	37,131
- Social security costs	6,146	5,735
- Other pension costs (Note 4)	5,569	5,514
Operating lease expense	13	25
Other administrative expenses	27,125	27,779
Total administrative expenses including staff costs	**79,937**	**76,184**

Included in the above table, other administrative expenses include a charitable donation of £1. (2021: £1.5m) paid to the bank's charitable trust.

7. Administrative Expenses including Staff Costs (Continued)

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

Group	2022 Number	2021 Number
Full time	394	380
Part time	44	42
Contractors and agency staff	26	29
Total average full time equivalent headcount	**464**	**451**

All persons are employed by the bank. The bank's subsidiaries do not directly employ staff.

Group	2022 £000	2021 £000
Remuneration payable to the auditors in respect of:		
- Statutory audit of the company and consolidated financial statements	303	289
- Statutory audit of the subsidiaries' financial statements	17	16
Total auditors' remuneration	**320**	305

8. Directors' Emoluments

Group	2022 £000	2021 £000
Aggregate emoluments	11,710	10,722
Pension contributions	8	8
Total directors' emoluments	**11,718**	**10,730**
Highest paid Director		
- Emoluments	1,887	1,782
- Pension contributions	4	4
Highest paid director total emoluments	**1,891**	**1,786**

9. Tax on Profit

The Company's profits for the financial year ended 31 March 2022 have been taxed at the UK corporation tax rate of 19% (2021: 19%).

9(a) Analysis of taxation charge

Group	2022 £000	2021 £000
Current tax		
UK corporation tax on profits for the year at 19% (2021: 19%)	3,270	2,737
Adjustments in respect of previous years	267	849
Total current tax	**3,537**	**3,586**
Deferred tax		
Origination and reversal of timing differences	36	206
Adjustments in respect of previous periods	-	(53)
Impact of change in tax rate	221	109
Total deferred tax	**257**	**262**
Tax on profit	**3,794**	**3,848**

The UK Chancellor announced an increase in the rate of tax from 19% to 25% in his Spring 2021 Budget statement on 3 March 2021, with changes effective from 1 April 2023.

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

Group	2022 £000	2021 £000
Deferred tax		
Deferred tax charge / (credit) arising on actuarial gain / (loss) in the pension scheme	1,672	(1,036)
Deferred tax charge arising on revaluation of land & buildings	1,875	289
Deferred tax charge arising on revaluation of heritage assets	1,926	183
Total deferred tax charge / (credit) included in other comprehensive income	**5,473**	**(564)**

Deferred tax as at 31 March 2022 is recognised on all revaluation reserves at 25% (2021: 19%).

9. Tax on Profit (Continued)

9(c) Reconciliation of taxation charge

The tax charge for the year ended 31 March 2022 of £3,794,000 (2021: £3,848,000) is higher (2021: higher) than the result of applying the standard rate of UK corporation tax of 19% (2021: 19%). The reasons for this are shown below:

Group	2022 £000	2021 £000
Profit before tax	**16,537**	**16,102**
Profit multiplied by standard rate of tax in the UK of 19% (2021: 19%)	**3,142**	**3,059**
Effects of:		
- Permanent disallowables	(274)	(128)
- Fixed asset timing differences	438	12
- Other timing differences	-	-
- Adjustments in respect of previous years	267	796
- Impact of change in tax rate	221	109
Total tax charge for the year	**3,794**	**3,848**
Effective tax rate	**22.9%**	**23.9%**

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

£11,901,000 (2021: £11,528,000) of the Group profit attributable to shareholders relates to the Company; this includes dividends of £Nil (2021: £Nil) from subsidiary companies. As permitted by Section 408 of the Companies Act 2006, the profit and loss account of the Company has not been presented separately.

Company	2022 £000	2021 £000
Company profit	11,901	11,528
Final closing balance	**11,901**	**11,528**

11. Dividends

The aggregate of dividends comprises:

Group	2022 £ per share	2021 £ per share	2022 £000	2021 £000
Ordinary shares (declared)	**50**	**50**	**6**	**6**

12. Derivative Financial Instruments

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

Group & Company	Notional amount 2022 £000	Fair value 2022 £000	Notional amount 2021 £000	Fair value 2021 £000
Derivative assets				
Exchange rate contracts				
Forward foreign exchange contracts	10,530	2	5,947	2
Interest rate contracts				
Interest rate swaps – hedging instruments	1,505,029	110,849	639,989	29,392
Total derivative assets	**1,515,559**	**110,851**	**645,936**	**29,394**
Derivative liabilities				
Exchange rate contracts				
Forward foreign exchange contracts	5,418	4	1,429	1
Interest rate contracts				
Interest rate swaps – hedging instruments	87,234	4,625	844,469	21,786
Total derivative liabilities	**92,652**	**4,629**	**845,898**	**21,787**

Interest rate swaps are used to hedge the interest rate risk arising on the bank's fixed interest rate assets. The amount has increased during the year to match an increase in fixed rate lending, debt securities and other financial assets held by the bank.

Interest rate swap notionals are analysed below:

Group & Company	2022 £000	2021 £000
Loans and advances to customers		
- Drawn	1,102,146	1,060,231
- Undrawn	40,241	46,162
Debt securities	449,876	378,065
Total interest rate swap notionals	**1,592,263**	**1,484,458**

13. Financial Assets

	Group 2022 £000	Company 2022 £000	Group 2021 £000	Company 2021 £000
Financial assets at fair value through profit or loss				
Investments	652,752	652,727	141,084	141,034
Total financial assets at fair value through profit or loss	**652,752**	**652,727**	**141,084**	**141,034**
Financial assets at cost less impairment				
Investment in equity shares	1,528	1,528	1,528	1,528
Total financial assets at at cost less impairment	**1,528**	**1,528**	**1,528**	**1,528**
Financial assets measured at amortised cost				
Loans and advances to banks (Note 13(a))	275,813	275,813	326,999	326,999
Loans and advances to customers (Note 13(b))	2,024,798	2,024,798	1,886,062	1,886,062
Less specific and collective allowances for impairment	(29,978)	(29,978)	(29,047)	(29,047)
Bank and building society certificates of deposits	220,405	220,405	180,403	180,403
Debt securities	2,058,915	2,058,915	1,652,576	1,652,576
Total financial assets measured at amortised cost	**4,549,953**	**4,549,953**	**4,016,993**	**4,016,993**
Total financial assets	**5,204,233**	**5,204,208**	**4,159,605**	**4,159,555**

During the year, the bank invested $550m (£409.8m) into BlackRock Institutional Cash Series US Treasury Premier Fund. The investment has been classified as a financial asset at fair value through profit or loss.

The bank has invested in Residential Mortgage Backed Securities ("RMBS"). The portfolio consists of standard interests in senior RMBS positions, which have been assessed under FRS 102, including by referencing the sole payments of principals and interest ("SPPI") criteria set out in IFRS 9. As a result, the bank has classified these investments as basic instruments and records them at amortised cost. Included within debt securities is £368m (2021: £313m) in respect of RMBS.

13(a) Loans and advances to banks

Group & Company	2022 £000	2021 £000
Repayable on demand	75,055	102,236
Other loans and advances:		
Remaining maturity		
- 3 months or less	151,976	195,760
- over 5 years	48,782	29,003
Total loans and advances to banks	**275,813**	**326,999**

13. Financial Assets (Continued)

13(b) Loans and advances to customers

Group & Company	2022 £000	2021 £000
Remaining maturity		
- 3 months or less	504,922	583,806
- 1 year or less but over 3 months	212,220	293,512
- 5 years or less but over 1 year	1,047,426	801,002
- over 5 years	260,230	207,742
Total loans and advances to customers	**2,024,798**	**1,886,062**
Allowance for impairment losses (Note 14)	(29,978)	(29,047)
Net loans and advances to customers	**1,994,820**	**1,857,015**
Of which repayable on demand or short notice	**355,507**	**480,975**

Included in the above loans and advances to customers are fixed rate loans which have been hedged against interest rate risk using interest rate swaps. The value of drawn and undrawn customer lending hedged at 31 March 2022 was £1,142.4m (2021: £1,106.4m).

14. Allowance for Impairment Losses

Loans and advances to customers

Group & Company	2022 £000	2021 £000
Specific allowance for impairment		
Balance at 1 April 2021 / 2020	**24,724**	**22,682**
Impairment loss for the year		
- Charge for the year	3,777	3,326
- Recoveries for the year	(2,335)	(2,759)
Net charge on specific provision	**1,442**	**567**
- Release of discount	1,289	1,588
- Write-offs	(1,880)	(113)
Balance at 31 March	**25,575**	**24,724**
Collective allowance for impairment		
Balance at 1 April 2021 / 2020	**4,323**	**4,160**
Impairment loss for the year		
- Charge for the year	80	163
Net charge on collective provision	**80**	**163**
Balance at 31 March	**4,403**	**4,323**
Total specific and collective impairment allowances	**29,978**	**29,047**

15. Shares in Group Undertakings

The Company has the following investments in subsidiaries:

Shares at cost	Shares held	Principal Activity	2022 £	2021 £
Messrs Hoare Trustees	20 shares of no par value	Trustee company	-	-
Hoare's Bank Pension Trustees Limited	1 Ordinary £1 share	Pension scheme trustee	1	1
Hoares Bank Nominees Limited	72 Ordinary £1 shares	Nominee company	72	72
C. Hoare & Co. EIG Management Limited	1 Ordinary £1 share	Holding company	1	1
Mitre Court Property Holding Company	10,000 Ordinary £1 shares partly paid	Dormant	1,000	1,000
Total investment in subsidiaries			**1,074**	**1,074**

All subsidiary companies are 100% wholly owned by C. Hoare & Co., are registered at 37 Fleet Street, London, EC4P 4DQ and are incorporated and domiciled in the United Kingdom. There were no changes in ownership of the subsidiary companies during the year. The aggregate value of the capital and reserves of each subsidiary is not less than the investment holding value in the Company's financial statements.

16. Intangible Assets

Group & Company	Software £000
At 1 April 2021	
Cost	49,011
Accumulated amortisation and impairment	(32,944)
Opening net book value	**16,067**
Year ended 31 March 2022	
Opening net book value	16,067
- Additions	10,853
- Disposal - cost	(11,420)
- Amortisation	(9,099)
- Disposal - amortisation	11,420
Closing net book value	**17,821**
At 31 March 2022	
Cost	48,444
Accumulated amortisation and impairment	(30,623)
Closing net book value	**17,821**

Group & Company	2022 £000	2021 £000
Future capital expenditure		
- Contracted but not provided in the financial statements*	8,510	-

16. Intangible Assets (Continued)

*The increase in capital expenditure reflects a reduction in classification of such expenditure as future capital expenditure in property and equipment as detailed in Note 17.

Group & Company	Carrying amount		Remaining amortisation period	
	2022	2021	2022	2021
	£000	£000	Years	Years
Software				
Digital & Mobile Online	2,660	1,745	2.4	1.3
PSD2 RTS	1,899	1,170	2.2	2.5
Cards Platform	622	1,014	1.6	2.6
Cloud	2,349	-	1.6	-
Real Time Payments	1,026	-	3.0	-

The Digital & Mobile team built a re-platformed back-end for our web and mobile channels, thereby enabling the bank to build digital applications and enhance responsiveness.

PSD2 RTS –Adherence to the Payment Services Directive ("PSD2") including the security measures for operational and security. The software provides third-party providers with access to our customers private data based on consent given individually by customers.

The bank upgraded to a new corporate credit card product to be made available to customers.

The bank has migrated key banking platforms to the Cloud. This will increase resiliency and performance for customer digital systems.

The bank redeveloped its payments platform to allow faster payments over extended weekday and weekend hours.

17. Property and Equipment

Group & Company	Land and Buildings £000	Investment Properties £000	Equipment £000	Total £000
At 1 April 2021				
Cost	9,590	4,359	18,731	32,680
Revaluation	33,810	4,641	-	38,451
Accumulated depreciation and impairment	-	-	(13,434)	(13,434)
Opening net book value	**43,400**	**9,000**	**5,297**	**57,697**
Year ended 31 March 2022				
Opening net book value	43,400	9,000	5,297	57,697
- Additions	-	-	350	350
- Disposals - cost	-	-	(74)	(74)
- Revaluation movement	(615)	(285)	-	(900)
- Depreciation	-	-	(1,717)	(1,717)
- Disposals - depreciation	-	-	72	72
Closing net book value	**42,785**	**8,715**	**3,928**	**55,428**
At 31 March 2022				
Cost	9,590	4,359	19,007	32,956
Revaluation	33,195	4,356	-	37,551
Accumulated depreciation and impairment	-	-	(15,079)	(15,079)
Closing net book value	**42,785**	**8,715**	**3,928**	**55,428**

17. Property and Equipment (Continued)

Group & Company	2022 £000	2021 £000
Land and buildings occupied for own activities		
Net book amount	**35,076**	**35,239**
At cost		
- Land and buildings occupied for own use	7,981	7,956
- Land and buildings not occupied for own use	1,609	1,634
- Investment properties not occupied for own use	4,359	4,359
Total land and buildings	**13,949**	**13,949**

The bank's land, buildings and investment properties were valued as at 31 March 2022 by AGL Chartered Surveyors. The bank's Royal Albert Hall Box was valued as at 31 March 2022 by Harrods Estates Luxury Property Agents. Based on these updated valuations, a revaluation loss of 1.2% (Loss 5.0%: 2021) for land, buildings and investment properties and a revaluation loss of 12.6% (Result 0.0%: 2021) of the Royal Albert Hall Box has been recognised to reflect the uncertainty in the market and reduced value since the first lockdown.

Group & Company	2022 £000	2021 £000
Future capital expenditure		
Contracted but not provided in the financial statements*	809	8,932

*The reduction in capital expenditure reflects an increased classification of such expenditure as intangible future capital expenditure as detailed in Note 16.

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

Group & Company	2022 £000	2021 £000
Payment due		
- Not later than one year	**13**	13
- Later than one year and not later than five years	**5**	5
Total lease payments on operating leases	**18**	**18**

18. Heritage Assets

Group & Company	Paintings £000	Artefacts £000	2022 Total £000	Paintings £000	Artefacts £000	2021 Total £000
Valuation as at 1 April 2021 / 2020	**6,868**	**2,609**	**9,477**	**6,864**	**2,609**	**9,473**
Movements - additions	-	-	-	4	-	4
Movements - valuation	4,336	1,174	5,510	-	-	-
Valuation 31 March	**11,204**	**3,783**	**14,987**	**6,868**	**2,609**	**9,477**

18. Heritage Assets (Continued)

The bank has accumulated a collection of artefacts largely in the form of paintings, an extensive coin collection and the bank's own ledgers reflecting the bank's history of 350 years. These are regarded as heritage assets due to their relevance to the knowledge and culture of the bank's history. Most of these are housed at the bank's registered office at 37 Fleet Street London, including collections on display at the bank's museum at the same address. At any time, approximately 50% of the collection is on display. The remaining items are held in storage that is not open to the public, although access is permitted to historians and others providing valuable research into the bank's history.

The bank's museum maintains a register for its collection of heritage assets, which records the nature, provenance and current location of each asset. The bank may add to its collection of heritage assets by purchase or donation, with the objective to retain items that are relevant to the history of the bank for future generations. The bank aims to preserve and maintain the condition of the collection in a steady state of repair.

The bank commissioned external valuers (Classical Numismatic Group – Coin Valuers) to undertake a full valuation of coins, medals and banknotes on 28 February 2022 for the period ending 31 March 2022. The bank also commissioned external valuer Tim Ritchies & Associates Ltd to value all other artifacts, including the paintings as at 31 March 2022. Valuations were based on commercial market prices, including recent transaction information from auctions where similar paintings to those held by the bank had been sold.

19. Deferred Tax

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

Group & Company	2022 £000	2021 £000
Deferred tax asset		
Fixed assets timing differences	989	1,677
Timing differences on capital gains	-	-
Total deferred tax asset	**989**	**1,677**
Deferred tax liability		
Timing differences on valuations		
- Land and buildings	8,298	6,424
- Investment properties	1,089	882
- Heritage assets	3,661	1,735
- Capital gains	-	887
Short term timing differences	42	47
Defined pensions scheme	2,458	750
Total deferred tax liability	**15,548**	**10,725**

The UK Chancellor announced an increase in the tax rate from 19% to 25% on 3 March 2021, with changes effective from 1 April 2023. The new law was enacted after 31 March 2021 and therefore not reflected in the 2021 financial statements. The impact of the rate increase as at 31 March 2021 would have been to increase net deferred tax liability by £2.8m.

19. Deferred Tax (Continued)

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

Group & Company	2022 £000	2021 £000
Deferred tax asset		
Balance as at 1 April 2021 / 2020	**1,677**	**1,016**
Capital allowances on fixed asset additions	(688)	662
Timing differences on loan fees	-	(1)
Balance at 31 March	**989**	**1,677**
Deferred tax liability		
Balance as at 1 April 2021 / 2020	**10,725**	**10,367**
Timing differences on valuations:		
- Land and buildings	1,874	289
- Investment properties	207	(5)
- Heritage assets	1,926	183
- Capital gains	(887)	887
Short term timing difference	(5)	(8)
Defined benefit pensions scheme movement:		
- Actual gain / (loss)	1,673	(1,036)
- Other Pension movements	35	48
Balance at 31 March	**15,548**	**10,725**

20. Other Assets

	Group 2022 £000	Company 2022 £000	Group 2021 £000	Company 2021 £000
Corporation tax	3,561	3,665	2,866	2,955
Settlement balances	111	110	400	400
Amounts owed by group undertakings	-	40	-	-
Total other assets	**3,672**	**3,815**	**3,266**	**3,355**

Settlement balances relate to unsettled transactions at the year end.

21. Prepayments and Accrued Income

	Group 2022 £000	Company 2022 £000	Group 2021 £000	Company 2021 £000
Interest receivable	79	79	16	16
Other debtors and prepayments	13,066	13,039	13,029	12,963
Total prepayments and accrued income	**13,145**	**13,118**	**13,045**	**12,979**

Included in Other debtors and prepayments is Work In Progress that amounts to £9.3m (2021: £7.9m), which principally concerns costs on unfinished IT software projects.

22. Deposits by Banks

Group & Company	2022 £000	2021 £000
Repayable on demand	**119,572**	**-**

23. Customer Accounts

Group & Company	2022 £000	2021 £000
Repayable on demand	6,179,163	4,554,785
With agreed maturity date or notice period, by remaining maturity:		
- 3 months or less but not repayable on demand	273,783	478,723
- 1 year or less but over 3 months	180,643	487,556
- 2 years or less but over 1 year	55,729	23,230
- 2 years or more	113	-
Total customer deposits	**6,689,431**	**5,544,294**
Amount due to Subsidiary Companies	**12,915**	**11,910**

24. Other Liabilities

	Group 2022 £000	Company 2022 £000	Group 2021 £000	Company 2021 £000
Settlement balances	2,093	2,093	3,188	3,188
Other liabilities	392	244	130	13
Amounts owed to group undertakings	-	-	-	14
Total other liabilities	**2,485**	**2,337**	**3,318**	**3,215**

Settlement balances relate to unsettled transactions at the year end.

25. Accruals and Deferred Income

Group & Company	2022 £000	2021 £000
Interest payable	-	2,158
Other creditors and accruals	24,557	19,389
Total accruals & deferred income	**24,557**	**21,547**

26. Provision for Other Liabilities

From time to time, in the ordinary course of business, the bank may be subject to actual or potential legal claims whereby provisions and disclosures are required in accordance with the bank's accounting policies. However, where disclosure of any such items may seriously prejudice the position of the bank, the Directors take advantage of paragraph 21.17 of FRS 102. The bank recorded an opening balance of £4.8m, (2021: £4.6m) in respect of legal and other provisions; total provision decreased by £2,063,000 during the year (2021: increase £267,000) resulting in the bank carrying a closing provision of £2.8m at 31 March 2022 (2021: £4.8m).

27. Called up Share Capital

Group & Company	2022 £000	2021 £000
Authorised, allotted and fully paid:		
120 (2021: 120) Ordinary shares of £1,000	**120**	**120**

28. Revaluation Reserves

Group & Company	Property £000	Heritage Assets £000	Total £000
Balance as at 1 April 2020	**29,950**	**7,581**	**37,531**
Revaluation of property and heritage assets	(2,275)	-	(2,275)
Deferred tax charge on property and heritage assets	(289)	(183)	(472)
Balance as at 31 March 2021	**27,386**	**7,398**	**34,784**
Revaluation of property and heritage assets	(615)	5,510	4,895
Deferred tax charge on property and heritage assets	(1,875)	(1,926)	(3,801)
Balance as at 31 March 2022	**24,896**	**10,982**	**35,878**

Deferred tax is recognised on all revaluation movements at 25% (2021: 19%) and is recorded in revaluation reserves.

29. Contingent Liabilities & Commitments

The table below discloses the nominal principal amounts of contingent liabilities and commitments undertaken for customers as at 31 March 2022.

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

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

Where guarantees are issued on behalf of customers, the bank usually holds collateral against the exposure and has a right of recourse to the customer. The bank's maximum exposure is represented by the amounts detailed in the table below, should contracts be fully drawn upon and the customers actually default. Consideration has not been taken of any possible recoveries from the customers for payments made in respect of such guarantees under recourse provisions or from collateral held.

29. Contingent Liabilities and Commitments (Continued)

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

Group & Company	2022 £000	2021 £000
Contingent liabilities:		
- Performance bonds and other transaction-related contingencies	354	517
- Letters of credit	71	-
- Guarantees	22,437	24,443
Total contingent liabilities	**22,862**	**24,960**
Commitments:		
Undrawn formal standby facilities, credit lines and other commitments to lend		
- Commitments to lend	374,729	393,273
- Commitments on equity investments	8,052	3,917
Total commitments	**382,781**	**397,190**

30. Notes to the Statement of Cash Flows

Group	2022 £000	2021 £000
Profit for the financial year	12,743	12,254
Tax on profit on ordinary activities	3,794	3,848
Profit before tax	**16,537**	**16,102**
Impairment charge	1,522	730
Loans and advances written off	1,880	113
Unwinding of discount on customer loans	1,289	1,588
Amortisation of intangible assets	9,099	7,563
Depreciation of tangible fixed assets	1,717	1,964
Operating lease	13	25
Net income in respect of defined benefit scheme	(64)	(207)
Loss on sale of investment securities	-	37
Loss / (profit) on disposal of tangible asset	2	(1)
Loss on revaluation of investment property	285	575
Fair value movements on financial assets	(57,866)	(15,114)
Working capital movements:		
- (Increase) / decrease in loans and advances	(118,519)	39,359
- Decrease / (increase) in debtors	190	(3,856)
- Increase in payables	1,265,296	781,315
Cash flow generated from operating activities	**1,121,381**	**830,193**

31. Financial Risk Management

(a) Overview

The Board has ultimate responsibility for the management of risk within the bank. The ARCCo, which reports to the Board, provides oversight and monitors the effectiveness of internal control and risk management processes. Further details of the bank's risk management and governance structure are given in the Strategic Report on pages 11 to 19.

The principal risks affecting the bank are explained in the Strategic Report on pages 12 to 19. A fuller description of the bank's principal risks can be found in the bank's Pillar 3 disclosures, which is unaudited, and is available on the bank's website: **www.hoaresbank.co.uk.**

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

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

(b) Credit Risk

Credit risk is the risk of financial loss to the bank, should a customer or counterparty fail to meet its contractual obligations. The risk arises from loans and advances to customers and banks and from treasury investments.

The bank seeks to limit loan losses by maintaining a conservative credit portfolio managed via a robust credit risk framework. As part of the framework, the bank has established risk appetite metrics, aligned to its lending policy, credit risk monitoring process and stress tests, conducted to ensure that the bank remains within risk appetite. The bank's credit risk exposures and performance against appetite are monitored and reported to the Credit Committee, MT, ARCCo and the Board.

Management of credit risk

The bank seeks to mitigate credit risk by focusing on sectors where the bank has specialist expertise. The bank's general policy is to lend to customers with security provided as collateral and generally entail a charge over residential or commercial property. Unsecured lending is only entered into where the customer's specific circumstances make it prudent to do so. Large exposure limits are in place on lending to any one customer group in accordance with both internal and regulatory guidelines as set out in the large exposure policy. Lending is monitored closely against individual credit limits. All significant exposures are subject to regular review.

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

The bank undertakes a rigorous affordability assessment in order to establish the customer's ability to service debt. The unique nature of the bank's customer base and their financial affairs can occasionally result in irregular or late payments which do not necessarily indicate increased credit risk. The bank manages these situations through regular communication with customers and by obtaining strong levels of high-quality security cover on the majority of its lending facilities.

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

31. Financial Risk Management (Continued)

(b) Credit Risk (continued)

Maximum credit exposure

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

Group	2022 £000	2021 £000
Balance Sheet items		
Cash and balances at central banks	1,843,378	1,709,735
Derivative financial instruments (Note 12)	110,851	29,394
Loans and advances to banks (Note 13(a))	275,813	326,999
Loans and advances to customers (Note 13(b))	1,994,820	1,857,015
Bank and building society certificates of deposits (Note 13)	220,405	180,403
Debt securities (Note 13)	2,058,915	1,652,576
Equity securities (Note 13)	654,280	142,612
Maximum credit exposure from Balance Sheet items	**7,158,462**	**5,898,734**
Off balance sheet items		
Contingent liabilities (Note 29)	22,862	24,960
Commitments (Note 29)	382,781	397,190
Maximum credit exposure from off Balance Sheet items	**405,643**	**422,150**
Maximum credit exposure	**7,564,105**	**6,320,884**

Credit quality of assets

The credit risk framework was strengthened last year and has supported the enhancement of credit risk management information.

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

31. Financial Risk Management (Continued)

(b) Credit Risk (continued)

Credit quality of assets (Continued)

The credit quality of assets is shown below.

Group	2022 £000	2021 £000
Performing		
Neither past due nor impaired	**1,910,047**	**1,713,653**
Non-performing		
Past due but not impaired		
Past due up to 3 months	39,487	43,820
Past due 3 to 6 months	35	12,884
Past due 6 to 12 months	2,107	14,860
Past due over 12 months	13,967	33,272
Impaired	59,155	67,573
Total non-performing loans	**114,751**	**172,409**
Total loans and advances to customers prior to impairment	**2,024,798**	**1,886,062**
Impairment		
Specific allowances for impairment	25,575	24,724
Collective allowance for impairment	4,403	4,323
Total impairment (Note 14)	**29,978**	**29,047**
Total loans and advances to customers (Note 13(b))	**1,994,820**	**1,857,015**
Fair value adjustment	**49,730**	**(3,169)**
Total loans and advances to customers adjusted fair value (Note 31(d))	**2,044,550**	**1,853,846**
Non-performing loans to gross loans and advances	5.7%	9.1%
Specific impairment to gross loans and advances	1.3%	1.3%
Collective impairment to gross loans and advances	0.2%	0.2%
Specific impairment to non-performing loans	22.3%	14.3%
Collateral		
Against loans past due but not impaired	95,011	197,853
Against impaired loans	36,632	53,497
Total collateral against non-performing loans	**131,643**	**251,350**

At 31 March 2022, impaired loans of £15.1m (2021: £16.9m) had forbearance considerations, and specific provisions of £2.7m (2021: £4.1m). The estimated value of collateral against these loans is £13.6m (2021: £14.5m).

31. Financial Risk Management (Continued)

(b) Credit Risk (continued)

Concentration risk

Additional credit risk can result from high exposure to certain customers, treasury counterparties, regions or industry sectors.

The bank's activities have been concentrated on serving high net worth individuals within the UK primarily in the South of England, where a significant proportion of the bank's lending activities relate to residential properties. Whilst UK high net worth individuals are a somewhat concentrated group, the bank's experience, particularly with respect to lending, is that exposures to this group are lower risk than to the average UK population. Since January 2021 there has been a clear focus on diversifying our customer base and balance sheet through regional expansion across the UK.

The bank's treasury department also invests in a range of high-quality assets issued by governments, top rated institutional counterparties, funds which invest mainly in investment grade bonds and securitisations backed by large and diverse portfolios of UK prime owner-occupied mortgages. Treasury counterparty concentration risk is limited in accordance with Bank limits to large exposures as established by the PRAs Capital Requirements Regulation and is actively monitored daily with oversight by the ALCo.

At 31 March 2022 the bank's exposure to UK customers and counterparties was 88% (2021:88%) of total asset exposures.

Collateral held as security

The bank holds collateral against loans and advances to customers in the form of charges over residential and commercial property, investment securities, other assets and guarantees. Estimates of fair value are based upon the value of collateral assessed at the time of borrowing and are assessed at regular intervals in the lending life cycle. At 31 March 2022, the value of property collateral recorded against customer facilities was £5,075m (2021: £4,632m). The estimated value of collateral against the impaired customer loans and advances was £36.6m (2021: £53.5m).

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

Individually impaired loans and securities

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

The estimate of the impact on future cash flows, and therefore the level of provision required, is principally based on the estimated amount recoverable when collateral is liquidated to repay a loan. The bank's collateral largely consists of residential and commercial property. Therefore, the critical accounting estimate includes management's view on property values. Any increase or decrease in property values will change the level of provision. The current provision applies primarily to loans where the property held as security is in a niche segment of the market where reliable external reference data may not be readily available. Consequently, provision levels are set, monitored and stress tested using internal reference data with no dependency, currently, on external generic indicators.

Allowance for impairment losses

The bank establishes an allowance for impairment losses estimated within the loan portfolio. The main components of this allowance are specific losses relating to identified exposures. A collective assessment for losses that have been incurred but not yet identified is also made as at the reporting date. Given the bank's general policy to lend to customers with sufficient collateral, the loss due to impairment is typically low.

Write-off policy

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

31. Financial Risk Management (Continued)

(b) Credit Risk (Continued)

Forbearance

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

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

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

Analysis of loans and advances to banks and debt and equity securities

Group	2022 £000	2021 £000
Loans and advances to banks, by rating:		
- Aaa to Aa3	114,248	259,966
- A1 to A3	161,565	67,033
Total unimpaired loans and advances to banks	**275,813**	**326,999**
Debt and equity security financial assets, by rating:		
- Aaa to Aa3	2,503,091	1,682,622
- A1 to A3	270,384	150,357
- Baa1 to Baa3	123,863	-
- Ba1 to Ba3	17,239	-
- Not rated	19,024	142,612
Total debt and equity securities	**2,933,600**	**1,975,591**

(c) Liquidity Risk

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

Management of liquidity risk

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

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

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

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

31. Financial Risk Management (Continued)

(c) Liquidity Risk (Continued)

Exposure to liquidity risk

The bank's exposure to liquidity risk is summarised in the following tables, which show the contractual maturity of obligations to repay monies to other banks and customers. For those products that have a fixed cashflow schedule, discounted cash flows are shown, including interest cash flows. For all other products the balance sheet amounts are shown.

Group At 31 March 2022	Total £000	Next day £000	Less than 1 month £000	1 to 3 months £000	3 months to 1 year £000	1 - 5 years £000	Over 5 years £000
Balance sheet							
Deposits from banks	109,572	109,572	-	-	-	-	-
Repurchase agreements	10,000	10,000	-	-	-	-	-
Deposits from customers	6,689,431	6,179,510	163,513	109,923	180,643	55,842	-
Derivative liabilities	4,629	3	1	5	159	4,461	-
Off balance sheet							
Guarantees, letters of credit and performance bonds	22,862	22,862	-	-	-	-	-
Undrawn customer facilities	382,781	331,034	9,665	-	7,697	29,036	5,349
Total liabilities	**7,219,275**	**6,652,981**	**173,179**	**109,928**	**188,499**	**89,339**	**5,349**

Group At 31 March 2021	Total £000	Next day £000	Less than 1 month £000	1 to 3 months £000	3 months to 1 year £000	1 - 5 years £000	Over 5 years £000
Balance sheet							
Deposits from banks	-	-	-	-	-	-	-
Deposits from customers	5,544,448	4,592,520	109,411	343,765	475,421	23,331	-
Derivative liabilities	21,787	-	13	29	1,484	12,178	8,083
Off balance sheet							
Guarantees, letters of credit and performance bonds	24,960	24,960	-	-	-	-	-
Undrawn customer facilities	397,190	397,190	-	-	-	-	-
Total liabilities	**5,988,385**	**5,014,670**	**109,424**	**343,794**	**476,905**	**35,509**	**8,083**

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

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

31. Financial Risk Management (Continued)

(d) Market Risk

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

Market risk is principally a concern in the banking book, since the bank does not operate a significant trading book, generally holds assets until maturity (consistent with the articles of the Capital Requirements Regulation) and makes investments for the long term. Only a small component of the banking book is recorded at fair value and the majority of fixed rate loans are hedged such that their main exposure is interest rate risk, both basis and yield curve risk.

The bank also holds an investment portfolio, primarily as a source of income diversity to complement core banking activities. The portfolio is subject, in part, to equity market price movements. All investments depend on Board approval and are subject to limits and controls monitored by ALCo.

Management of interest rate risk

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

Interest rate swaps that individually hedge fixed-rate loans of equal size and duration thereby 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.

Yield curve risk is managed by the bank's treasury department, principally through monitoring interest rate gaps between assets and liabilities and ensuring that this remains within our risk appetite limits. The bank uses interest rate swaps to hedge exposures to interest rate risk, as part of its risk management process.

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

Group At 31 March 2022	£000	Up to 3 months £000	3 to 6 months £000	6 to 12 months £000	1 to 5 years £000	Over 5 years £000
Assets						
Loans and advances to banks and central banks	2,119,521	2,070,739	-	-	-	48,782
Loans and advances to customers	2,044,550	474,946	87,979	124,786	1,073,943	282,896
Debt security financial assets	2,336,416	1,741,538	-	145,000	42,376	407,502
Total assets	**6,500,487**	**4,287,223**	**87,979**	**269,786**	**1,116,319**	**739,180**
Liabilities						
Deposits by banks	109,572	109,572	-	-	-	-
Repurchase agreements	10,000	10,000	-	-	-	-
Customer accounts	6,689,431	6,452,946	109,352	71,291	55,842	-
Total liabilities	**6,809,003**	**6,572,518**	**109,352**	**71,291**	**55,842**	-
Net derivatives	-	1,549,654	(43,088)	(81,696)	(737,426)	(687,444)
Interest rate gap	**(308,516)**	**(735,641)**	**(64,461)**	**116,799**	**323,051**	**51,736**

31. Financial Risk Management (Continued)

(d) Market Risk (Continued)

Management of interest rate risk (Continued)

Group At 31 March 2021	£000	Up to 3 months £000	3 to 6 months £000	6 to 12 months £000	1 to 5 years £000	Over 5 years £000
Assets						
Loans and advances to banks and central banks	2,025,999	2,025,999	-	-	-	-
Loans and advances to customers	1,853,846	554,709	49,662	243,032	796,424	210,019
Debt security financial assets	1,843,418	1,284,853	180,500	27,000	43,689	307,376
Total assets	**5,723,263**	**3,865,561**	**230,162**	**270,032**	**840,113**	**517,395**
Liabilities						
Deposits by banks	-	-	-	-	-	-
Customer accounts	5,544,294	5,033,508	341,746	145,810	23,230	-
Total liabilities	**5,544,294**	**5,033,508**	**341,746**	**145,810**	**23,230**	-
Net derivatives	-	**1,438,774**	**(33,803)**	**(217,934)**	**(649,715)**	**(537,322)**
Interest rate gap	**178,969**	**270,827**	**(145,387)**	**(93,712)**	**167,168**	**(19,927)**

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

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

The bank's interest rate gap sensitivity, resulting from a potential +/- 200bps parallel shift in the yield curve measured in accordance with the PRA's requirements to incorporate all assets and liabilities on the balance sheet, was £0.4m and -£0.3m respectively (2021: £1.5m and -£2.0m respectively). The bank monitors its exposure to yield curve risk weekly and is reported to ALCo monthly against a Board approved policy limit.

The reported interest rate sensitivity as at 31 March 2022 is shown in the table below.

Effect of a change of 2.00% in Sterling market rates

Group	2022 £000	2021 £000
Net present value sensitivity to:		
- Positive shift	404	1,456
- Negative shift	(325)	(2,023)

Interest rate sensitivity set out above is illustrative only and based upon simplified scenarios in which all managed rates are assumed to move in tandem with changes in the benchmark rates. The figures above represent the effect on net interest income, primarily relating to the small number of unhedged fixed rate loans, arising from a parallel fall or rise in the yield curve. The bank aims to minimise interest rate risk and uses interest rate swaps to hedge exposures on fixed rate loans and investments. Given the bank's approach to managing interest rate risk, as outlined in the Strategic report section 7(e), the net exposure to this risk after hedging is minimal and arises primarily during the period from offering a facility to a customer to the date of acceptance, at which point a hedge is put in place.

31. Financial Risk Management (Continued)

(d) Market Risk (Continued)

Management of interest rate risk (Continued)

The bank also assesses the broader impact of basis risk and interest rate changes on future earnings, which is caused by potential time delays in moving managed rates to mirror changes in benchmark rates, creating an imperfect correlation between the bank's lending and deposit rates. As at 31 March 2022 the aggregate value difference between assets and liabilities priced on, or linked to, different benchmark interest rates were equivalent to 156.4% (2021: 154.0%) of the bank's assets. The delay in adjusting managed rates to align with a 25bps shift in benchmark rates would affect future earnings by £0.7m over a 12 month period (2021: £1.4m). This assumes interest paid and received on unhedged assets and liabilities moves in line with benchmark rates. The bank monitors benchmark rates closely in order to take pre-emptive action where possible.

Management of currency risk

Foreign currency balances are driven by requirements of the bank's customers and do not form a significant part of the balance sheet. In order to limit the bank's exposure to exchange rate risk, threshold limits are placed on intraday and end of day positions. The bank's treasury department is responsible for managing currency risk within the agreed limits.

The foreign exchange dealers have authority to deal in forward foreign exchange contracts within specified limits to meet our customers' requirements. Any resulting positions are monitored and are reported monthly on a currency-by-currency basis to ALCo.

Exposure to market risk: currency risk

The table below summarises the net exposure of the bank's monetary assets and liabilities held in individual foreign currencies, expressed in sterling, and the effect of a reasonably possible weakening of sterling against the US dollar, euro and other currencies by 10%. The analysis assumes all other variables, in particular interest rates, remain constant.

Net currency exposure sensitivity analysis

Group	2022 £000 Net Exposure	% of net assets	£000 Sensitivity
US dollar	(3,200)	(0.45)	(320)
Euro	438	0.06	44
Other	94	0.01	9
Total	**(2,668)**	**(0.38)**	**(267)**

Net currency exposure sensitivity analysis

Group	2021 £000 Net Exposure	% of net assets	£000 Sensitivity
US dollar	(88)	(0.02)	(9)
Euro	511	0.11	51
Other	79	0.02	8
Total	502	0.11	50

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

(e) Fair Values of Financial Assets and Liabilities

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

31. Financial Risk Management (Continued)

(e) Fair Values of Financial Assets and Liabilities (Continued)

The fair values of financial instruments are based on market prices where available and, in the case of 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-priced frequently, their fair value approximates to the carrying value.

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

- Cash and balances at central banks: the carrying value;
- Treasury bills and other eligible bills: determined using market prices;
- Derivatives: the carrying value. For interest rate swaps, market valuations are used. For forward exchange contracts, the fair value is estimated by discounting the contractual forward price and deducting the current spot rate;
- Loans and advances to banks: the fair value of floating rate placements and overnight deposits is the carrying value;
- Loans and advances to customers: for variable rate loans which re-price in response to changes in market rates, the fair value has been estimated as the carrying value. For fixed rate loans, the fair value approximates to the carrying value adjusted for hedging and any required allowance for credit risk;
- Residential mortgage-backed securities (RMBS): the carrying value determined using SONIA rates;
- Debt and equity securities: the carrying value is a proxy for the fair value of listed investment securities and is based upon quoted market prices where available. Unlisted investment securities are based upon net asset valuations provided by the fund managers;
- Investments in equity shares: the carrying value for the listed investments is based upon quoted market prices where available; however, where no market value is readily available, the cost is the carrying value which is also a proxy for the fair value;
- Deposits from banks and customers: deposits with no stated maturity, which includes non-interest bearing deposits, is the amount repayable on demand and equates approximately to the fair value; and
- The recognition and measurement provisions of FRS 102 Section 11 and the disclosure requirements of FRS 102 Section 34 have been adopted in respect of financial instruments for the fair value hierarchy disclosures.

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

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

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

Valuation Hierarchy

Group	Level 1 £000	Level 2 £000	Level 3 £000	2022 Total £000
Equity securities	649,743	-	3,009	652,752
Derivative financial assets	-	110,851	-	110,851
Financial assets at fair value	**649,743**	**110,851**	**3,009**	**763,603**
Derivative financial liabilities	-	4,629	-	4,629
Financial liabilities at fair value	**-**	**4,629**	**-**	**4,629**

31. Financial Risk Management (Continued)

(e) Fair Values of Financial Assets and Liabilities (Continued)

Valuation Hierarchy

Group	Level 1 £000	Level 2 £000	Level 3 £000	2021 Total £000
Equity securities	141,034	-	50	141,084
Derivative financial assets	-	29,394	-	29,394
Financial assets at fair value	**141,034**	**29,394**	**50**	**170,478**
Derivative financial liabilities	-	21,787	-	21,787
Financial liabilities at fair value	**-**	**21,787**	**-**	**21,787**

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

The bank has invested in level 3 investments with a market value of £3,008,507 as at 31 March 2022 (2021: £49,918).

During the year the bank made the following material investment decisions:

- Vontobel Fund – TwentyFour Sustainable Short Term Bonds Fund position was increased £25,000,000 to £50,000,000, which had a market value of £48,411,262 at 31 March 2022 (£24,989,900 at 31 March 2021).
- Vontobel Fund – TwentyFour Absolute Return Credit Fund position was increased £75,000,000 to £175,000,000, which had a market value of £169,007,173 at 31 March 2022 (£100,000,000 at 31 March 2021); and
- The bank invested $550,000,000 into the BlackRock Institutional Cash Series US Treasury fund, which had a market value of £417,837,878 at 31 March 2022 (2021: £Nil).

During the year the bank recorded a loss of £1,119,915 (2021: £4,655,816 gain) on its Baillie Gifford Long Term Global Growth Investment.

By the end of the year, the aggregate value of the investment portfolio at fair value reported in the above table had risen to £652,752,000 (2021: £141,084,000). These investments are measured at the market share price as at 31 March 2022.

(f) Capital management

The bank’s capital management for regulatory purposes (unaudited) is detailed in sections 3 and 4 of the Directors’ Report.

32. Segmental Information

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

33. Related Party Transactions

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

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

Related party transactions

Group	2022 £000	2021 £000
Loans and advances	10,356	10,500
Customer deposits	10,067	6,418
Fee income	**90**	**94**

Key management personnel compensation

Group	2022 £000	2021 £000
Aggregate emoluments	2,568	2,031
Pension contributions	53	31
Total key management compensation	**2,621**	**2,062**

The bank included related party transactions with key Management personnel as at 31 March 2022 for loans and advances of £10.4m (2021: £10.5m) and deposits of £10.1m (2021: £6.4m).

The bank provides banking services to the bank's charitable trust, The Golden Bottle Trust, and made a charitable donation to the trust of £1.5m (2021: £1.5m) during the year.

During the year the bank received fee income from related parties of £90k (2021: £94k). The bank's fee income derives from tax and trustee services to key Management personnel and their close family members of £12k (2021: £8k) and rental income of £78k (2021: £86k) from a related party, where the lease was subject to formal contract terms and conditions.

34. Ultimate Controlling Party

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

35. Charged Assets

As at 31 March 2022 £0.5m (2021: £0.5m) of assets were charged in favour of Hoare's Bank Pension Trustees Limited, for the benefit of the Hoare's Bank Pension Scheme. These assets would become available to the Pension Scheme in the event of C. Hoare & Co.'s insolvency. Under the arrangement, C. Hoare & Co. is entitled to any income earned on these assets.

C. Hoare & Co.

PRIVATE BANKERS SINCE 1672