
2011

Basel II Capital Disclosures

C Hoare & Co

& Subsidiary Companies



Issued 30 December 2011

Contents

	Introduction
1	Summary Key Measures & Ratios
2	Composition of Regulatory Capital
3	Pillar 1 Capital Requirements
4	Credit Risk Analysis
5	Interest Rate Risk
6	Remuneration

Tables

Table 1	Summary Capital & Ratios
Table 2	Capital Structure
Table 3	Exposure Classes and Minimum Capital Requirements
Table 4	Operational Risk Business Lines and Capital Requirements
Table 5	Average Exposures by Exposure Class
Table 6	Wholesale money market – analysis by credit quality step
Table 7	Wholesale money market – analysis by residual maturity
Table 8	Wholesale money market – analysis by geographical region
Table 9	Customer lending: drawn and undrawn split
Table 10	Claims on mortgage lending – analysis by geographical region
Table 11	Retail Credit Risk - analysis of bad debt provisions and non performing debts
Table 12	Retail Credit Risk - analysis of customer lending
Table 13	Loans and advances to customers – analysis by residual maturity
Table 14	Interest Rate Sensitivity
Table 15	Interest Rate Gap Analysis
Table 16	Code Staff Remuneration

Date of Issue: 30 December 2011

Introduction

C Hoare & Co ('the bank') is an Unlimited Liability Company with a Share Capital. The Bank's principal activities together with its subsidiaries Messrs Hoare Trustees, Mitre Court Property Holding Company, Hoare's Bank Nominees Ltd and Hoare's Bank Pension Trustees Limited are to provide a wide range of banking, investment and financial advice services to a predominantly high net wealth customer base. A full summary of the bank's activities and the review of the financial year ended 31 March 2011 can be found in the Consolidated Financial Statements available on the bank's website or from Companies House.

Basel II

The United Kingdom Financial Services Authority ('FSA') supervises the bank and receives information on the capital adequacy of, and sets capital requirements for the bank. The Bank calculates its capital at a consolidated level using the Standardised Approach from the Basel II framework of the Basel Committee on Banking Supervision.

Basel II is structured around three 'pillars': minimum capital requirements; supervisory review; and market discipline. The Capital Requirements Directive ('CRD') implemented Basel II in the European Union and the FSA gave effect to the CRD by including the requirements in its own rulebooks.

Pillar 3 complements the minimum capital requirements and the supervisory review process. Its aim is to encourage market discipline by development of a set of disclosure requirements which allow market participants to assess each other. Banks are required to disclose all their material risks as part of the Pillar 3 framework. Certain disclosures are already made in the bank's Consolidated Financial Statements: 'Risk Management' is disclosed in the Directors' Report (pages 5 to 6) and further detail is provided in Note 34 'Financial Risk Management' (pages 54 to 64).

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

The Basel II Capital Disclosures are prepared annually based upon the financial information prepared for the Financial Statements to the 31 March each year and are published in July along with the corresponding Financial Statements, following the AGM at which those Financial Statements are presented. This disclosure document is available from the bank or on its website www.hoaresbank.co.uk.

1. Summary

The key capital measures and ratios for the bank are:

Table 1: Summary Capital & Ratios

	31-Mar-11	<i>31-Mar-10</i>	<i>31-Mar-09</i>
Regulatory Capital £ 000			
Tier 1	132,188	<i>111,425</i>	<i>100,160</i>
Tier 2	29,200	<i>29,547</i>	<i>28,365</i>
Total Capital	<u>161,388</u>	<i><u>140,972</u></i>	<i><u>128,525</u></i>
Risk Weighted Assets £ 000	891,133	<i>885,540</i>	<i>801,817</i>
Minimum Capital Requirement £ 000	71,291	<i>70,843</i>	<i>64,145</i>
Tier 1 Ratio %	14.83%	<i>12.58%</i>	<i>12.49%</i>
Total Capital Ratio %	18.11%	<i>15.92%</i>	<i>16.03%</i>

Internal assessment of capital adequacy

The Bank computes the weighed risk assets each month end under the Standardised Approach and determines the minimum capital requirement in accordance with the CRD. This value is presented to the Assets & Liability Committee ('ALCo') who monitors it against the required regulatory capital after allowing for any supervisory adjustment as advised by the FSA and any internal reserve that it is thought prudent to hold. Capital adequacy is also reported to the bank's Board as part of the monthly reporting cycle.

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

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

Risk Management

The Bank has developed a risk management framework as described in Note 34 to the Financial Statements (page 54) and in the Directors' Report (pages 5 to 6). The Board continually assess the bank's risk profile and risk management procedures and is satisfied that the bank's overall business profile continues to be well managed from a risk perspective. The Bank mitigates interest rate risk on its fixed rate lending portfolio by matching the term and values of longer dated loans with interest rate swaps to lock in the interest cost and margin on these advances.

2. Composition of Regulatory Capital

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

Table 2: Capital Structure

Year End 31 March	2011	<i>2010</i>	<i>2009</i>
	£ 000	<i>£ 000</i>	<i>£ 000</i>
Tier 1 Capital			
Ordinary share capital	120	120	120
Reserve fund	22,748	22,748	22,748
Profit and loss account	109,320	88,557	78,515
Available-for-sale reserve losses (equities)	-	-	(1,223)
	<hr/>	<hr/>	<hr/>
Total Tier 1 Capital	132,188	<i>111,425</i>	<i>100,160</i>
	<hr/>	<hr/>	<hr/>
Tier 2 Capital			
Property revaluation reserve	14,279	14,279	14,279
Investment property revaluation reserve	2,058	3,396	3,376
Heritage assets revaluation reserve	9,600	9,600	9,600
Available-for-sale reserve gains (equities)	1,893	952	-
Collective impairment allowance	1,370	1,320	1,110
	<hr/>	<hr/>	<hr/>
Total Tier 2 Capital	29,200	<i>29,547</i>	<i>28,365</i>
	<hr/>	<hr/>	<hr/>
Total Regulatory Capital	161,388	<i>140,972</i>	<i>128,525</i>
	<hr/>	<hr/>	<hr/>

Reconciliation to shareholders' funds as reported in the financial statements

Year End 31 March	2011	<i>2010</i>	<i>2009</i>
	£ 000	<i>£ 000</i>	<i>£ 000</i>
Total Regulatory Capital (above)	161,388	<i>140,972</i>	<i>128,525</i>
Collective impairment allowance	(1,370)	(1,320)	(1,110)
Available-for-sale reserve losses (debt instruments)	(3,289)	(1,536)	(14,361)
	<hr/>	<hr/>	<hr/>
Shareholders' Funds	156,729	<i>138,116</i>	<i>113,054</i>
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The Bank's regulatory capital is analysed into two tiers:

- Tier 1 capital, which includes the share capital (being Ordinary fully participating shares, which carry unlimited liability), reserve fund (see below) and the audited retained profits and losses from previous years, plus any regulatory adjustments. The Bank has not issued any innovative or complex financial securities which would be included in Tier 1 capital.
- Tier 2 capital, which includes the property, investment property and heritage assets revaluation reserves, the available-for-sale reserve in respect of equity investments and the collective allowance for impairment, available-for-sale reserves in respect of fixed interest securities are excluded from the regulatory capital computation in accordance with FSA definitions.

Various limits are applied to elements of the bank's regulatory capital. For instance, qualifying Tier 2 capital cannot exceed Tier 1 capital and there are restrictions on the amount of collective impairment allowances that may be included as part of Tier 2 capital. Currently, the bank is not constrained by any of these limits and there are no other deductions applied to the computations.

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

Available-for-sale reserve gains (equities) form part of the Tier 2 capital when there is a net gain on the portfolio, as was the case on 31 March 2010 and 31 March 2011; when there is a net loss, the balance is taken from Tier 1, which was the case on 31 March 2009. This portfolio is being wound down and at 31 March 2011 comprised c£4m of venture capital and other illiquid assets. Gains and losses on available-for-sale debt instruments are excluded from regulatory capital.

The revaluation reserve against tangible assets in Tier 2 are segregated between surpluses arising on the bank's premises occupied and used in its business, the investment properties and the heritage assets. There have been no changes in the market values of the underlying assets which give rise to these revaluation reserves. However, three investment properties were realised in the last year resulting in a £1.3m decrease in the investment property revaluation reserve and realised profits of £1.4m passing to the profit and loss account in Tier 1.

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

The Bank adopted the Basel II Standardised Approach in January 2007. There are no differences in the composition of regulatory capital under Basel II as against Basel I for the bank. It is not expected that the proposed changes under Basel III will have any material impact on the bank's capital calculations in the near future.

3. Pillar 1 Capital Requirements

The Bank is supervised and regulated by the FSA and reports to the FSA on capital adequacy. The Bank has adopted the Standardised Approach to credit risk since this approach was introduced on 1 January 2007 under the CRD, more commonly known as Basel II. The Bank also adopted the Standardised Approach to operational risk with effect from September 2008, having previously used the basic indicator method from inception on 1 January 2007.

The Bank's on-balance sheet assets and off-balance sheet contingent liabilities are allocated to 16 exposure classes under the Standardised Approach to which credit conversion factors and standardised risk weights are applied in order to determine the risk weighted assets. The minimum capital requirement is calculated at the standard rate of 8% of risk weighted assets. The Bank does not hold a trading book for capital purposes. The allocation of assets as at 31 March for the last three financial year ends across the exposure classes that applied to the bank were as follows:

Table 3: Exposure Classes and Minimum Capital Requirements

Exposure Class	Exposure Value	Risk Weighted Assets	Capital Requirement	Exposure Value	Risk Weighted Assets	Capital Requirement	Exposure Value	Risk Weighted Assets	Capital Requirement
	31-Mar-11 £ 000	31-Mar-11 £ 000	31-Mar-11 £ 000	31-Mar-10 £ 000	31-Mar-10 £ 000	31-Mar-10 £ 000	31-Mar-09 £ 000	31-Mar-09 £ 000	31-Mar-09 £ 000
Wholesale Money Market									
Central Governments and Central Banks	172,590	-	-	221,702	-	-	300,350	-	-
Multilateral Development Banks	125,000	-	-	30,000	-	-	28,147	-	-
Long & Short term claims on Institutions (Banks)	775,924	175,370	14,030	1,073,018	218,038	17,443	774,617	159,788	12,783
	1,073,514	175,370	14,030	1,324,720	218,038	17,443	1,103,114	159,788	12,783
Customer Lending									
Real Estate Property	579,505	198,055	15,844	503,431	172,676	13,814	447,957	154,344	12,348
Customer Lending over €1million	491,884	241,159	19,293	446,015	215,837	17,267	427,510	192,135	15,371
Retail Claims under €1million	63,555	47,666	3,813	73,842	55,382	4,431	73,201	54,901	4,392
Past due Items	50,169	68,251	5,460	50,581	66,590	5,327	70,561	90,337	7,226
	1,185,113	555,131	44,410	1,073,869	510,485	40,839	1,019,229	491,717	39,337
Other Assets									
High Risk Categories	4,869	7,304	584	9,769	14,654	1,172	14,583	21,875	1,750
Other items	50,667	50,324	4,027	48,837	48,368	3,869	49,131	48,563	3,885
	55,536	57,628	4,611	58,606	63,022	5,041	63,714	70,438	5,635
Total Exposure Value & Minimum Capital Requirement (Credit risk)	2,314,163	788,129	63,051	2,457,195	791,545	63,323	2,186,057	721,943	57,755
Operational Risk (Risk Weighted Asset equivalent and Capital Requirement - see below)		103,004	8,240		93,995	7,520		79,874	6,390
Total Risk Weighted Assets & Minimum Capital Requirement		891,133	71,291		885,540	70,843		801,817	64,145

In addition to the computation for credit risk, there is a separate calculation of a capital requirement to support operational risk. The Bank has adopted the Standardised Approach which applies risk percentages to the average income by business line categories. The calculation as at 31 March 2011 is based on the three preceding years' performance (to 31 March 2010 for the requirement at 31 March 2011) and was computed as follows:

Table 4: Operational Risk Business Lines and Capital Requirement

Business Line	Average Income	Capital Requirement	Average Income	Capital Requirement	Average Income	Capital Requirement
	31-Mar-11 £ 000	31-Mar-11 £ 000	31-Mar-10 £ 000	31-Mar-10 £ 000	31-Mar-09 £ 000	31-Mar-09 £ 000
Asset Management	3,001	360	2,134	256	1,642	197
Retail Banking	51,913	6,572	46,488	5,929	39,303	5,047
Retail Brokerage	630	76	538	65	720	86
Trading & Sales	6,617	1,191	6,891	1,240	5,773	1,039
Agency Services	271	41	199	30	141	21
Total Average Income & Capital Requirement	62,432	8,240	56,250	7,520	47,579	6,390

4. Credit Risk Analysis

The table 3 above shows that the bank has two classes of credit risk: wholesale money market and the bank's customer lending, and a separate residual group 'high risk categories and other assets'. This section provides additional analysis of these segments.

Table 5: Average Exposures by Exposure Class

Average Balances by Exposure Class	Exposure Value	Risk Weighted Assets	Capital Requirement	Exposure Value	Risk Weighted Assets	Capital Requirement
	2010/11 £ 000	2010/11 £ 000	2010/11 £ 000	2009/10 £ 000	2009/10 £ 000	2009/10 £ 000
<u>Wholesale Money Market</u>						
Central Governments and Central Banks	183,604	-	-	343,736	-	-
Multilateral Development Banks	71,077	-	-	11,084	-	-
Long & Short term claims on Institutions (Banks)	925,474	190,839	15,267	885,714	182,485	14,599
	1,180,155	190,839	15,267	1,240,534	182,485	14,599
<u>Customer Lending</u>						
Real Estate Property	541,063	185,421	14,834	465,274	160,072	12,806
Customer Lending over €million	461,851	221,268	17,701	416,849	196,088	15,687
Retail Claims under €million	66,064	49,548	3,964	74,155	55,617	4,449
Past due Items	46,900	63,363	5,069	63,360	80,875	6,470
	1,115,878	519,600	41,568	1,019,638	492,652	39,412
<u>Other Assets</u>						
High Risk Categories	6,678	10,018	801	10,747	16,121	1,290
Other items	48,846	48,958	3,917	47,660	47,798	3,824
	55,524	58,976	4,718	58,407	63,919	5,114
Total Exposure Value & Minimum Capital Requirement	2,351,557	769,415	61,553	2,318,579	739,056	59,125

Wholesale Money Markets

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

Central Governments and Central Banks

This exposure includes deposits with central banks and government issued securities. C Hoare & Co will only place funds with central banks or governments of the highest rating; usually limited to the United Kingdom Government and the Bank of England, which attract a 0% weighting. As at 31 March 2011 the bank's exposure was wholly in deposits held with the Bank of England under its reserve asset scheme and the cash ratio deposit scheme, previous year end balances have included holdings of UK Government Stocks (Gilts) and UK Treasury Bills.

Multilateral Developments Banks (MLDBs)

This exposure class includes loans to, or instrument issued by, approved MLDBs such as the European Investment Bank or the International Bank for Reconstruction & Development, these are institutions with a high rating and attract 0% weighting for risk asset purposes.

Long Term Claims on Institutions & Short Term Claims on Institutions

The two exposure classes are divided according to the residual term of the deposit; short term being under 3 months, long term being longer dated instruments. The weighting depends upon the 'credit step' which is referenced to credit agency ratings. The Bank uses Moody's as its reference credit rating agency for this purpose. The Bank prefers to deal with counterparties in credit steps 1 and 2 which attract a maximum weighting of 50% for long term exposures; 20% for all others. These exposures are mainly comprised of term deposits, certificates of deposits and floating rate notes deposited with, or issued by, selected UK and foreign banks. C Hoare & Co maintains a counterparty list to manage

individual exposure limits and monitor credit agency ratings (Moody's being the bank's primary reference rating) and other indicators such as CDS spreads, capital ratios and Loan:Deposit ratios.

Other wholesale money market counterparty credit risk

The Bank trades forward foreign currency deals to match customer requirements and interest rate swaps and options as hedges against the lending and money market deposits. These are subject to collateral deposit to or from the counterparty which renders any associated credit risk immaterial.

Table 6: Wholesale Money Market – Analysis by Credit Step

	Weighting short Term < 3 months	Weighting Long Term > 3 months	31 March 2011		31 March 2010		31 March 2009	
			Exposure short Term £ 000	Exposure Long Term £ 000	Exposure short Term £ 000	Exposure Long Term £ 000	Exposure short Term £ 000	Exposure Long Term £ 000
Credit Quality Step: Moody's Ratings								
Step 1: Sovereign	0%	0%	172,590	150,000	221,702	65,328	300,350	86,770
Step 1: Aaa to Aa3	20%	20%	305,148	287,033	607,173	395,517	269,985	390,714
Step 2: A1 to A3	20%	50%	126,415	5,000	-	35,000	-	55,295
Step 3: Baa1 to Baa3	20%	50%	5,328	7,000	-	-	-	-
Step 4: Ba1 to Ba3	50%	100%	-	-	-	-	-	-
Step 5: B1 to B3	50%	100%	-	-	-	-	-	-
Step 6: Caa1 & below	150%	150%	-	15,000	-	-	-	-
Total Exposure			609,481	464,033	828,875	495,845	570,335	532,779

The table above shows the spread of exposures over the credit quality steps applied within the Basel framework:

- Credit Step 1 Sovereign balances includes issues with central banks, multilateral development banks and institutions underwritten by a guarantee of their national governments following the financial crisis in 2008.
- Credit Step 1, includes the majority of the bank's money market deposits and debt instruments and are with institutions rated AA or better.
- Credit Step 2 includes instruments with a residual maturity of more than 3 months and lower, but still acceptable, credit ratings.
- Credit Step 3 and below are balances on instruments where the credit rating is lower than the bank would normally prefer but certain holdings have become poorly rated and priced at a discount since the investments were made. The Bank is seeking to hold these exposures to maturity in the expectation of full repayment in mid 2012. In 2010/11 the bank disposed of £33m of low grade instruments and incurred a £2m loss in order to de-risk the balance sheet.

Table 7: Wholesale Money Market – Analysis by Residual Maturity

31 March 2011	3 months or less £ 000	Between 3 and 12 months £ 000	Between 1 and 5 years £ 000	More than 5 years £ 000	Total £ 000
Central Governments and Central Banks					
BoE Cash Deposits	172,000	-	-	590	172,590
Multilateral Development Banks					
Floating Rate Notes	-	-	125,000	-	125,000
Long & Short term claims on Institutions					
Certificate of Deposits	85,000	150,000	-	-	235,000
Cash Deposits	260,124	-	-	-	260,124
Term Deposits	84,817	-	-	-	84,817
Floating Rate Notes	6,950	67,000	122,033	-	195,983
	436,891	217,000	122,033	-	775,924
Total exposure	608,891	217,000	247,033	590	1,073,514

<i>31 March 2010</i>	<i>3 months or less £ 000</i>	<i>Between 3 and 12 months £ 000</i>	<i>Between 1 and 5 years £ 000</i>	<i>More than 5 years £ 000</i>	<i>Total £ 000</i>
<i>Central Governments and Central Banks</i>					
<i>BoE Cash Deposits</i>	221,000	-	-	702	221,702
<i>Multilateral Development Banks</i>					
<i>Floating Rate Notes</i>	-	6,000	24,000	-	30,000
<i>Long & Short term claims on Institutions</i>					
<i>Certificate of Deposits</i>	225,000	250,000	-	-	475,000
<i>Cash Deposits</i>	226,190	-	-	-	226,190
<i>Term Deposits</i>	136,434	5,328	-	-	141,762
<i>Floating Rate Notes</i>	29,549	39,505	161,012	-	230,066
	617,173	294,833	161,012	-	1,073,018
<i>Total exposure</i>	838,173	300,833	185,012	702	1,324,720

<i>31 March 2009</i>	<i>3 months or less £ 000</i>	<i>Between 3 and 12 months £ 000</i>	<i>Between 1 and 5 years £ 000</i>	<i>More than 5 years £ 000</i>	<i>Total £ 000</i>
<i>Central Governments and Central Banks</i>					
<i>UK Government Cash Deposits</i>	130,000	-	-	509	130,509
<i>UK Government Treasury Bills</i>	149,980	-	11,716	8,145	169,841
	279,980	-	11,716	8,654	300,350
<i>Multilateral Development Banks</i>					
<i>Floating Rate Notes</i>	-	6,259	9,786	12,102	28,147
<i>Long & Short term claims on Institutions</i>					
<i>Certificate of Deposits</i>	416,676	-	-	-	416,676
<i>Cash Deposits</i>	9,682	-	-	-	9,682
<i>Term Deposits</i>	75,245	7,820	-	-	83,065
<i>Floating Rate Notes</i>	-	49,059	216,135	-	265,194
	501,603	56,879	216,135	-	774,617
<i>Total exposure</i>	781,583	63,138	237,637	20,756	1,103,114

This table shows the residual maturity by instrument type. The Bank's largest exposure is to short term dated instruments (less than 3 months). Furthermore the table below depicts the bank's material exposures by country, the UK being the core region.

Table 8: Wholesale Money Market – Analysis by Instrument Type and Geographical Region

31 March 2011	Certificate of Deposits	Cash Deposits	Term Deposits	Floating Rate Notes	Total
Region	£ 000	£ 000	£ 000	£ 000	£ 000
United Kingdom	235,000	236,723	1,657	66,767	540,147
Other European countries	-	21,235	5,328	78,950	105,513
North America	-	1,796	77,832	23,116	102,744
Rest of the World	-	370	-	27,150	27,520
Total exposure	235,000	260,124	84,817	195,983	775,924

<i>31 March 2010</i>	<i>Certificate of Deposits</i>	<i>Cash Deposits</i>	<i>Term Deposits</i>	<i>Floating Rate Notes</i>	<i>Total</i>
<i>Region</i>	<i>£ 000</i>	<i>£ 000</i>	<i>£ 000</i>	<i>£ 000</i>	<i>£ 000</i>
<i>United Kingdom</i>	<i>475,000</i>	<i>219,893</i>	<i>7,324</i>	<i>80,857</i>	<i>783,074</i>
<i>Other European countries</i>	<i>-</i>	<i>2,951</i>	<i>5,328</i>	<i>112,345</i>	<i>120,624</i>
<i>North America</i>	<i>-</i>	<i>2,544</i>	<i>129,110</i>	<i>26,863</i>	<i>158,517</i>
<i>Rest of the World</i>	<i>-</i>	<i>803</i>	<i>-</i>	<i>10,000</i>	<i>10,803</i>
Total exposure	475,000	226,191	141,762	230,064	1,073,018

<i>31 March 2009</i>	<i>Certificate of Deposits</i>	<i>Cash Deposits</i>	<i>Term Deposits</i>	<i>Floating Rate Notes</i>	<i>Total</i>
<i>Region</i>	<i>£ 000</i>	<i>£ 000</i>	<i>£ 000</i>	<i>£ 000</i>	<i>£ 000</i>
<i>United Kingdom</i>	<i>416,676</i>	<i>8,528</i>	<i>54,959</i>	<i>91,222</i>	<i>571,385</i>
<i>Other European countries</i>	<i>-</i>	<i>352</i>	<i>16,918</i>	<i>136,716</i>	<i>153,986</i>
<i>North America</i>	<i>-</i>	<i>578</i>	<i>11,188</i>	<i>27,240</i>	<i>39,006</i>
<i>Rest of the World</i>	<i>-</i>	<i>225</i>	<i>-</i>	<i>10,015</i>	<i>10,240</i>
Total exposure	416,676	9,683	83,065	265,193	774,617

The tables above show the analysis on Institutional Exposures by geographical region; the UK is the main concentration of funds as it reflects the predominately British focus for the bank.

Customer Lending

The second segment of credit risk is customer lending which is categorised into three main types with a fourth type for 'Past Due' exposures. A breakdown of the bank's exposure by type is shown in Tables 3 above and includes drawn and undrawn exposures. Table 9 below shows the split of these exposures into drawn and undrawn, and the subsequent sections analyse the drawn lending.

Table 9: Customer lending: drawn and undrawn split

31 March 2011	£ 000	£ 000	£ 000
Customer Lending	Drawn	Undrawn	Total Exposure value
Real Estate Property	538,067	41,438	579,505
Customer Lending over €1million	218,759	273,125	491,884
Retail Claims under €1million	63,555	-	63,555
Past due Items	50,169	-	50,169
Total	870,550	314,563	1,185,113

31 March 2010	£ 000	£ 000	£ 000
Customer Lending	Drawn	Undrawn	Total Exposure value
<i>Real Estate Property</i>	<i>467,451</i>	<i>35,980</i>	<i>503,431</i>
<i>Customer Lending over €1million</i>	<i>195,502</i>	<i>250,513</i>	<i>446,015</i>
<i>Retail Claims under €1million</i>	<i>73,842</i>	<i>-</i>	<i>73,842</i>
<i>Past due Items</i>	<i>50,581</i>	<i>-</i>	<i>50,581</i>
Total	787,376	286,493	1,073,869

31 March 2009	£ 000	£ 000	£ 000
Customer Lending	Drawn	Undrawn	Total Exposure value
<i>Real Estate Property</i>	<i>417,183</i>	<i>30,774</i>	<i>447,957</i>
<i>Customer Lending over €1million</i>	<i>175,551</i>	<i>251,959</i>	<i>427,510</i>
<i>Retail Claims under €1million</i>	<i>73,201</i>	<i>-</i>	<i>73,201</i>
<i>Past due Items</i>	<i>70,561</i>	<i>-</i>	<i>70,561</i>
Total	736,496	282,733	1,019,229

Real Estate Property

A large proportion of the bank's customer lending is secured against residential property in the UK. The Bank's collateral register holds charges over customer property for current and potential lending propositions; as at 31 March 2011, total property charged to the bank was £2.8bn with only £1.8bn utilised against £552m of drawn mortgage lending, a small amount of which is classed as 'Past Due'. The table below shows the geographical exposure of mortgage lending split between performing and past dues, of which 83% is located in the South of England (56% in Greater London, 17% in the South East and 10% in the South West).

Table 10: Claims on Mortgage Lending – Analysis by UK Geographical Region

Mortgage lending secured on residential property			
31 March 2011	Performing	Past due*	Total
Region	£ 000	£ 000	£ 000
Scotland	6,066	107	6,173
North England	2,016	-	2,016
Yorkshire & Humberside	4,263	59	4,322
North West	3,917	-	3,917
East Midlands	13,235	1,846	15,081
West Midlands	23,695	27	23,722
East Anglia	28,678	3,017	31,695
South West	55,320	1,212	56,532
Greater London	304,622	4,643	309,265
South East	92,248	3,089	95,337
Wales	3,965	6	3,971
Northern Ireland	42	-	42
Total	538,067	14,006	552,073

<i>31-Mar-10</i>	<i>Performing</i>	<i>Past due</i>	<i>Total</i>
<i>Region</i>	<i>£ 000</i>	<i>£ 000</i>	<i>£ 000</i>
<i>Scotland</i>	<i>5,803</i>	<i>-</i>	<i>5,803</i>
<i>North England</i>	<i>1,543</i>	<i>-</i>	<i>1,543</i>
<i>Yorkshire & Humberside</i>	<i>3,767</i>	<i>45</i>	<i>3,812</i>
<i>North West</i>	<i>2,725</i>	<i>210</i>	<i>2,935</i>
<i>East Midlands</i>	<i>10,855</i>	<i>-</i>	<i>10,855</i>
<i>West Midlands</i>	<i>9,697</i>	<i>134</i>	<i>9,831</i>
<i>East Anglia</i>	<i>20,889</i>	<i>4,717</i>	<i>25,606</i>
<i>South West</i>	<i>47,826</i>	<i>2,416</i>	<i>50,242</i>
<i>Greater London</i>	<i>262,921</i>	<i>4,508</i>	<i>267,429</i>
<i>South East</i>	<i>97,925</i>	<i>5,980</i>	<i>103,905</i>
<i>Wales</i>	<i>3,458</i>	<i>553</i>	<i>4,011</i>
<i>Northern Ireland</i>	<i>42</i>	<i>-</i>	<i>42</i>
<i>Total</i>	<i>467,451</i>	<i>18,563</i>	<i>486,014</i>

* Mortgage lending Past Due items are aggregated with other Past Dues in Table 3

The Bank's standard security requirement is 1.5 times the facility amount; equivalent to Loan to Value ('LTV') ratio of 66%. This provides a significant margin over the maximum 80% LTV allowed under the Standardised Approach. This exposure class attracts a risk weighting of 35%

Customer Lending over €1million ('Corporate')

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

Retail Claims under €1million

These are small non-property exposures below the Euro 1 million threshold. The weighting is 75%.

Past Due Exposures

All customer lending exposures are initially categorised into one of the three classes above, and on the trigger of an event of default would then reclassified as 'Past Due' exposures. The Bank has a low level of past due lending which is defined primarily as overdraft or lending balances in excess of agreed limits for more than 90 days; the exposure at 31 March 2011 was £50m (5%) of the total exposure of £919m. The definition of past due only applies to regulatory computations. Weighting ranges from 100% for real estate property past dues to 150% for wholesale and retail items.

The nature of the bank's lending means that few of the conventional events of default are relevant to the portfolio; we look at extended breaches of advised overdrafts and actual non-performing bad debts. Breaches of overdraft limits are rarely of concern as there usually is more than sufficient collateral to cover the excess. The Bank's monitoring and classification policy on non-performing debt is explained on page 57 of the financial statements. Bad debt charges and non performing debts (lending that is assessed as requiring a bad debt provision) are low and summarised below.

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

Year ending 31 March	2011	<i>2010</i>	<i>2009</i>
	£ 000	<i>£ 000</i>	<i>£ 000</i>
Collective allowances for impairment			
Change in collective provision	<u>50</u>	<u>210</u>	<u>700</u>
Provision at 31 March	<u>1,370</u>	<u>1,320</u>	<u>1,110</u>
Specific allowances for impairment			
Bad Debt Charge for the year	1,591	<i>3,150</i>	<i>4,061</i>
Recoveries of past charges	(1,460)	<i>(2,488)</i>	<i>(242)</i>
Net charge to profit & loss	<u>131</u>	<u>662</u>	<u>3,819</u>
Write offs	(113)	<i>(39)</i>	<i>(844)</i>
Provisions at 31 March	<u>5,846</u>	<u>5,828</u>	<u>5,205</u>
Total Provisions at 31 March	<u>7,216</u>	<u>7,148</u>	<u>6,315</u>
Non Performing Debt (NPD)	32,456	<i>35,468</i>	<i>39,838</i>
Other Past due	<u>17,713</u>	<u>15,113</u>	<u>30,723</u>
Total Past Due Exposures	<u>50,169</u>	<u>50,581</u>	<u>70,561</u>
Provision to NPD %	18%	<i>16%</i>	<i>13%</i>
NPD to Gross Lending	4%	<i>4%</i>	<i>5%</i>

A large proportion of the non-performing debt includes loans secured against AIG Insurance Bonds. These bonds are secured and are expected to be fully repaid in 2012; this is explained in more detail in the financial statements (page 55).

In addition the bank maintains a watch list of exposures where the customers ability to repay may be in doubt and these relationships are managed to attempt to avoid the migration into non-performing debt status and any subsequent loss. The analysis of the loan book as at 31 March 2011 and the previous two year ends was as follows:

Table 12: Retail Credit Risk - analysis of customer lending

Loan Book Analysis	31 March 2011 £ 000	<i>31 March 2010</i> <i>£ 000</i>	<i>31 March 2009</i> <i>£ 000</i>
Loans not subject to Watch list nor deemed Non Performing	740,033	645,319	554,541
Watch List			
Medium Risk	92,664	103,185	129,461
High Risk	4,027	2,083	11,546
Non Performing Debt (NPD)	32,456	35,468	39,838
Total Loan Book (Gross)	<u>869,180</u>	<u>786,055</u>	<u>735,386</u>
Watch List			
Medium Risk	10.7%	13.1%	17.6%
High Risk	0.5%	0.3%	1.6%
Non Performing Debt	3.7%	4.5%	5.4%
Total Watch list & NPD	14.9%	17.9%	24.6%

Year on year the proportion of the loan book classified as medium risk has declined as has the non-performing debt. However high risk loans have marginally increased by 0.2% but are only a very small proportion of the total portfolio.

Residual maturity

The table below shows a residual maturity analysis of loans and advances to customers.

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

31 March 2011	On demand	Up to 3 months	3-12 months	1-5 years	>5 years	Total
Loan Type	£ 000	£ 000	£ 000	£ 000	£ 000	£ 000
Fixed term	-	2,002	17,324	59,666	22,254	101,246
Variable term	775,150	-	-	-	-	775,150
Allowance for impairment losses	(7,216)	-	-	-	-	(7,216)
Total	767,934	2,002	17,324	59,666	22,254	869,180

<i>31 March 2010</i>	<i>On demand</i>	<i>Up to 3 months</i>	<i>3-12 months</i>	<i>1-5 years</i>	<i>>5 years</i>	<i>Total</i>
Loan Type	<i>£ 000</i>	<i>£ 000</i>	<i>£ 000</i>	<i>£ 000</i>	<i>£ 000</i>	<i>£ 000</i>
Fixed term	-	2,355	9,743	43,470	17,997	73,565
Variable term	719,638	-	-	-	-	719,638
Allowance for impairment losses	(7,148)	-	-	-	-	(7,148)
Total	712,490	2,355	9,743	43,470	17,997	786,055

<i>31 March 2009</i>	<i>On demand</i>	<i>Up to 3 months</i>	<i>3-12 months</i>	<i>1-5 years</i>	<i>>5 years</i>	<i>Total</i>
Loan Type	<i>£ 000</i>	<i>£ 000</i>	<i>£ 000</i>	<i>£ 000</i>	<i>£ 000</i>	<i>£ 000</i>
Fixed term	-	6,375	12,014	39,592	17,080	75,061
Variable term	666,640	-	-	-	-	666,640
Allowance for impairment losses	(6,315)	-	-	-	-	(6,315)
Total	660,325	6,375	12,014	39,592	17,080	735,386

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

Credit Risk Mitigation

Under the Standardised Approach the bank is permitted to reduce its exposure balances prior to applying the risk weightings and deriving the capital requirements. Such mitigants are in the form of cash deposits with liens over them and charged stock exchange portfolios. The Bank seeks to take advantage of available mitigants where possible however these are not currently reflected in the capital calculations due to system limitations. A new regulatory reporting system is currently under development and Credit Risk Mitigation will be evaluated as part of the implementation.

High Risk Categories & Other Assets

Lastly, the bank also records exposures under two general exposure classes:

- *High Risk Categories* – which includes the bank's investment in illiquid hedge funds and venture capital firms, these attract a 150% weighting and have been reduced year on year in order to de-risk the balance sheet.
- *Other Assets* – which includes all other assets not specifically allocated to other exposure classes; this group attracts a 100% weighting. The Bank reports its premises and investment properties along with other current assets and prepayments in this exposure class.

The Bank does not hold any material exposures in equities as at 31 March 2011 having de-risked the investment portfolio by a programme of disposals during 2009/10 and 2010/11.

5. Interest Rate Risk

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

The interest rate gap table on the following page shows some distinct changes over the previous year. Customer deposits beyond one year have reduced as customers appear to be anticipating interest rate rises and have consequently shortened the term of their deposits. Conversely, in response to customer demand, fixed term customer loans have increased in the 1 to 5 year and over 5 year bands as customers wish to lock into historic low rates. Counter to the fixed loan portfolio, the bank has employed interest rate swaps as protection against rising interest rates as part of the bank's risk management process.

The ALCo monitors the interest rate risk on a monthly basis. The impact of a potential 2% parallel shift in the yield curve against the bank's interest bearing assets is computed back to a net present value. The reported interest rate sensitivity on the year end balance sheet for 31 March 2011 and the previous year were as follows:

Table 14: Interest Rate Sensitivity

<i>Effects of a change to 2% parallel shift in Sterling Market Rates</i>	31 March 2011	<i>31 March 2010</i>	<i>31 March 2009</i>
Net Present Value Sensitivity to:	£000	<i>£000</i>	<i>£000</i>
<i>Positive Shift</i>	111	<i>(1,375)</i>	<i>(5,380)</i>
<i>Negative Shift</i>	(77)	<i>1,453</i>	<i>6,415</i>

The interest rate sensitivities set out above are illustrative only and are based on simplified scenarios. The figures represent the effect on net interest income and fixed interest security values arising from a parallel fall or rise in the yield curve and do not take into account the effect of any further actions taken to mitigate the effect. The position as at 31 March 2011 reflects a policy of shortening exposures in anticipation of rises in the Bank of England Base Rate and money market rates. The assets and liabilities held in individual foreign currencies are not of a sufficiently material value to warrant separate analysis.

Table 15: Interest Rate Gap Analysis

£000	Carrying Amount	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Over 5 years
As at 31 March 2011						
Assets:						
Loans and advances to banks and central banks	520,158	519,568	-	-	-	590
Loans and advances to customers	869,180	800,242	-	6,284	53,580	9,074
Interest bearing available for sale financial assets	550,750	399,202	151,548	-	-	-
Total assets	1,940,088	1,719,012	151,548	6,284	53,580	9,664
Liabilities						
Deposits by banks	10	10	-	-	-	-
Customer accounts	1,802,672	1,741,587	33,918	26,772	395	-
Total liabilities	1,802,682	1,741,597	33,918	26,772	395	-
Derivatives	-	125,600	(65,000)	(4,000)	(48,350)	(8,250)
Interest rate gap	137,406	103,015	52,630	(24,488)	4,835	1,414
£000	<i>Carrying Amount</i>	<i>Up to 3 months</i>	<i>3 to 6 months</i>	<i>6 to 12 months</i>	<i>1 to 5 years</i>	<i>Over 5 years</i>
As at 31 March 2010						
Assets:						
Loans and advances to banks and central banks	589,416	583,386	-	5,328	-	702
Loans and advances to customers	786,055	740,693	-	-	37,584	7,778
Interest bearing available for sale financial assets	737,304	484,585	252,719	-	-	-
Total assets	2,112,775	1,808,664	252,719	5,328	37,584	8,480
Liabilities						
Deposits by banks	-	-	-	-	-	-
Customer accounts	1,989,921	1,928,083	34,157	16,681	11,000	-
Total liabilities	1,989,921	1,928,083	34,157	16,681	11,000	-
Derivatives	-	35,935	-	-	(30,085)	(5,850)
Interest rate gap	122,854	(83,484)	218,562	(11,353)	(3,501)	2,630

6. Remuneration

In compliance with the rules set out in the FSA's Policy Statement PS10/21 'Implementing CRD3 Requirements on the Disclosure of Remuneration', the bank is required to make the disclosures set out below. Table 16 displays the 2010/2011 remuneration of Senior Management, including the Partners, Significant Influence Function Holders (as defined by the FSA) and Non-Executive Directors, as well as members of staff whose actions are deemed to have a material impact on the bank's risk profile – collectively these employees are known as "Code Staff".

Table 16: Code Staff Remuneration

Code Staff	Total
Number of Code Staff	22
Fixed Remuneration	
Cash (£m)	4.1
Total Fixed (£m)	4.1
Variable Remuneration	
Cash (£m)	2.6
Deferred Cash (£m)	0.0
Total Variable (£m)	2.6

Figures represent amounts paid during the 2010/2011 financial year.

Decision Making Process for Determining the Remuneration Policy

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

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

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

The Remuneration Policy

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

- Recognise the capabilities and achievements of individual employees, rewarding and incentivising sustained good performance. Whilst pay is performance related, individual targets are not aligned directly to bonus payments
- Encourage behaviour that is consistent with the core values, as captured in the bank's behavioural framework which promotes team working, service excellence and the highest levels of integrity
- Deliver a total remuneration package that is both market competitive and affordable, with consideration given to the impact on capital ratios, liquidity and the continued ability to invest in, and grow, the business
- Ensure remuneration is structured in a way that promotes activity that is within the bank's acceptable risk parameters and is in line with regulatory requirements as set out in the FSAs Remuneration Code
- Provide a total remuneration package that ensures that no employee's subsistence is dependent on an annual bonus payment. Variable remuneration payments are made by the bank on an entirely discretionary basis
- Attract, retain, motivate and reward high calibre individuals. The bank is of the belief that career fulfilment encompasses more than just financial compensation. Career progression, job satisfaction, the bank's culture and other non-financial incentives that impact on motivation are all considered as part of the overall approach to employee remuneration

Composition of the RemCo

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

- Mr Richard Q Hoare OBE – Partner/Director
- Mr Henry C Hoare – Partner/Director
- Mrs Laurel Powers-Freeling – Non Executive Director
- Mr David Hall (until 30/09/2011) – Non Executive Director

The bank is currently in the process of recruiting a replacement for Mr David Hall.

The Role of Relevant Stakeholders

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

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

Link Between Pay and Performance

While all employees are encouraged to discuss performance on an informal and ongoing basis, formal appraisals take place twice a year in April (end of year) and September (interim). In 2010, the bank introduced a behavioural competencies framework to supplement the appraisal process. The framework focuses employee attention on the skills and behaviours that are required to drive effective performance and achieve the bank's strategic aims within the prescribed risk appetite. The framework is aligned to the bank's values of leadership, effective collaboration, personal effectiveness and achieving continuous success. The framework also ensures that:

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

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

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

Design and Structure of Remuneration

There are three main elements of remuneration:

- Basic salary
- Variable pay
- Benefits (pension, healthcare etc)

Determining Variable Pay

All remuneration decisions made by the RemCo are based on a risk-adjusted assessment of the bank's financial performance, with the total level of annual bonus payment determined by a percentage of overall net profit, not to individual and/or business line contribution. Specifically, the size of the bonus pool depends upon the extent to which the bank's return on capital exceeds an amount pre-determined by the EG and the Board.

The RemCo and the HR department engage with the Control Functions (Risk and Compliance) to ensure that regulatory requirements and risk management obligations are being appropriately addressed throughout the process.

The bank does not remunerate employees on the basis of anticipated, or future, performance and employment contracts state that variable remuneration payments are made only at the bank's discretion.

At a high level the determination of the absolute amount to be paid out of the bonus pool takes account of the following requirements:

- The need to retain sufficient profits and capital to support future growth and to meet changing regulatory capital requirements
- The ability to make bonus payments that allow the bank to attract and retain the talent that is required to deliver strategic aims

In 2011/2012 the bank will introduce a cash based bonus deferral scheme developed with the assistance of CMS Cameron McKenna for relevant Code Staff.