C. Hoare & Co.

Annual Report and Consolidated Financial Statements Year Ended 31 March 2017

Company Number: 240822

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CHAIRMAN'S FOREWORD

I was delighted to be appointed Chairman on 1st October and am privileged to be reporting on the performance of the bank for the first time. I would like to pay tribute to the leadership and wisdom of my predecessor, Lord Wilson of Dinton, who over a ten year term as Chairman guided the bank through a period of extraordinary change. I would also like to thank the Board and staff of C. Hoare & Co. for the support they have provided me.

The bank has delivered yet another strong financial performance.

The external environment has been uncertain, with the referendum and elections producing unpredicted results. The persistence of quantitative easing and low interest rates has continued to provide challenges for the banking industry, but the bank has continued to perform well by focusing on what it has done for over three centuries: providing excellent customer service.

Last summer, the Board made the strategic decision to focus exclusively on banking, resulting in the sale of the Wealth Management business to Cazenove. This meant saying farewell and thank you to a number of valued colleagues and customers. It was also the catalyst of a review and realignment of the organisational structure to position the bank for future success.

Over the last year, the bank's balance sheet has experienced healthy growth. Customers now deposit some £3.9 billion with us, a 0.7 per cent increase on last year. The loan book has seen even stronger growth and now exceeds £1.5 billion; this is a testament to the relationship managers and their teams who support customers. However, the bank continues to maintain conservative lending standards, reflecting the Partners' position as sole shareholders who carry unlimited liability for the bank: at the end of the financial year, the bank had £777 million on deposit at the Bank of England.

Income has remained robust, despite market and competitive pressures impacting on our margins. By bearing down on costs, the bank has been able to continue to invest in important customer service capabilities while maintaining a broadly stable level of overall ongoing costs. The cost reduction effort was affected this year as a one-time provision was set up to resolve documentation issues with a small pool of regulated loans. More on these last two topics is included in the strategic report. Once again our performance on bad debts was strong, with a net reduction in provisions.

The bank's regulatory capital base increased by £46.2m to £320.0m and the bank remains very liquid with around 40 per cent of customers' deposits lent. The bank's Common Equity Tier 1 capital ratio increased to 20.4%, reflecting the increase in size of the balance sheet and the gain from the sale of the Wealth Management business.

Finally, I would like to welcome a new director and thank two directors who have stood down from the Board. Johanna Waterous joined the Board in July 2017; we look forward to her contribution as she brings deep customer and financial services experience. Ian Peacock retired in June 2017 after nine years of sterling service: his insights from a career in banking have been invaluable. Richard Q Hoare stood down from the Board at the end of March 2017. Richard joined the bank in 1969 and has played a central role in building the bank into the thriving institution it is today. He has also been a driving force behind the continuing tradition of philanthropy which has long been associated with C Hoare & Co. Richard's career is a reminder of the importance of the family in determining strategy, as well as the day-to-day running of the bank.

The Lord Macpherson of Earl's Court GCB

Chairman

STRATEGIC REPORT

The directors present their Strategic Report on the C. Hoare & Co. group for the year ended 31 March 2017.

1. Review of Business: Market context

In the UK, the political environment and financial markets have been dominated by the decision to leave the European Union. With Article 50 now triggered, we have a forward path. However, given the early stage of the process, the eventual nature, timing and ultimate impact of the UK's exit from the European Union remains uncertain.

The low interest rate environment continues, with the Bank of England base rate reducing in August 2016 to the current level of 0.25%. Inflation pressures have built, in part because of the weakening Sterling, and as a result market consensus is that we will see rate rises in the next 12 months. In the meantime, the low rate environment continues.

Across the UK house prices have continued to rise, however recent data is showing that this is starting to slow. Whilst the housing market outside of London maintained price momentum, there are indications that prices in the capital are rising at a slower rate. The slowing in London has been attributed to high-end properties where Brexit uncertainty and higher taxes may have dampened demand.

The regulatory environment continues to evolve, with new requirements a regular feature of the industry. However given the strength of our Balance Sheet and the capital generative nature of our business model, we are well placed to meet these requirements.

Technology is a key theme impacting all industries. For financial services, technology brings the tremendous opportunity to improve customer service and realise efficiencies but also generates competitive threats and increasing risks from fraud and cyber attack. We are actively evaluating the changing landscape and will listen carefully to our customers to ensure we maximise our enhancements in this area.

2. Review of Business: the bank

The bank has undergone a transitional but successful year which included an organisational structure change, including the sale of the Wealth Management business. The results as presented draw a distinction between the restructure and Wealth Management, shown as 'discontinued operations' and ongoing 'continuing operations'. The results for the prior year ended 31 March 2016 have been restated to be on a comparative basis.

On 17 February 2017 the sale of the Wealth Management business to Cazenove Capital Management was concluded. As a consequence, approximately £2.3 billion of funds under management and £135m of cash balances were transferred and the sale resulted in a gain of £56.8m. This completed a critical phase in executing the bank's strategic decision to refocus on its core banking services.

Profit before tax increased by £42.8m to £70.8m. Continuing operations delivered profit before tax of £17.6m *(2016: £29.8m restated)*, and included an increase in charitable donations of £4.9m and customer repayment costs of £12.2m. Customer repayment costs relate to the process of resolving documentation issues for a small pool of regulated loans. As part of this, the bank has commenced a full review of all critical documentation to mitigate the risk of any future issues.

Underlying profit (excluding charitable donations and customer repayment costs) from continuing operations was £37.3m *(2016: £32.3m restated)*. The increase in profit was driven largely by the continued strong growth in core banking activities with customer deposits and lending both increasing during the year, to £3.9bn and £1.6bn respectively.

Income from continuing operations increased to £92.9m *(2016: £91.5m restated)*, while underlying costs (excluding charitable donations and customer repayment costs) marginally reduced to £57.7m *(2016: £59.4m restated)*. Amounts were recovered on previously impaired assets, resulting in a £2.2m benefit to the profit and loss account.

Customer deposit balances as at 31 March 2017 were £3,868m. Excluding the wealth management cash accounts, of which a small amount remains, deposits increased 7% to £3,859m.

Customer lending grew by 14% to £1,565m and equated to 40% of deposits at year-end. The growth in the loan book was in line with our expectations and was largely driven by our fixed rate and term facilities. We continue to see a good pipeline of new loans.

STRATEGIC REPORT (CONTINUED)

2. Review of Business: the bank (Continued)

The bank's money market book was broadly stable at £2,735m. At the year end, the bank held the equivalent of 20% of customers' deposits at the Bank of England, £300m in gilts and a further £352m of assets capable of repo with the Bank of England. When placing funds with other banks we continue to prefer lower risk over higher return: accepting that low market rates and a shortage of appropriate counterparties will continue to lower the yield from the money market book.

The average net interest margin for the year was 1.96%, down 12bps from the previous year reflecting tremendous growth in our lower margin fixed term lending. Despite 14% growth in lending, net interest income only rose by 7% to £74.2m as a result.

The aggregate income from the bank's fee generating businesses (wealth management, foreign exchange, cash administration and the advisory business) was broadly in line with prior year at £30.4m *(2016: £30.5m restated)*. An increase in fees earned from the banking business were offset by lower Wealth Management fees reflecting the sale of the business and associated loss of income towards the end of the year.

In addition to the sale of the Wealth business, the bank undertook an organisation review to right-size for future success. As a result, costs were relatively flat over the prior year as identified efficiencies started to be realised. Excluding charitable donations, restructuring costs and customer repayment costs, the cost income ratio of continuing operations reduced to 61.7% *(2016: 67.8% restated)*.

The bank's bad debt experience for the year was favourable. New specific provisions were low at £0.4m, including accruing interest on provided for loans, and recoveries of £1.0m were made on previously provided items. No material loans were impaired during the year.

At the year end the bank's defined benefit pension scheme ("the Scheme") moved from a surplus of £7.4m to a deficit of £0.03m as a result of a decrease in the discount rate and market implied inflationary increases, largely offset by higher than expected asset returns. During the year the triennial review (as at 1 April 2016) of the Scheme was completed. This review identified a deficit and proposed a remedy plan to neutralise the deficit. The remedy plan was adopted and implemented, with all payments required having been made by 31 March 2017.

Total shareholders' funds increased by £40.4m (15%) during the year, primarily as a result of retained profits, including the gain on sale of the Wealth Management business.

The bank maintains a strong philanthropic culture. One of its key non-financial performance indicators is the proportion of staff who shares the bank's values and donates to charity through the bank's "Give as You Earn" scheme. Under this scheme, the bank's charitable trust ("The Golden Bottle Trust") double matches staff donations, thereby tripling their value. As at 31 March 2017, 52% of staff chose to give in this way *(2016: 54%)*. The bank also encourages staff to give up some of their own time to charitable causes by matching the time taken with paid leave, up to a maximum of two days each year. We also offer the Master Charitable Trust for philanthropic customers who wish to make charitable donations; this continued to attract new monies during the year and now has around £34.5m *(2016: (£26.6m)* in funds set aside for charitable purposes. In recognition of the tremendous success resulting from the sale of the Wealth business and in line with the philanthropic legacy of the bank, the Board approved a special donation of £5m in addition to the normal annual giving.

3. Performance

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

STRATEGIC REPORT (CONTINUED)

4. Future Developments

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

In the UK, the triggering of Article 50 has yet to be fully reflected in the long-term outlook for the economy and interest rates. The new administration in the US and ongoing unrest in various parts of the world all add additional uncertainty to the economic outlook.

The pipeline of regulatory change remains high, as politicians and regulators continue to implement changes. We expect further change from the UK government and regulators, particularly as they look to establish a regulatory framework on our exit from the EU.

As new payment technologies come on stream we expect these to take an increasing share of transaction activity. We continue to enhance and develop our mobile banking "app" to improve our customer service.

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

5. Principal Risks and Uncertainties

The Board has ultimate responsibility for identifying and managing the bank's principal risks in order to achieve its strategic objectives. The Audit, Risk & Compliance Committee provides oversight and monitors the effectiveness of internal control and risk management processes, and reports to the Board. Principal risks are monitored by reference to leading indicators, which are designed to highlight potential problem areas well in advance. The principal risks faced by the bank are detailed below:

(a) Credit Risk

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

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

Credit risk to treasury lending is governed by Board approved counterparty policies which ensures that lending is only made with high quality counterparties with the level of permitted exposures to a counterparty linked to the strength of its credit rating. In addition, there is a maximum exposure limit for all institutions, in line with the bank's regulatory reporting requirements on large exposures to the regulator.

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

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

STRATEGIC REPORT (CONTINUED)

5. Principal Risks and Uncertainties (Continued)

(b) Capital Risk

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

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

(c) Liquidity and Funding Risk

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

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

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

(d) Interest Rate Risk

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

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

STRATEGIC REPORT (CONTINUED)

5. Principal Risks and Uncertainties (Continued)

(e) Operational Risk

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

The bank recognises that operational risk is inherent in all its products, activities, processes and systems. The Board has approved an Operational Risk Policy to ensure operational risks are adequately identified, monitored and controlled and any losses resulting from inadequate or failed internal processes, people and systems or from external events are minimised in line with the firm's risk appetite. Proprietary and non-proprietary operational risks are managed in a similar fashion.

Risk Management is responsible for facilitating and embedding the ongoing identification, assessment, monitoring, controlling and mitigation of risks throughout the firm and for maintaining an Operational Risk Policy which describes the roles and responsibilities and the processes, methodologies and tools used for this purpose, including:

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

(f) Foreign Currency Risk

Foreign currency balances are driven by the requirements of the bank's customers and do not form a significant part of the balance sheet. In order to limit the bank's exposure to exchange rate risks, limits are placed on the bank's foreign exchange dealers for intraday and end of day positions. Liabilities are in respect of deposits from customers. Assets are in respect of loans and advances to customers, balances with other banks and some foreign currency denominated investments.

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

(g) Derivatives

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

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

(h) Dealing Profits

Consistent with the articles of the Capital Requirements Regulation, it is the bank's policy not to operate any significant trading (i.e. non banking) positions. During the normal course of business the bank will undertake foreign exchange dealing, income from which is included in dealing profits (Note 4).

STRATEGIC REPORT (CONTINUED)

5. Principal Risks and Uncertainties (Continued)

(i) Reputational risk

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

Detailed disclosures on credit risk, liquidity risk, interest rate risk, foreign exchange risk and the use of derivatives are set out in Notes 11 and 29 in accordance with FRS 102 'Financial Instruments: Disclosures'. The bank's capital management is detailed in the Directors' Report on pages 13 and 14.

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

By Order of the Board

19 July 2017

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 Company" or "the bank") present their Annual Report and audited Consolidated Financial Statements of the Company and its subsidiaries, Messrs Hoare Trustees, Mitre Court Property Holding Company, Hoares Bank Nominees Limited, Hoare's Bank Pension Trustees Limited and C. Hoare & Co. EIG Management Limited ("the Group"), for the year ended 31 March 2017.

The financial statements were approved by the Board on 19 July 2017.

1. Principal Activities

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

2. Results and Dividends

The financial results for the year are set out in the Statement of comprehensive income on page 19.

Retained profits for the year of £49.8m *(2016: £22.3m)* will be used to strengthen reserves and support future growth.

The Board recommends an ordinary share dividend for the year of £50 per share *(2016: £50)*, resulting in a total of £6,000 payable on 20 July 2017.

3. Risk Management and Governance Structure

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

The bank's approach to risk management is to maintain a balance between risk and potential reward that achieves its strategic objectives without exposing the bank to unacceptably high residual risks. The principal risks affecting the bank are explained in the Strategic Report on pages 4 to 7.

The bank's risk management objectives and policies are supported by its risk governance structures and risk management framework, including its processes for identifying, assessing, monitoring and mitigating its principal risks in accordance with its risk appetite. A fuller description of the bank's risk management and governance structure can be found in the bank's Pillar 3 disclosures. These disclosures are available on the bank's website: www.hoaresbank.co.uk.

3.1 Risk Appetite Framework

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

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

DIRECTORS' REPORT (CONTINUED)

3. Risk Management and Governance Structure (Continued)

3.2 Risk Management Objectives and Policies

The main risk management objectives are:

- reduce the level of uncertainty associated with achieving the bank's strategic objectives
- to ensure significant risks are identified, measured, managed, monitored and reported in a consistent and effective manner across the bank using appropriate risk management methodologies
- to embed a culture of risk awareness and control consciousness in all business activities
- integrate/consolidate all components of risk information to provide a comprehensive picture and understanding of C. Hoare & Co.'s risk exposure to the Management Committee, Audit, Risk & Compliance Committee and the Board whereby performance can be evaluated on a more risk adjusted basis and risk/reward decisions optimised
- articulate and communicate the Board's risk appetite and ensure the bank's risk profile is consistent with it

3.3 Risk Appetite and Guiding principles

The bank has approved an overarching risk appetite statement as the guiding principles for setting all other statements and metrics:

Our mission is to perpetuate a profitable family business. We are willing to take risks if they are:

- consistent with our values and do not jeopardise our reputation.
- properly understood and not of a size to "bet the bank".

The objectives of the bank's risk appetite statements are:

- to provide clear boundaries to determine whether an exposure is or is not acceptable
- to provide a benchmark for setting limits and thresholds for specific categories of risk
- to act as a tool for prioritising risk significance
- to ensure strategic decisions are made considering the inherent risks involved and that mitigants and controls are put in place to manage these to within risk appetite

Risk appetite statements are expressed as quantitative measures, hard measures that describe the type and quantum of risk, and qualitative measures, which recognise that not all risk is measurable but can affect achieving strategic objectives. Zero tolerance measures identify risks we wish to avoid.

3.4 Governance Structure

The bank's risk governance structures assign roles and responsibilities to a number of committees and individuals focused on managing the principal risks faced by the bank.

DIRECTORS' REPORT (CONTINUED)

3. Risk Management and Governance Structure (Continued)

3.4 Governance Structure (Continued)

The primary structures from 1 April 2016 are shown below:

Table 1: Governance Structure in the period to March 2017

Board of Directors			
Remuneration & Nominations Committee	Audit Committee	Risk & Compliance Committee	
Executive Group			
Banking Committee	Wealth Management Committee	Assets & Liabilities Committee	Controls & Operations Committee

The Wealth Management Committee was dissolved following the sale of the business in February 2017. The Control and Operations Committee was dissolved in March 2017 and, where necessary, the responsibilities of this Committee were transferred to the Management Committee.

From June 2017, the structure of the sub-Board Committees was adjusted by combining the Audit Committee and the Risk & Compliance Committee. The governance structure from June 2017 is shown below:

Table 2: Governance Structure from June 2017

Board of Directors	
Remuneration & Nominations Committee	Audit, Risk & Compliance Committee
Management Committee	
Banking Committee	Assets & Liabilities Committee

Board of Directors

The Board of Directors (Board) is the key governance body and is responsible for the overall strategy, performance of the business and ensuring adequate and effective risk management. The Board is ultimately responsible for the bank's systems and controls and for reviewing the effectiveness of those arrangements. However, such arrangements are designed to mitigate, not eliminate, risk and therefore can provide only reasonable, but not absolute, assurance against fraud, material losses or financial misstatements.

The Board considers that its risk management arrangements, including its risk management systems and controls, are adequate with regard to the bank's profile and strategy.

DIRECTORS' REPORT (CONTINUED)

3. Risk Management and Governance Structure (Continued)

3.4 Governance Structure (Continued)

In addition to subsidiary boards, the Board has established three committees to support the execution of its responsibilities:

- Remuneration & Nominations Committee (RemCo)
- Audit Committee – until June 2017
- Risk & Compliance Committee (RiCoCo) – until June 2017

From June 2017, the Audit Committee and the Risk & Compliance Committee were combined to form the Audit, Risk & Compliance Committee (ARCCo).

The Board has delegated day-to-day executive management of the bank to the Managing Director (the MD) and has established a Management Committee to assist in the management of the business and delivery against the strategy in an effective and controlled way. The Management Committee has in turn established two sub-committees:

- Banking Committee (BC)
- Asset and Liability Committee (ALCO)

In addition to these structures, there are a number of other committees and working groups which report their activities, as appropriate, to one of the primary structures above.

Group subsidiary companies and boards

Each of the Group's subsidiary companies has its own board of directors. Hoare's Bank Pension Trustees Limited (HBPT) acts as trustee over the Group's defined benefit pension scheme and, in addition to two Partner directors, has three non-Partner directors: two directors nominated by the members of the pension scheme and an external professional pension trustee director.

Most of the Group's subsidiary companies do not undertake any material commercial activities or are dormant. The exception is Messrs Hoare Trustees (MHT), which carries on the business of acting as Executor or Trustee or both Executor and Trustee. MHT's board meets quarterly and the minutes of their meetings are reviewed by the Group board.

Remuneration & Nominations Committee (RemCo)

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

DIRECTORS' REPORT (CONTINUED)

3. Risk Management and Governance Structure (Continued)

3.4 Governance Structure (Continued)

Audit, Risk & Compliance Committee (ARCCo)

The ARCCo has two main purposes:

The first is to review the effectiveness and provide independent oversight of the bank's systems of internal controls and financial reporting process, which is achieved through the ongoing review of the quality, independence and effectiveness of the control functions.

In this regard specific duties include: overseeing the integrity of the financial statements of the Company, including the content of the annual report and financial statements; overseeing the adequacy and effectiveness of the Company's internal audit programme and function; reviewing the adequacy and security of the Company's arrangements for employees and contractors, including the effectiveness of the whistleblowing function; and overseeing the external audit programme.

The second purpose is to provide the Management Committee and the Board with appropriate oversight and challenge on risk management, to embed a culture of risk awareness and control consciousness within the bank, and to ensure the bank's compliance with the legal and regulatory framework governing the activities of the bank and its associated businesses.

Specific duties include: overseeing the effectiveness of all aspects of the risk management framework, including reviewing and recommending or approving the risk appetite framework, statements and metrics, risk and compliance policies, ICAAP, ILAAP and associated stress testing and scenario analysis; ensuring the effective operation of the risk framework including reviewing and challenging the findings of management's risk and control self-assessments; and overseeing the compliance programme, the work of the MLRO, the Data Protection Officer, the Information Security Officer, the Client Asset Oversight Officer.

Management Committee

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

The Management Committee is comprised of:

- Managing Director
- Head of Human Resources and Business Services
- Head of Treasury
- Head of Private Banking
- Chief Finance and Operations Officer
- Head of Compliance and Risk
- Chief Digital and Information Officer

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

Banking Committee (BC)

The purpose of the BC is to oversee day-to-day activities of the Banking (or Managers) business, including oversight of its day-to-day deposit and lending activities.

Asset and Liability Committee (ALCO)

The purpose of the ALCO is to oversee the bank's balance sheet, including free capital. It is also responsible for allocating funds within the balance sheet so as to manage liquidity, currency risk, capital adequacy and profitability. The Deposit Committee is a sub-committee of ALCO. The matters of setting of Deposit and Lending rates are reserved for the ALCO.

DIRECTORS' REPORT (CONTINUED)

3. Risk Management and Governance Structure (Continued)

3.4 Governance Structure (Continued)

Risk Appetite: Responsibilities

Risk appetite responsibilities are based on the three lines of defence assurance model, the Board oversees all three lines of defence:

First line of defence – People responsible for day to day risk management and control

Each business unit is responsible for operating within the risk appetite boundaries; ensuring appropriate key risk indicators are identified and thresholds set; regularly monitoring indicators and reporting any issues to the Management Committee, Risk Management Function and/or Compliance. The Management Committee is responsible for cascading down risk appetite into more meaningful and detailed expressions of limits applicable to each business function.

Second line of defence – Risk oversight, policies and methodology

The Risk Management Function is responsible for developing and maintaining the risk appetite framework and statement for approval by the ARCCo and the Management Committee.

The Risk Management Function and Compliance are responsible for reporting breaches of risk appetite to the ARCCo, the Management Committee and Board.

The ARCCo is responsible for reviewing and recommending an appropriate risk appetite statement to the Board.

Third line of defence – Independent assurance

Internal Audit provides independent assurance on the effectiveness of risk management and the internal control framework and validates the risk appetite statement.

The ARCCo maintain oversight and monitor the effectiveness of internal control and risk management processes and report to the Board.

4. Capital Management

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

The Board is ultimately responsible for capital management. The Board, the Management Committee and the Asset and Liability Committee (ALCO) receive regular reports on the current and forecast level of capital.

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

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

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

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

DIRECTORS' REPORT (CONTINUED)

4. Capital Management (Continued)

The bank's capital adequacy and capital resources are managed and monitored in accordance with the regulatory capital requirements of CRD IV and the PRA. The bank is subject to capital requirements as defined under Pillar 1 (minimum capital requirements) and supplemented by additional minimum requirements under Pillar 2 and a number of CRD IV capital buffers. The minimum capital requirement is determined as 8% of total risk weighted assets. The additional minimum requirements are set by the PRA through the issuance of bank specific Individual Capital Guidance ("ICG"), following the Internal Capital Adequacy Assessment Process ("ICAAP"), as part of the supervisory review. The bank assesses the adequacy of its capital through the annual update and more frequently in the event of a material change in capital, of the ICAAP. The ICAAP is the bank's own assessment of its capital needs, and is based on stress testing and scenario analysis of the impact of material risks affecting the bank. The ICAAP is presented at least annually to the ALCO, Audit, Risk and Compliance Committee and the Management Committee for review and challenge, eventually leading to challenge and approval by the Board. The bank has put in place processes and controls to monitor and manage capital adequacy and throughout the year, the bank's regulatory capital remained in excess of the minimum requirements determined by the ICG and CRD IV buffers..

The implementation of CRD IV is subject to transitional arrangements, with the full implementation date being 1 January 2019. The bank continues to monitor these developments and incorporates the impact of forthcoming regulatory changes to the capital forecasts to ensure the bank is able to maintain a strong capital base that exceeds the minimum regulatory requirements.

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

	2017 £000	*2016* *£000*
Common Equity Tier 1 capital		
Ordinary share capital	**120**	*120*
Reserve Fund	**22,598**	*22,598*
Profit and loss account	**254,111**	*214,407*
Property revaluation reserve	**36,087**	*34,303*
Heritage assets revaluation reserve	**6,788**	*7,872*
Defined benefit pension fund assets	**-**	*(6,089)*
Total Common Equity Tier 1 capital and Total Tier 1 capital	**319,704**	*273,211*
Tier 2 capital		
Collective Impairment Allowance	**320**	*642*
Total Tier 2 capital	**320**	*642*
Total regulatory capital	**320,024**	*273,853*
Risk-weighted assets (unaudited)	**1,567,896**	*1,407,118*
Capital ratios (unaudited)		
Total regulatory capital expressed as a percentage of risk weighted assets	**20.41%**	*19.46%*
Common Equity Tier 1 capital expressed as percentage of risk weighted assets	**20.39%**	*19.42%*

The bank's regulatory total capital ratio increased year on year from 19.46% to 20.41%, while the Common Equity Tier 1 ratio increased from 19.42% to 20.39%. The capital ratios remain above the regulatory requirements. The increase during the year was due to higher retained profits, which included the gain on sale of the Wealth Management business.

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

DIRECTORS' REPORT (CONTINUED)

5. The Board of Directors

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

Mr R. Q. Hoare OBE * (resigned 16 March 2017)
Mr A. S. Hoare *
Miss V. E. Hoare *
Mr S. M. Hoare *
Miss A. S. Hoare *
Mr A R Q Hoare *
Lord Wilson of Dinton (Chairman) (resigned 11 October 2016)
Mr I. R. Peacock (resigned 06 June 2017)
Mrs L. C. Powers-Freeling
Mr A. C. Fisher
Mr A. J. McIntyre
Mr J. S. J. Marshall (Chief Executive Officer) (resigned 20 April 2016)
Mr D. Green (Chief Executive Officer/Managing Director) (appointed 19 May 2016)
Lord Macpherson of Earl's Court GCB (Chairman) (appointed 15 August 2016)
Ms J. Waterous (appointed 3 July 2017)

The Board of Directors included six Directors (those marked with an asterisk in the list above) who are all descendants of the bank's founder. Following the resignation of Richard Q Hoare from the Board, this has reduced to five. They, and three other Hoare family members (including Richard Q Hoare), are the bank's only shareholders and each has unlimited liability. They are known as Partners and all work in the business to ensure the continuation of the bank's long-held culture, values and approach to business.

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

Mr R. Q. Hoare resigned as a Director from C. Hoare & Co. and all its subsidiaries on 16 March 2017.

6. Employees

The bank had 403 employees on a full time equivalent basis as at 31 March 2017 *(2016: 465)*. The bank is an equal opportunities employer and recruits the most suitable applicant for any given vacancy regardless of race, sex, age or ethnicity. The bank recognises its obligation to give disabled persons full and fair consideration for all vacancies and to ensure that such persons are not discriminated against on the grounds of their disability. Employees who become disabled during their working life will be retained in employment wherever possible and given help with rehabilitation and training.

The bank is committed to employee involvement and undertakes regular briefing sessions on the strategy and performance of the bank. There is also an employee C. Hoare & Co. Engagement Forum where staff representatives can raise and discuss matters with management.

7. Charitable Donations

During the year the bank made charitable donations of £7.5m *(2016: £2.6m)* to the bank's charitable trust, The Golden Bottle Trust, whose objective is the continuation of the philanthropic commitments and ideals of the Hoare family.

8. Environmental Policy Statement

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

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

DIRECTORS' REPORT (CONTINUED)

8. Environmental Policy Statement (Continued)

All of this is embodied in our formal 'Ethics Policy', which outlines the culture that we promote for serving our customers, how we contribute to the community, our approach to managing our environmental impact and how we foster a positive and rewarding workplace. The policy is regularly reviewed and performance against stated aims monitored and managed.

9. Disclosure of Information to Auditors

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

10. Statement of Directors' Responsibilities

The Directors are responsible for preparing the Strategic Report, Directors' Report and the Financial Statements in accordance with applicable law and regulations.

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

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

In preparing these financial statements, the Directors are required to:

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

By Order of the Board 19 July 2017

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 financial statements

Our opinion

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

- give a true and fair view of the state of the Group's and of the Bank's affairs as at 31 March 2017 and of the Group's profit and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

The financial statements, included within the Annual Report and Consolidated Financial Statements (the "Annual Report"), comprise:

- the Consolidated Statement of Comprehensive Income for the year ended 31 March 2017;
- the Consolidated and Company Balance Sheet as at 31 March 2017;
- the Consolidated Statement of Changes in Equity for the year then ended;
- the Consolidated Cash Flow Statement for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice), and applicable law.

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

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the Group, the bank and their environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Directors' Report. We have nothing to report in this respect.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

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

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

We have no exceptions to report arising from this responsibility.

Directors' remuneration

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

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

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 16, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Bank'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.

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Group's and the bank's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. With respect to the Strategic Report and Directors' Report, we consider whether those reports include the disclosures required by applicable legal requirements.

Jeremy Jensen

Jeremy Jensen (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
19 July 2017

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 March 2017

	Note	Continuing operations £000	Discontinued operations £000	Total £000
Interest receivable		84,718	622	85,340
Interest payable		(10,547)	(52)	(10,599)
Net interest income	2	74,171	570	74,741
Dividend income		54	-	54
Other finance income	3	340	-	340
Fees and commissions receivable		14,108	17,882	31,990
Fees and commissions payable		(967)	(601)	(1,568)
Net fees and commissions income		13,141	17,281	30,422
Dealing profits	4	5,007	-	5,007
Other operating income	5	150	56,751	56,901
Total income		92,863	74,602	167,465
Operating expenses				
Administrative expenses:				
Administrative expenses excluding restructuring costs	6	(70,273)	(16,335)	(86,608)
Restructuring costs	6	(500)	(4,554)	(5,054)
Depreciation		(6,619)	(567)	(7,186)
Total operating expenses		(77,392)	(21,456)	(98,848)
Impairment recovery on loans and advances		874	-	874
Impairment recovery on debt securities		1,287	-	1,287
Profit before taxation		17,632	53,146	70,778
Tax on profit	8	(7,299)	(13,703)	(21,002)
Profit for the financial year		10,333	39,443	49,776
Other comprehensive expense:				
Remeasurement of retirement benefit obligations	3			(12,217)
Deferred tax arising on pension scheme				2,151
Revaluation of property and heritage assets				222
Deferred tax arising on valuation gains				478
Other comprehensive expense for the year, net of tax				(9,366)
Total comprehensive income for the year				40,410
Total comprehensive income distribution:				
Distributable profits				40,410
Non-distributable profits				-
				40,410

The Notes on pages 26 to 72 form an integral part of these Financial Statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 March 2016

	Note	*Continuing operations (Restated) £000*	*Discontinued operations (Restated) £000*	*Total £000*
Interest receivable		*80,177*	*861*	*81,038*
Interest payable		*(10,752)*	*(215)*	*(10,967)*
Net interest income	2	*69,425*	*646*	*70,071*
Dividend income		*160*	-	*160*
Other finance income	3	*55*	-	*55*
Fees and commissions receivable		*13,859*	*18,064*	*31,923*
Fees and commissions payable		*(847)*	*(576)*	*(1,423)*
Net fees and commissions income		*13,012*	*17,488*	*30,500*
Dealing profits	4	*5,015*	-	*5,015*
Other operating income	5	*3,860*	-	*3,860*
Total income		*91,527*	*18,134*	*109,661*
Operating expenses				
Administrative expenses	6	*(56,806)*	*(19,608)*	*(76,414)*
Depreciation		*(5,188)*	*(269)*	*(5,457)*
Total operating expenses		*(61,994)*	*(19,877)*	*(81,871)*
Impairment recovery on loans and advances		*227*	-	*227*
Profit before taxation		*29,760*	*(1,743)*	*28,017*
Tax on profit	8	*(6,043)*	*358*	*(5,685)*
Profit for the financial year		*23,717*	*(1,385)*	*22,332*
Other comprehensive expense:				
Remeasurement of retirement benefit obligations	3			*5,542*
Deferred tax arising on pension scheme				*(1,004)*
Revaluation of property and heritage assets				*19,300*
Deferred tax arising on valuation gains				*(3,475)*
Other comprehensive expense for the year, net of tax				*20,363*
Total comprehensive income for the year				*42,695*
Total comprehensive income distribution:				
Distributable profits				*38,120*
Non-distributable profits	5			*4,575*
				42,695

The Notes on pages 26 to 72 form an integral part of these Financial Statements.

CONSOLIDATED BALANCE SHEET

As at 31 March 2017

	Note	Group 2017 £000	*Group 2016 £000*
Assets			
Cash and balances at central banks		**781,177**	*1,191,373*
Items in course of collection from banks		**1,611**	*2,750*
Derivative financial instruments	11	**1,751**	*185*
Financial assets	12	**3,518,524**	*2,940,520*
Property and Equipment	15	**78,876**	*82,073*
Heritage assets	16	**8,435**	*9,632*
Deferred tax asset	17	**535**	*64*
Other assets	18	**1,436**	*658*
Prepayments and accrued income	19	**16,932**	*23,159*
Post retirement benefit asset	3	**-**	*6,089*
Total assets		**4,409,277**	*4,256,503*
Liabilities			
Deposits by banks	20	**16**	*303*
Customer accounts	21	**3,868,199**	*3,841,334*
Derivative financial instruments	11	**143,507**	*85,162*
Deferred tax liability	17	**8,909**	*9,409*
Other liabilities	22	**17,368**	*5,204*
Accruals and deferred income	23	**37,260**	*32,055*
Provision for other liabilities	24	**14,289**	*3,736*
Post retirement benefit liability	3	**25**	*-*
Total liabilities		**4,089,573**	*3,977,203*
Called up share capital	25	**120**	*120*
Reserve fund		**22,598**	*22,598*
Revaluation reserves	26	**42,875**	*42,175*
Retained earnings		**254,111**	*214,407*
Total equity		**319,704**	*279,300*
Total liabilities and equity		**4,409,277**	*4,256,503*
Memorandum items:			
Contingent liabilities (guarantees)	27	**23,992**	*26,769*
Commitments	27	**347,854**	*389,508*

The Financial Statements on pages 19 to 72 were approved by the Board of Directors on 19 July 2017 and signed on its behalf by:

Alexander Hoare

Mr A. S. Hoare
Director
19 July 2017

Miss A.S. Hoare
Director
19 July 2017

The Notes on pages 26 to 72 form an integral part of these Financial Statements.

COMPANY BALANCE SHEET

As at 31 March 2017

	Note	**Company 2017 £000**	*Company 2016 £000*
Assets			
Cash and balances at central banks		**781,177**	*1,191,373*
Items in course of collection from banks		**1,611**	*2,750*
Derivative financial instruments	11	**1,751**	*185*
Financial assets	12	**3,517,941**	*2,939,796*
Shares in group undertakings	14	**1**	*1*
Property and Equipment	15	**78,876**	*82,073*
Heritage assets	16	**8,435**	*9,632*
Deferred tax asset	17	**535**	*64*
Other assets	18	**1,387**	*638*
Prepayments and accrued income	19	**16,887**	*23,078*
Post retirement benefit asset	3	**-**	*6,089*
Total assets		**4,408,601**	*4,255,679*
Liabilities			
Deposits by banks	20	**16**	*303*
Customer accounts	21	**3,868,199**	*3,841,334*
Deposits to subsidiary companies		**9,127**	*8,537*
Derivative financial instruments	11	**143,507**	*85,162*
Deferred tax liability	17	**8,909**	*9,409*
Other liabilities	22	**17,104**	*4,987*
Accruals and deferred income	23	**37,260**	*32,055*
Provision for other liabilities	24	**14,289**	*3,736*
Post retirement benefit liability	3	**25**	*-*
Total liabilities		**4,098,436**	*3,985,523*
Called up share capital	25	**120**	*120*
Reserve fund		**21,148**	*21,148*
Revaluation reserves	26	**42,875**	*42,175*
Retained earnings		**246,022**	*206,713*
Total equity		**310,165**	*270,156*
Total liabilities and equity		**4,408,601**	*4,255,679*
Memorandum items:			
Contingent liabilities (guarantees)	27	**23,992**	*26,769*
Commitments	27	**347,854**	*389,508*

The Financial Statements on pages 19 to 72 were approved by the Board of Directors on 19 July 2017 and signed on its behalf by:.

Alexander Hoare

Mr A.S. Hoare
Director
19 July 2017

A.S. Hoare

Miss A.S. Hoare
Director
19 July 2017

The Notes on pages 26 to 72 form an integral part of these Financial Statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2017

	Note	Called Up Share Capital £000	Reserve Fund £000	Revaluation Reserves £000	Retained Earnings £000	Total Equity £000
Balance as at 1 April 2015		**120**	**22,598**	**26,350**	**187,543**	**236,611**
Profit for the financial year		-	-	-	22,332	22,332
Other comprehensive income for the year						
Remeasurement of retirement benefit obligations		-	-	-	5,542	5,542
Deferred tax arising on pension scheme		-	-	-	(1,004)	(1,004)
Revaluation of property	26	-	-	19,300	-	19,300
Deferred tax arising on valuation gains	26	-	-	(3,475)	-	(3,475)
Total comprehensive income for the year		-	-	15,825	26,870	42,695
Dividends		-	-	-	(6)	(6)
Balance as at 31 March 2016		**120**	**22,598**	**42,175**	**214,407**	**279,300**
Profit for the financial year		-	-	-	49,776	49,776
Other comprehensive expense for the year						
Remeasurement of retirement benefit obligations		-	-	-	(12,217)	(12,217)
Deferred tax arising on pension scheme		-	-	-	2,151	2,151
Revaluation of property and heritage assets	26	-	-	222	-	222
Deferred tax arising on valuation gains	26	-	-	478	-	478
Total comprehensive income for the year		-	-	700	39,710	40,410
Dividends		-	-	-	(6)	(6)
Balance as at 31 March 2017		**120**	**22,598**	**42,875**	**254,111**	**319,704**

The Notes on pages 26 to 72 form an integral part of these Financial Statements.

COMPANY STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2017

	Note	Called Up Share Capital £000	Reserve Fund £000	Revaluation Reserves £000	Retained Earnings £000	Total Equity £000
Balance as at 1 April 2015		**120**	**21,148**	**26,350**	**180,266**	**227,884**
Profit for the financial year		-	-	-	21,915	21,915
Other comprehensive income for the year						
Remeasurement of retirement benefit obligations		-	-	-	5,542	5,542
Deferred tax arising on pension scheme		-	-	-	(1,004)	(1,004)
Revaluation of property	26	-	-	19,300	-	19,300
Deferred tax arising on valuation gains	26	-	-	(3,475)	-	(3,475)
Total comprehensive income for the year		-	-	15,825	26,453	42,278
Dividends		-	-	-	(6)	(6)
Balance as at 31 March 2016		**120**	**21,148**	**42,175**	**206,713**	**270,156**
Profit for the financial year		-	-	-	49,381	49,381
Other comprehensive expense for the year						
Remeasurement of retirement benefit obligations		-	-	-	(12,217)	(12,217)
Deferred tax arising on pension scheme		-	-	-	2,151	2,151
Revaluation of property and heritage assets	26	-	-	222	-	222
Deferred tax arising on valuation gains	26	-	-	478	-	478
Total comprehensive income for the year		-	-	700	39,315	40,015
Dividends		-	-	-	(6)	(6)
Balance as at 31 March 2017		**120**	**21,148**	**42,875**	**246,022**	**310,165**

The Notes on pages 26 to 72 form an integral part of these Financial Statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 March 2017

	Note	Group 2017 £000	*Group 2016 £000*
Net cash (used in)/generated from operating activities	28	(251,260)	*549,979*
Taxation paid		(6,083)	*(4,529)*
Net cash (used in)/generated from operating activities		(257,343)	545,450
Cash flow from investing activities			
Disposal of Discontinued operation		72,000	-
Purchase of investment securities		(1,475,555)	*(2,047,336)*
Sale and maturity of investment securities		1,215,547	*2,206,816*
Purchase of tangible fixed assets		(2,914)	*(13,354)*
Net cash (used in)/generated from investing activities		(190,922)	146,126
Cash flow from financing activities			
Dividend paid		(6)	*(6)*
Net cash used in financing activities		(6)	*(6)*
Net (decrease) / increase in cash and cash equivalents		(448,271)	*691,570*
Cash and cash equivalents at the beginning of the year		1,299,371	*607,801*
Cash and cash equivalents at the end of the year		851,100	*1,299,371*
Cash and cash equivalents consists of:			
Cash at bank and in hand		781,177	*1,191,373*
Short term deposits		69,923	*107,998*
Cash and cash equivalents		851,100	*1,299,371*

The Notes on pages 26 to 72 form an integral part of these Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017

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.

Following the sale of the Wealth Management business, the results as presented draw a distinction between Wealth Management, shown as 'discontinued operations' and ongoing 'continuing operations'. The results for the prior year ended 31 March 2016 have been restated to be on a comparative basis.

(a) Basis of preparation

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

The bank has taken the exemption under Section 408 of the Companies Act 2006 from presenting its unconsolidated profit and loss account.

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

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

(b) Basis of consolidation

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

Subsidiaries are entities controlled by the bank. Control is defined 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.

(c) Foreign currencies

Transactions in foreign currencies are translated to sterling using the rate of exchange ruling at the date of the transaction. All monetary assets and liabilities are revalued daily at the closing exchange rates. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of 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.

(d) Interest

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

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

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017 (CONTINUED)

1. Summary of significant accounting policies (Continued)

(e) Fees and commissions

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

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

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

(f) Dealing profits

Dealing profits 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 relate to the bank's banking activity as part of the banking book. The bank's policy is not to operate any significant trading (i.e. non-banking) positions.

(g) Dividend income

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

(h) Retirement benefit obligations

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

The defined benefit scheme's assets are measured using fair values; its liabilities are measured using a projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability.

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. The assets of the scheme are administered separately from those of the Company in an independently administered fund. Contributions payable to the defined contribution scheme are charged to the profit and loss account.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017 (CONTINUED)

1. Summary of significant accounting policies (Continued)

(i) Restructuring costs

Costs categorised as restructuring include costs incurred in the implementation of an approved restructuring plan, which can be reliably estimated and for which a legal or constructive obligation exists.

(j) Taxation

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

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted by the reporting date.

Deferred tax arises from timing differences that are differences between taxable profits and total comprehensive income as stated in the financial statements. These timing differences arise 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.

Current and deferred tax relating to items recognised in other comprehensive income and directly in equity is similarly recognised in other comprehensive income and directly in equity respectively. Deferred tax related to revaluation on properties, pensions and other post 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.

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

(k) 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.

(l) 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.

(m) Classification of financial assets and liabilities

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

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

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017 (CONTINUED)

1. Summary of significant accounting policies (Continued)

(n) Financial assets and liabilities

(i) Recognition

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

(ii) Derecognition

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

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

(iii) Offsetting

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

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

(iv) Amortised cost measurement

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

(v) Fair value measurement

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

The bank has applied FRED 62 for the recognition and measurement provisions of IAS 39 (as adopted for use in the EU) and the disclosure requirements of FRS 102 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 29 to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017 (CONTINUED)

1. Summary of significant accounting policies (Continued)

(n) Financial assets and liabilities (continued)

(vi) Identification and measurement of impairment

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

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

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

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

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

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

However, any subsequent recovery in the fair value of an impaired equity security is recognised directly to the bank's equity reserves.

(o) Loans and advances to banks and customers

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

(p) Derivative financial instruments

(i) Derivative financial instruments

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

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

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017 (CONTINUED)

1. Summary of significant accounting policies (Continued)

(p) Derivative financial instruments (continued)

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 hedging activities

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

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

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

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

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

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

(q) Property, equipment and depreciation

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

Subsequent changes in the fair value of properties are recognised in other comprehensive income net of deferred tax. Changes in the fair value of investment properties are to be 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 determined fair value at the end of the reporting period.

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

In accordance with FRS 102 Section 16 'Investment Property', depreciation is not provided on investment properties that are held as freeholds or on leases having more than 20 years unexpired.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017 (CONTINUED)

1. Summary of significant accounting policies (Continued)

(q) Property, equipment and depreciation (continued)

This is a departure from the Companies Act 2006 which requires all tangible assets to be depreciated. In the opinion of the Directors, this departure is necessary for the financial statements to give a true and fair view and comply with applicable accounting standards which require properties to be included in the financial statements at market value. The effect of depreciation is implicitly reflected in the valuation of investment properties, and the amount attributable to this factor cannot reasonably be separately identified or quantified by the valuer. Had the provisions of the Act been followed, net assets would not have been affected but revenue profits would have been reduced for this and earlier years and revaluation surpluses/deficits would have correspondingly increased/decreased.

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

The bank's policy states that the individual equipment classification, thresholds and their respective economic life are as follows:

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

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) Investment property

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

(s) Project costs

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

Depreciation begins in the month the asset is brought into use.

(t) Heritage assets

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017 (CONTINUED)

1. Summary of significant accounting policies (Continued)

(t) Heritage assets (continued)

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

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

(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) Financial guarantees

The bank issues guarantees on behalf of its customers. In the majority of cases, the bank will hold collateral against the resultant exposure or have a right of recourse to the customer, or both. In addition, the bank issues guarantees on its own behalf. The main types of guarantees provided are financial guarantees given to banks and financial institutions on behalf of customers to secure loans, overdrafts or other banking facilities, including stock borrowing indemnities and standby letters of credit. Other guarantees provided include performance guarantees, advance payment guarantees, tender guarantees, and guarantees to Her Majesty's Revenue and Customs and retention guarantees. The nominal principal amount of these guarantees is set out in Note 26.

(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

A provision is recognised where the bank has an obligation for which it is considered probable that a future outflow of economic resources will be required and where a reliable estimate can be made of the amount of the obligation. The corresponding expense relating to the provision is recognised directly in the profit and loss account. Movements in the provision due to a re-estimation of the obligation are also recognised directly in the profit and loss account.

(z) Accounting judgements, estimates and provisions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are reviewed periodically and are based on historical experience and other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements.

The key areas involving a higher degree of judgement or complexity, or areas where assumptions are significant to the consolidated and individual financial statements are highlighted under the relevant Notes, on the pages listed below:

- Impairment of financial assets, pages 30, 47 to 49 and 62 to 63
- Land, buildings and investment properties valuation, pages 31, 32, 50 and 51
- Heritage assets, pages 32, 33 and 52
- Defined benefit pension scheme, pages 27 and 34 to 38
- Provisions; pages 33, 56
- Restructuring costs; pages 28, 40 and 72

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017 (CONTINUED)

2. Net Interest Income

	Group 2017	Group 2017	Group 2017	*Group 2016*	*Group 2016*	*Group 2016*
	Continuing Operations	Discontinued Operations	Total	*Continuing Operations*	*Discontinued Operations*	*Total*
				(Restated)	*(Restated)*	
	£000	£000	£000	*£000*	*£000*	*£000*
Interest receivable						
Interest on debt securities	11,067	-	11,067	*11,855*	-	*11,855*
Loans and advances to customers	69,330	622	69,952	*63,840*	*861*	*64,701*
Loans and advances to banks	4,321	-	4,321	*4,482*	-	*4,482*
	84,718	622	85,340	*80,177*	*861*	*81,038*
Interest payable						
Deposits from banks and customers	(6,258)	(52)	(6,310)	*(8,015)*	*(215)*	*(8,230)*
Derivative liabilities	(4,289)	-	(4,289)	*(2,737)*	-	*(2,737)*
	(10,547)	(52)	(10,599)	*(10,752)*	*(215)*	*(10,967)*
Net interest income	74,171	570	74,741	*69,425*	*646*	*70,071*

Included within interest income is £313,000 *(2016: £502,000)* accrued in respect of impaired financial assets.

3. Retirement Benefit Obligations

The bank operated a defined benefit pension scheme until 1 December 2007 when it was closed to further accrual and all staff that was members at that date was made deferred members; all benefits accrued to that date were enhanced and then preserved. Contributions to the defined benefit scheme for the year ended 31 March 2017 were £4,422,000 *(2016: £2,165,000)*. There was no charge *(2016: Nil)* to the profit and loss account for past service costs. The bank now operates a defined contribution scheme which has become the main retirement scheme for all employees. The cost of that scheme for the year was £4,690,000 *(2016: £4,507,000)*. There were no outstanding or prepaid contributions to the defined benefit scheme or defined contribution scheme at either the beginning or end of the financial year.

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

The principal actuarial assumptions used to calculate the scheme liabilities were:

	Group 2017	*Group 2016*
	%	*%*
Rate of increase in salaries	n/a	*n/a*
Rate of increase in pensions in payment	3.10	*2.80*
Discount rate	2.50	*3.50*
Inflation assumption	3.20	*2.90*

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017 (CONTINUED)

3. Retirement Benefit Obligations (Continued)

Scheme assets and liabilities

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

The liabilities of the defined benefit scheme are measured by discounting the best estimate of future cash flows to be paid out by the scheme using the projected unit method. This amount is reflected in the scheme asset or liability as detailed below. As at 31 March 2017, the valuations of scheme assets less liabilities showed a deficit of £30,000 *(2016: £7,425,000 surplus)*.

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 2017 £000	*Group 2016 £000*	*Group 2015 £000*	*Group 2014 £000*	*Group 2013 £000*
Equities	72,906	*78,911*	*75,595*	*80,258*	*72,586*
Liability Driven Investments ("LDI")	48,524	*33,431*	*40,152*	*14,763*	*23,173*
Absolute return bonds	13,987	-	-	-	-
Property	10,524	*17,643*	*16,756*	*15,198*	*8,518*
Cash and other	9,670	*560*	*359*	*1,177*	*320*
Total fair value of assets	155,611	*130,545*	*132,862*	*111,396*	*104,597*
Present value of scheme liabilities	(155,641)	*(123,120)*	*(133,199)*	*(118,256)*	*(124,214)*
Pension scheme (liability)/asset	(30)	*7,425*	*(337)*	*(6,860)*	*(19,617)*
Related deferred tax asset/(liability)	5	*(1,336)*	*67*	*1,372*	*4,512*
Net pension scheme (liability)/asset	(25)	*6,089*	*(270)*	*(5,488)*	*(15,105)*

Movement in fair value of scheme assets	Group 2017 £000	*Group 2016 £000*
Opening fair value of scheme assets at 1 April	130,545	*132,862*
Interest on assets	4,569	*4,378*
Actual return on assets less interest	20,706	*(4,657)*
Employer contributions	4,422	*2,165*
Benefits paid	(4,631)	*(4,203)*
Closing fair value of scheme assets at 31 March	155,611	*130,545*
Actual return on assets	25,275	*(279)*

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017 (CONTINUED)

3. Retirement Benefit Obligations (Continued)

Movement in present value of the defined benefit obligation	**Group 2017 £000**	*Group 2016 £000*
Opening defined benefit obligation at 1 April	**123,120**	*133,199*
Interest on obligation	**4,229**	*4,323*
Actuarial loss/(gain) on liabilities due to experience	**2,094**	*(1,013)*
Actuarial loss/(gain) on liabilities due to assumption changes	**31,279**	*(9,186)*
Change in mortality assumptions	**(450)**	*-*
Benefits paid	**(4,631)**	*(4,203)*
Closing defined benefit obligation at 31 March	**155,641**	*123,120*

Movement in net defined benefit liability	**Group 2017 £000**	*Group 2016 £000*	*Group 2015 £000*
Opening net defined benefit asset/(liability) at 1 April	**7,425**	*(337)*	*(6,860)*
Employer contributions	**4,422**	*2,165*	*2,165*
Other finance income/(costs)	**340**	*55*	*(195)*
Actuarial (losses)/gains	**(12,217)**	*5,542*	*4,553*
Closing net defined benefit (liability)/asset at 31 March	**(30)**	*7,425*	*(337)*

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

Analysis of other pension costs included within the Profit and Loss Account under Administrative expenses	**Group 2017 Continuing Operations £000**	**Group 2017 Discontinued Operations £000**	**Group 2017 Total £000**
In respect of defined contribution scheme			
- Current service cost	**3,658**	**1,032**	**4,690**
Included within Administrative expenses (Note 6)	**3,658**	**1,032**	**4,690**

Analysis of other pension costs included within the Profit and Loss Account under Administrative expenses	*Group 2016 Continuing Operations (Restated) £000*	*Group 2016 Discontinued Operations (Restated) £000*	*Group 2016 Total £000*
In respect of defined contribution scheme			
- Current service cost	*3,509*	*998*	*4,507*
Included within Administrative expenses (Note 6)	*3,509*	*998*	*4,507*

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017 (CONTINUED)

3. Retirement Benefit Obligations (Continued)

Analysis of amounts recognised in profit and loss	**Group 2017 £000**	*Group 2016 £000*
Interest on obligation	**(4,229)**	*(4,323)*
Interest on assets	**4,569**	*4,378*
Total recognised as other finance income	**340**	*55*

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

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

Remeasurements	**Group 2017 £000**	*Group 2016 £000*	*Group 2015 £000*	*Group 2014 £000*	*Group 2013 £000*
Actual return on assets less interest	**20,706**	*(4,657)*	*19,293*	*(3,054)*	*10,778*
Actuarial gains and losses due to experience	**(2,094)**	*1,013*	*1,421*	*(2,087)*	*22*
Actuarial gains and lossess due to assumption changes	**(31,279)**	*9,186*	*(16,161)*	*8,389*	*(14,183)*
Changes in mortality rates	**450**	-	-	-	-
Total recognised in other comprehensive income	**(12,217)**	*5,542*	*4,553*	*3,248*	*(3,383)*

Future funding obligations

The most recent triennial actuarial valuation was carried out as at 1 April 2016. As the scheme is closed to future accrual there are no further employer contributions required to support future service. As at 1 April 2016, the actuarial valuation showed a £4.4m deficit in respect of past service funding and the bank agreed to a recovery plan to neutralise this deficit by making a total contribution of £4.4m in the financial year ended 31 March 2017. The bank continues to work with the Trustees to explore ways to stabilise the defined benefit obligation through an investment strategy to minimise the mismatch between the liabilities and assets of the scheme.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017 (CONTINUED)

3. Retirement Benefit Obligations (Continued)

During the year, the bank established a charge over certain assets in favour of the Pension Fund Trustee, for the benefit of the Scheme. The value of these assets is set at least annually by reference to the accounting deficit, as a minimum £500,000 of assets was charged at 31 March 2017 *(2016: £500,000).*

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

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

% of total scheme assets	**Group 2017**	*Group 2016*
UK equities	**4.3%**	*8.5%*
Overseas equities (hedged)	**8.9%**	*17.1%*
UK property	**6.8%**	*13.6%*
LDI	**31.2%**	*34.8%*
Absolute return bonds	**9.0%**	*0.0%*
Diversified Growth	**33.6%**	*25.6%*
Cash and other	**6.2%**	*0.4%*
Total	**100.0%**	**100.0%**

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

4. Dealing Profits

	Group 2017 £000	*Group 2016 £000*
Dealing profits	**5,007**	*5,015*

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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017 (CONTINUED)

5. Other Operating Income

	Group 2017 £000	*Group 2016 £000*
Rental income	484	*502*
Loss on write down of fixed assets	(123)	-
Gain on sale of financial assets	17	*12*
Hedging result		
- (Loss)/Gain on hedged items attributable to hedged risk	(1,544)	*5,456*
- Gain/(Loss) on hedging instruments (swaps)	1,414	*(5,346)*
Net hedging result	(130)	*110*
Unrealised losses from financial assets at FVTPL	(71)	*(1,316)*
Decrease in value of derivative contracts	(27)	*(23)*
Investment property revaluation	-	*875*
Other investment income	-	*3,700*
Total other operating income for continuing operations	**150**	*3,860*
Profit on sale of discontinued operation	56,751	-
Total other operating income	**56,901**	*3,860*

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017 (CONTINUED)

6. Employee Information and Administrative Expenses

	Group 2017 £000 Continuing Operations	Group 2017 £000 Discontinued Operations	Group 2017 £000 Total
Staff costs			
- Wages and salaries and other short term benefits	30,846	5,427	36,273
- Social security costs	4,794	717	5,511
- Other pension costs (Note 3)	3,658	877	4,535
Other administrative expenses	30,975	9,314	40,289
Total administrative expenses excluding restructuring costs	**70,273**	**16,335**	**86,608**

Restructuring costs	Group 2017 £000 Continuing Operations	Group 2017 £000 Discontinued Operations	Group 2017 £000 Total
Staff costs			
- Wages and salaries	-	3,084	3,084
- Social security costs	-	124	124
- Other pension costs (Note 3)	-	155	155
Other administrative expenses	500	1,191	1,691
Total restructuring costs	**500**	**4,554**	**5,054**

	Group 2016 £000 Continuing Operations (Restated)	*Group 2016 £000 Discontinued Operations (Restated)*	*Group 2016 £000 Total*
Staff costs			
- Wages and salaries and other short term benefits	*33,147*	*6,982*	*40,129*
- Social security costs	*4,486*	*848*	*5,334*
- Other pension costs (Note 3)	*3,509*	*998*	*4,507*
Other administrative expenses	*15,664*	*10,780*	*26,444*
Total administrative expenses	***56,806***	***19,608***	***76,414***

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017 (CONTINUED)

6. Employee Information and Administrative Expenses (Continued)

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

	Group 2017 Continuing Operations FTE Number	**Group 2017 Discontinued Operations FTE Number**	**Group 2017 Total FTE Number**
Full time	**306.7**	**60.4**	**367.1**
Part time	**25.5**	**1.7**	**27.2**
Contractors and agency staff	**47.5**	**2.9**	**50.4**
Total average full time equivalent headcount	**379.7**	**65.0**	**444.7**

	Group 2016 Continuing Operations (Restated) FTE Number	*Group 2016 Discontinued Operations (Restated)* FTE Number	*Group 2016 Total* FTE Number
Full time	*290.7*	*73.6*	*364.3*
Part time	*23.2*	*2.7*	*25.9*
Contractors and agency staff	*58.0*	*6.9*	*64.9*
Total average full time equivalent headcount	*371.9*	*83.2*	*455.1*

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

Auditors' Remuneration	**Group 2017 £000**	*Group 2016 £000*
Remuneration payable to the auditors in respect of:		
- Statutory audit of the company and consolidated financial statements	**137**	*114*
- Statutory audit of the subsidiaries' financial statements	**12**	*12*
- All other assurance services	**64**	*28*
- All other non-audit services	**72**	*11*
- All other taxation advisory services	**43**	*20*
	328	*185*

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017 (CONTINUED)

7. Emoluments of Directors

	Group 2017 £000	*Group 2016 £000*
Aggregate emoluments	11,989	*11,183*
Pension contributions	20	*42*
Supplementary pensions paid to former Directors' widows	93	*93*
	12,102	*11,318*
Highest paid Director		
- Emoluments	1,922	*1,873*
- Pension contributions	10	*30*
	1,932	*1,903*

8. Tax on profit

The standard rate of corporation tax in the UK changed from 21% to 20% with effect from 1 April 2015. The bank corporation tax surcharge of 8% took effect from 1 January 2016 and has been applied. Accordingly, the Company's profits for this accounting period are taxed at corporation tax of 20% plus a bank corporation surcharge tax of 8%.

8(a) Analysis of taxation charge

	Group 2017 £000 Continuing Operations	Group 2017 £000 Discontinued Operations	Group 2017 £000 Total
Current tax			
UK corporation tax on profits for the year at 20%	5,870	10,342	16,212
UK surcharge tax on profits for the year at 8%	1,084	3,361	4,445
Adjustments in respect of previous years	37	-	37
Total current tax (Note 8(c))	6,991	13,703	20,694
Deferred tax			
Origination and reversal of timing differences	426	-	426
Adjustments in respect of previous years	(48)	-	(48)
Impact of change in tax rate	(70)	-	(70)
Total deferred tax	308	-	308
Tax on profit	7,299	13,703	21,002

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017 (CONTINUED)

8. Tax on Group Profit (Continued)

8(a) Tax on Profit (Continued)

	Group *2016* £000 Continuing Operations (Restated)	*Group* *2016* £000 Discontinued Operations (Restated)	*Group* *2016* £000 Total
Current tax			
UK corporation tax on profits for the year at 20%	5,451	(358)	5,093
UK surcharge tax on profits for the year at 8%	22	-	22
Total current tax (Note 8(c))	5,473	(358)	5,115
Deferred tax			
Origination and reversal of timing differences	539	-	539
Adjustments in respect of previous years	11	-	11
Impact of change in tax rate	20	-	20
Total deferred tax	570	-	570
Tax on profit	6,043	(358)	5,685

The Finance (No.2) Act (the Act) was substantively enacted on 26 October 2015. The Act reduced the main rate of corporation tax to 19% from 1 April 2017 and to 17% from 1 April 2020 (superseding the 18% rate effective from that date). Accordingly, the deferred taxes at the balance sheet date have been measured using these enacted tax rates and reflected in these financial statements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017 (CONTINUED)

8. Tax on Group Profit (Continued)

8(b) Taxation expense included in other comprehensive income

	Group 2017 £000 Total	*Group 2016 £000 Total*
Deferred tax		
Origination and reversal of timing difference	(2,077)	*997*
Impact of change in tax rate	(74)	*7*
Total tax (income)/expense included in other comprehensive income	(2,151)	*1,004*

In addition to the tax charge detailed in 8(a) £2,151,000 has been credited *(2016: £1,004,000 debit)* to the Statement of Comprehensive Income in respect of actuarial loss *(2016: gains)* in the pension scheme.

8(c) Reconciliation of taxation charge

The tax assessed for the year of £20,694,000 *(2016: £5,115,000 restated)* is higher *(2016: lower)* than the result of applying the standard rate of corporation tax in the UK of 20% *(2016: 20%)* and the bank corporation surcharge of 8% *(2016: 0%)* to the accounting profit before tax. The reasons for this are shown below:

	Group 2017 £000 Continuing Operations	Group 2017 £000 Discontinued Operations	Group 2017 £000 Total
Profit before tax	17,632	53,146	70,778
Profit multiplied by standard rate of tax in the UK of 20% *(2016: 20%)*	3,527	10,629	14,156
Profit multiplied by surcharge rate of tax in the UK of 8% *(2016: 0%)*	1,084	3,361	4,445
Effects of:			
- Permanent disallowables	2,482	(12)	2,470
- Fixed asset timing differences	800	(275)	525
- Other short term timing differences	13	-	13
- Defined benefit scheme timing differences	(952)	-	(952)
- Adjustments in respect of previous years	37	-	37
Tax charge for the year	6,991	13,703	20,694

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017 (CONTINUED)

8. Tax on Group Profit (Continued)

8(c) Reconciliation of taxation charge (Continued)

	Group 2016 £000 Continuing Operations (Restated)	Group 2016 £000 Discontinued Operations (Restated)	Group 2016 £000 Total
Profit before tax	29,760	(1,743)	28,017
Profit multiplied by standard rate of tax in the UK of 20%	5,930	(349)	5,581
Profit multiplied by surcharge rate of tax in the UK of 8%	22	-	22
Effects of:			
- Permanent disallowables	66	6	72
- Fixed asset timing differences	(125)	(15)	(140)
- Other short term timing differences	2	-	2
- Defined benefit scheme timing differences	(402)	-	(402)
- Re-measurement of DT - change in tax rate	(20)	-	(20)
Tax charge for the year	5,473	(358)	5,115

The deferred tax calculations anticipate the reductions in all enacted rates of corporation tax.

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

£49,381,000 *(2016: £17,340,000)* of the Group profit attributable to shareholders relates to the Company, this includes dividends of £Nil *(2016: 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.

10. Dividends

The aggregate of dividends comprises:

	Group 2017 £ per share	*Group 2016 £ per share*	**Group 2017 £000**	*Group 2016 £000*
Ordinary shares (declared)	**50**	*50*	**6**	*6*

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017 (CONTINUED)

11. Derivative Financial Instruments

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

Derivative assets	Group 2017 Notional amount £000	Group 2017 Fair value £000	*Group 2016 Notional amount £000*	*Group 2016 Fair value £000*
Exchange rate contracts				
Forward foreign exchange contracts	13,217	29	*36,854*	*81*
Interest rate contracts				
Interest rate swaps – Hedging instruments	195,233	1,722	*34,300*	*104*
Total derivative assets	208,450	1,751	*71,154*	*185*
Derivative liabilities				
Exchange rate contracts				
Forward foreign exchange contracts	7,986	33	*17,842*	*57*
Interest rate contracts				
Interest rate swaps – Hedging instruments	1,508,403	143,474	*1,261,593*	*85,105*
Total derivative liabilities	1,516,389	143,507	*1,279,435*	*85,162*

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

Interest Rate Swaps Notional	Group 2017 £000	*Group 2016 £000*
Loans and advances to customers:		
- Drawn	666,486	*402,557*
- Undrawn	46,712	*41,000*
Financial assets	990,437	*852,336*
	1,703,635	*1,295,893*

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017 (CONTINUED)

12. Financial Assets

	Group 2017 £000	Company 2017 £000	*Group 2016 £000*	*Company 2016 £000*
Financial assets at fair value through profit or loss				
Equity securities (unlisted)	844	1	*899*	*1*
Less specific allowances for impairment	(261)	-	*(173)*	-
	583	1	*726*	*1*
Financial assets at amortised cost				
Loans and advances to banks (Note 12(a))	397,875	397,875	*337,310*	*337,310*
Loans and advances to customers (Note 12(b))	1,569,388	1,569,388	*1,379,787*	*1,379,787*
Less specific and collective allowances for impairment	(4,259)	(4,259)	*(5,270)*	*(5,270)*
Bank and building society certificates of deposits	723,104	723,104	*611,334*	*611,334*
Debt securities	831,833	831,832	*621,373*	*621,373*
Less specific allowances for impairment	-	-	*(4,740)*	*(4,739)*
	3,517,941	3,517,940	*2,939,794*	*2,939,795*
Total financial assets	3,518,524	3,517,941	*2,940,520*	*2,939,796*

Included in the above are fixed rate securities with a nominal value of £990.4m *(2016: £852.3m)* and fixed rate loans with a nominal value of £666.5m *(2016: £402.6m)* which have been hedged against interest rate risk using interest rate swaps or, where the asset is denominated in a foreign currency, using currency swaps to hedge the interest rate and foreign currency risk.

The bank disinvested from Washington Mutual Bank Inc during the year ended 31 March 2017and received proceeds of £1.4m. The holding had been previously fully impaired and written down to a zero value.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017 (CONTINUED)

12. Financial Assets (Continued)

12(a) Loans and advances to banks

	Group 2017 £000	*Group 2016 £000*
Repayable on demand	**69,923**	*107,998*
Other loans and advances:		
Remaining maturity		
- over 5 years	**206,106**	*123,257*
- over 1 year but less than 5 years	**-**	*-*
- 1 year or less but over 3 months	**1,599**	*613*
- 3 months or less	**120,247**	*105,442*
	397,875	*337,310*

12(b) Loans and advances to customers

	Group 2017 £000	*Group 2016 £000*
Remaining maturity		
- over 5 years	**107,973**	*89,236*
- 5 years or less but over 1 year	**464,049**	*309,861*
- 1 year or less but over 3 months	**110,098**	*26,695*
- 3 months or less	**887,268**	*953,995*
Allowance for impairment losses (Note 13)	**(4,259)**	*(5,270)*
Total loans and advances to customers	**1,565,129**	*1,374,517*
Of which repayable on demand or short notice	**861,420**	*944,862*

Included in the above loans and advances to customers are fixed rate loans which have been hedged against interest rate risk using interest rate swaps. The value of lending hedged at 31 March 2017 was £713.2m *(2016: £443.5m).*

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017 (CONTINUED)

13. Allowance for Impairment Losses

Financial Assets	**Group 2017 £000**	*Group 2016 £000*
Specific allowances for impairment		
Balance at 1 April	**4,913**	*4,913*
Impairment loss for the year		
- Charge for the year	**88**	
- Recoveries for the year	**(1,375)**	*-*
Net recovery	**(1,287)**	*-*
Write-offs	**(3,365)**	*-*
Balance at 31 March	**261**	*4,913*

Loans and Advances to Customers	**Group 2017 £000**	*Group 2016 £000*
Specific allowances for impairment		
Balance at 1 April	**4,628**	*5,021*
Impairment loss for the year		
- Charge for the year	**429**	*790*
- Recoveries for the year	**(981)**	*(1,043)*
Net recovery	**(552)**	*(253)*
Write-offs	**(137)**	*(140)*
Balance at 31 March	**3,939**	*4,628*
Collective allowance for impairment		
Balance at 1 April	**642**	*616*
Impairment loss for the year		
-(Recovery)/charge for the year	**(322)**	*26*
Balance at 31 March	**320**	*642*
Total specific and collective impairment allowances	**4,259**	*5,270*

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017 (CONTINUED)

14. Shares in Group Undertakings

The Company has the following investments in subsidiaries:

Shares at cost		Principal Activity	2017 £	*2016 £*
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	1,000 Ordinary £1 shares	Dormant	1,000	*1,000*
Total Investments in Subsidiaries			1,074	*1,074*

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

15. Property and Equipment

	Group Land and Buildings £000	Group Investment Properties £000	Group Equipment £000	Group Total £000
Cost or valuation				
01 April 2016	*54,056*	*2,475*	*52,796*	*109,327*
Additions	-	-	2,761	2,761
Disposals	-	-	(9,168)	(9,168)
Transfer to heritage assets	-	-	(287)	(287)
Revaluation	1,644	-	-	1,644
31 March 2017	55,700	2,475	46,102	104,277
Accumulated depreciation				
01 April 2016	-	-	27,254	*27,254*
Charge for year	-	-	7,186	7,186
Depreciation write back	-	-	(755)	(755)
Disposals	-	-	(8,069)	(8,069)
Transfer to heritage assets	-	-	(215)	(215)
31 March 2017	-	-	25,401	25,401
Net book value 31 March 2017	55,700	2,475	20,701	78,876
Net book value 31 March 2016	*54,056*	*2,475*	*25,542*	*82,073*

Included in the net disposals is the write off of £975k of assets due to discontinued operations.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017 (CONTINUED)

15. Property and Equipment (Continued)

	Group 2017 £000	*Group 2016 £000*
Land and buildings occupied for own activities		
- Net book value	**42,485**	42,485
At cost		
- Land and buildings	**12,221**	*10,772*
- Investment properties	**1,728**	*1,728*
	13,949	*12,500*

The bank's land, buildings and investment properties were valued as at 31 March 2016 by BNP Paribas Real Estate, Chartered Surveyors. The Royal Albert Hall Box was valued as at 31 March 2017 by Harrods Estates Luxury Property Agents.

	Group 2017 £000	*Group 2016 £000*
Future capital expenditure		
Contracted but not provided in the Financial Statements	**438**	721

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017 (CONTINUED)

16. Heritage Assets

	Group 2017 Paintings £000	Group 2017 Artefacts £000	Group 2017 Total £000	*Group 2016 Paintings £000*	*Group 2016 Artefacts £000*	*Group 2016 Total £000*
Valuation 1 April	8,292	1,340	9,632	*8,288*	*1,331*	*9,619*
Movements - additions	152	1	153	*4*	*9*	*13*
Movements - valuation	(2,252)	830	(1,422)			
Transfer from fixed assets	72	-	72	-	-	-
Valuation 31 March	6,264	2,171	8,435	*8,292*	*1,340*	*9,632*

Having been in business for over 300 years the bank has, over this time, acquired a number of artefacts mostly in the form of paintings, an extensive coin collection and the bank's own ledgers. These heritage assets are no longer used in the day to day running of the bank but remain in the bank as part of the bank's Museum. The bank's Museum maintains a register for its collections of heritage assets which records the nature, provenance and current location of each asset.

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

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

The 2017 valuations were based on commercial market prices, including recent transaction information from auctions where similar paintings to those held by the bank had been sold; the figure included in the financial statements is based on the lower end of the range indicated by these various sources.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017 (CONTINUED)

17. Deferred Tax

17(a) Analysis of Deferred Taxation

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

	Group 2017 £000	*Group 2016 £000*
Deferred tax asset		
Fixed assets timing differences	519	*25*
Short term timing differences	8	-
Provisions on loan fees	8	*39*
Total deferred tax asset	535	*64*
Deferred tax liability		
Timing differences on valuations	8,782	*9,258*
Provisions on valuations	127	*151*
Total deferred tax liability	8,909	*9,409*

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

	Group 2017 £000	*Group 2016 £000*
Deferred tax asset		
Balance at 1 April	64	*405*
Capital allowances on fixed asset additions	446	*(143)*
Short term timing difference	12	*(11)*
Change in tax rate	(4)	*(20)*
Prior year adjustment	48	*(11)*
Timing differences on valuations	-	*(24)*
Timing differences on loan fees	(31)	*(132)*
Balance at 31 March	535	*64*
Deferred tax liability		
Balance at 1 April	9,409	*5,797*
10 year amortisation of FRS 26 balance	-	*(13)*
Timing differences on valuations	(500)	*3,625*
Balance at 31 March	8,909	*9,409*

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017 (CONTINUED)

17. Deferred Tax (Continued)

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

The deferred tax asset and liability balances at 31 March 2017 do not include any amounts in respect of the bank's defined benefit pension scheme liability, which is shown on the balance sheet after deduction of a deferred tax asset of £5,000 *(2016: £1,336,000 liability)* – see Note 3. The movement in this balance is shown below:

Defined benefit pension scheme liability	**Group 2017 £000**	*Group 2016 £000*
Balance at 1 April	**(1,336)**	*67*
Movement relating to:		
- Past service cost	-	-
- Employer contributions	**(752)**	*(389)*
- Other finance income	**(58)**	*(10)*
- Actuarial gains	**2,077**	*(997)*
- Change in tax rate	**74**	*(7)*
Balance at 31 March	**5**	*(1,336)*

18. Other Assets

	Group 2017 £000	**Company 2017 £000**	*Group 2016 £000*	*Company 2016 £000*
Settlement balances	**1,436**	**1,387**	*658*	*638*
	1,436	**1,387**	*658*	*638*

Settlement balances relate to unsettled transactions at the year end.

19. Prepayments and Accrued Income

	Group 2017 £000	**Company 2017 £000**	*Group 2016 £000*	*Company 2016 £000*
Interest receivable	**12,086**	**12,086**	*11,303*	*11,303*
Other debtors and prepayments	**4,846**	**4,801**	*11,856*	*11,775*
	16,932	**16,887**	*23,159*	*23,078*

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017 (CONTINUED)

20. Deposits by Banks

	Group 2017 £000	*Group 2016 £000*
Repayable on demand	**16**	*303*

21. Customer Accounts

	Group 2017 £000	*Group 2016 £000*
With agreed maturity date or notice period, by remaining maturity:		
- 2 years or less but over 1 year	**21,335**	*19,946*
- 1 year or less but over 3 months	**266,309**	*290,584*
- 3 months or less but not repayable on demand	**662,041**	*713,949*
	949,685	*1,024,479*
Repayable on demand	**2,918,514**	*2,816,855*
	3,868,199	*3,841,334*
Amount due to Subsidiary Companies	**9,127**	*8,537*

22. Other Liabilities

	Group 2017 £000	Company 2017 £000	*Group 2016 £000*	*Company 2016 £000*
Corporation tax	**16,708**	**16,554**	*2,105*	*1,974*
Settlement balances	**327**	**327**	*2,823*	*2,823*
Other liabilities	**333**	**223**	*276*	*190*
	17,368	**17,104**	*5,204*	*4,987*

Settlement balances relate to unsettled transactions at the year end.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017 (CONTINUED)

23. Accruals and Deferred Income

	Group 2017 £000	*Group 2016 £000 (Restated)*
Interest payable	**9,729**	*8,931*
Other creditors and accruals	**27,531**	*23,124*
	37,260	*32,055*

24. Provision for Other Liabilities

(a) Provision for repayment of interest and fees to customers

The bank has established a provision for amounts payable in respect of a specific pool of regulated agreements. The provision is management's best estimate of the anticipated costs and includes interest and other charges expected to be returned to customers who hold, or have held, these types of loans with the bank. The total amount of the provision held is £12.2 million. The eligibility of these costs for tax relief is under review and as such these costs have been currently treated as disallowable pending outcome of the review.

(b) FSCS Levy

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

The bank accrued £574,000 at 31 March 2017 *(2016: £758,000)* in respect of its estimated share of the levies that will be raised by FSCS. The amount of future levies payable depends on a number of uncertain factors, including: the value of potential recoveries of assets by the FSCS; the level of protected deposits and the population of FSCS members at the time.

(c) Legal and related costs

From time to time, in the ordinary course of business, the bank may be subject to actual or potential legal claims whereby provisions and disclosures are required in accordance with the bank's accounting policies. However where disclosure of any such items may seriously prejudice the position of the bank, the directors take advantage of paragraph 21.17 of FRS 102. The bank recorded an opening balance of £2.98m, *(2016: £1.84m)* in respect of legal provision and related costs and subsequently decreased the provision by £1.48m *(2016: £1.14m increase)* during the year due to the resolution of certain matters resulting with the bank carrying a closing provision of £1.50m at 31 March 2017 *(2016: £2.98m)*.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017 (CONTINUED)

25. Called up Share Capital

	Group 2017 £000	*Group 2016 £000*
Authorised, allotted and fully paid:		
120 *(2016: 120)* Ordinary shares of £1,000	**120**	*120*

26. Revaluation reserves

	Group Property 2017 £000	**Group Heritage Assets 2017 £000**	**Group Total 2017 £000**
Balance as at 1 April 2015	**18,478**	**7,872**	**26,350**
Revaluation of property	19,300	-	19,300
Deferred tax charge on property	(3,475)	-	(3,475)
Balance as at 31 March 2016	**34,303**	**7,872**	**42,175**
Revaluation of property and heritage assets	1,644	(1,422)	222
Deferred tax charge on property and heritage assets	140	338	478
Balance as at 31 March 2017	**36,087**	**6,788**	**42,875**

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017 (CONTINUED)

27. Contingent Liabilities, Commitments

Contingent Liabilities and commitments

The table below discloses the nominal principal amounts of contingent liabilities and commitments undertaken for customers as at 31 March 2017.

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

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

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

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

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

	Group 2017 £000	*Group 2016 £000*
Contingent liabilities:		
- Letters of credit	-	*358*
- Performance bonds and other transaction-related contingencies	**924**	*773*
- Other guarantees	**23,068**	*25,638*
Total contingent liabilities	**23,992**	*26,769*
Commitments:		
- Undrawn formal standby facilities, credit lines and other commitments to lend (Less than 1 year maturity)	**347,854**	*389,508*
Total commitments	**347,854**	*389,508*

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017 (CONTINUED)

28. Notes to the statement of cash flows

	Group 2017 £000	*Group 2016 £000*
Profit for the financial year		
Profit for financial year	**49,776**	*22,332*
Tax on profit on ordinary activities	**21,002**	*5,685*
Operating profit	**70,778**	*28,017*
Impairment charge	**194**	*816*
Loans and advances written off	**137**	*140*
Depreciation of tangible fixed assets	**6,431**	*5,457*
Profit on disposal of discontinued operations	**(61,743)**	-
Net charge in respect of defined benefit scheme	**(340)**	*(55)*
Contributions paid to defined benefit scheme	**(4,422)**	*(2,165)*
Exchange translation differences on investment securities	-	*410*
Profit on sale of investment securities	**(17)**	*(12)*
Gain on revaluation of investment property	-	*(875)*
Gain on investment income	-	*(3,700)*
Fair value on financial instruments	**(10,041)**	*7,121*
Working capital movements:		
- (Increase)/decrease in inventories	**(288,357)**	*(319,353)*
- Decrease/(increase) in debtors	**5,887**	*(4,401)*
- Increase in payables	**30,233**	*838,579*
Cash flow (used in)/generated from operating activities	**(251,260)**	*549,979*

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017 (CONTINUED)

29. Financial Risk Management

(a) Overview

The Board has ultimate responsibility for the management of risk within the bank. The Audit, Risk and Compliance Committee provides oversight and monitors the effectiveness of internal control and risk management processes and reports to the Board. Further details of the bank's risk management and governance structure are described in the Directors' Report on pages 8 to 14.

The principal risks affecting the bank are explained in the Strategic Report on pages 4 to 7. A fuller description of the bank's principal risks can be found in the bank's Pillar 3 disclosures and is available on the bank's website: www.hoaresbank.co.uk.

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

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

(b) Credit risk

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

Management of credit risk

Responsibility for credit risk on customer loans and advances resides with the Lending department, monitored by the Banking Committee. Responsibility for credit risk relating to bank counterparties and treasury investments is managed by the Treasury department and monitored by the ALCO and the Audit, Risk & Compliance Committee.

Credit risk arising from loans and advances to customers is managed in accordance with lending policies and procedures aligned to the bank's risk appetite. The bank seeks to mitigate credit risk by focusing on sectors with specialist expertise. The bank's general policy is to lend to customers with security provided as collateral and primarily includes charges over residential and commercial properties. Unsecured lending is only entered into where the customer's specific circumstances make it prudent to do so. Limits are placed on the aggregate lending to any one customer in accordance with both internal and regulatory guidelines. Lending is monitored closely against individual credit limits. All significant exposures are subject to an annual review.

Interest payments and any capital repayments are generally serviced through a related current account with the bank. These are closely monitored for adequate funds such that past due events such as late payment or missed interest rarely occur.

Credit risk arising from loans and advances to banks is managed through restricting lending to a selection of financial institutions with selection criteria being regularly reviewed and approved by the ALCO. The bank does not operate a trading book. 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.

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017 (CONTINUED)

29. Financial Risk Management (Continued)

(b) Credit risk (continued)

Maximum credit exposure

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

Maximum credit exposure	**Group 2017 £000**	*Group 2016 £000*
Balance Sheet items		
Cash and balances at central banks	**781,177**	*1,191,373*
Derivative financial instruments	**1,751**	*185*
Loans and advances to banks (Note 12(a))	**397,875**	*337,310*
Loans and advances to customers (Note 12(b))	**1,565,129**	*1,374,517*
Bank and building society certificates of deposits	**723,104**	*611,334*
Debt securities	**831,833**	*616,633*
Equity securities (unlisted)	**583**	*726*
Maximum credit exposure from Balance Sheet items	**4,301,452**	*4,132,078*
Off balance sheet items		
Contingent liabilities (guarantees)	-	-
Commitments	**23,992**	*26,769*
Maximum credit exposure from off Balance Sheet items	**23,992**	*26,769*
Maximum credit exposure	**4,325,444**	*4,158,847*

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 generally are not updated, except when required by regulation, further lending is required or a loan is assessed as impaired. At 31 March 2017, the value of property collateral recorded against customer facilities was £3,742m *(2016: £3,587m)*. The estimated value of collateral against the impaired customer loans and advances was £437,000 *(2016: £37,000)*.

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017 (CONTINUED)

29. Financial Risk Management (Continued)

(b) Credit risk (continued)

Concentration risk

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

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

At 31 March the bank's exposure to UK retail customers (personal and business) were 90% *(2016:91%)*, of total loans and advances to customers.

At 31 March the bank's exposure to UK financial institutions and central bank/ government were 76% *(2016:77%)*, of total loans and advances to banks and investment securities held.

Credit quality of assets

The credit quality of assets is shown below.

Analysis of loans and advances to customers	**Group 2017 £'000**	*Group 2016 £'000*
Neither on the Watch list nor Non Performing	**1,479,236**	*1,300,795*
Watch List		
High Risk	**16,463**	*12,125*
Medium Risk	**69,651**	*60,859*
Non Performing Debt (NPD) - provision held	**4,038**	*6,008*
- of which are impaired	**(3,939)**	*(4,628)*
Collective allowance for impairment	**(320)**	*(642)*
Total loans and advances to customers	**1,565,129**	*1,374,517*

The credit risk classifications used in the preceding table are:

Individually impaired loans and securities

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

Watch list loans

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017 (CONTINUED)

29. Financial Risk Management (Continued)

(b) Credit risk (continued)

Allowances for impairment

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

Write-off policy

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

Renegotiated lending

The bank does not renegotiate terms in the normal course of business. Accordingly, there is no separate disclosure in the financial statements for "Renegotiated loans".

Analysis of loans and advances to banks and debt and equity securities	**Group 2017 £000**	*Group 2016 £000*
Loans and advances to banks, by rating:		
- Aaa to Aa3	**178,865**	*167,977*
- A1 to A3	**219,010**	*169,211*
- Baa1 to Baa3	**-**	*122*
Total unimpaired loans and advances to banks	**397,875**	*337,310*
Debt and equity security financial assets, by rating:		
- Aaa to Aa3	**1,060,831**	*691,382*
- A1 to A3	**493,783**	*536,284*
- Not rated	**583**	*(4,014)*
Total unimpaired debt and equity securities	**1,555,197**	**1,223,652**
Non Performing Debt (NPD)	**323**	*5,041*
Total debt and equity securities	**1,555,520**	**1,228,693**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017 (CONTINUED)

29. Financial Risk Management (Continued)

(c) Liquidity risk

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

Management of liquidity risk

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017 (CONTINUED)

29. 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.

£000 **At 31 March 2017**	**Carrying Amount**	**Next day**	**Less than 1 month**	**1 to 3 months**	**3 months to 1 year**	**Over 1 year**
Balance sheet						
Deposits from banks	16	16	-	-	-	-
Deposits from customers	3,868,199	2,918,515	555,083	104,287	268,979	21,335
Derivative liabilities	143,507	-	11	55	367	143,074
Off balance sheet						
Guarantees, Letters of Credit and Performance Bonds	23,992	23,992	-	-	-	-
Undrawn customer facilities	347,854	347,854	-	-	-	-
Total liabilities	**4,383,568**	**3,290,377**	**555,094**	**104,342**	**269,346**	**164,409**

£000 *At 31 March 2016*	*Carrying Amount*	*Next day*	*Less than 1 month*	*1 to 3 months*	*3 months to 1 year*	*Over 1 year*
Balance sheet						
Deposits from banks	*303*	*303*	-	-	-	-
Deposits from customers	*3,841,334*	*3,126,006*	*286,199*	*118,599*	*290,584*	*19,946*
Derivative liabilities	*85,162*	*3*	*5*	*29*	*256*	*84,869*
Off balance sheet						
Guarantees, Letters of Credit and Performance Bonds	*26,769*	*26,769*	-	-	-	-
Undrawn customer facilities	*389,508*	*389,508*	-	-	-	-
Total liabilities	*4,343,076*	*3,542,589*	*286,204*	*118,628*	*290,840*	*104,815*

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017 (CONTINUED)

29. Financial Risk Management (Continued)

(c) Liquidity risk (Continued)

Exposure to liquidity risk (continued)

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

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

(d) Market risk

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

Market risk only arises in the banking book, since the bank does not operate a trading book. Only a small component of the banking book is recorded at fair value and all fixed rate financial instruments are hedged such that the main exposure to market risk is credit and basis risk. The risk to the bank is that it could be required to dispose of certain assets, recorded at amortised costs, at a point in time that would result in losses.

Management of market risk

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

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

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017 (CONTINUED)

29. Financial Risk Management (Continued)

Exposure to market risks: interest rate risk

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

£000	**Carrying Amount**	**Up to 3 months**	**3 to 6 months**	**6 to 12 months**	**1 to 5 years**	**Over 5 years**
At 31 March 2017						
Assets						
Loans and advances to banks and central banks	1,174,075	1,173,276	799	-	-	-
Loans and advances to customers	1,556,367	882,996	53,298	56,486	459,538	104,049
Debt security financial assets	1,421,952	328,230	165,000	302,375	167,746	458,601
Total assets	4,152,394	2,384,502	219,097	358,861	627,284	562,650
Liabilities						
Deposits by banks	16	16	-	-	-	-
Customer accounts	3,868,199	3,580,556	176,234	90,074	21,335	-
Total liabilities	3,868,215	3,580,572	176,234	90,074	21,335	-
Derivatives	-	1,532,135	(149,250)	(218,105)	(570,585)	(594,195)
Interest rate gap	284,179	336,065	(106,387)	50,682	35,364	(31,545)

£000 (Restated)	*Carrying Amount*	*Up to 3 months*	*3 to 6 months*	*6 to 12 months*	*1 to 5 years*	*Over 5 years*
At 31 March 2016						
Assets						
Loans and advances to banks and central banks	*1,525,311*	*1,524,698*	*613*	-	-	-
Loans and advances to customers	*1,364,213*	*948,714*	*400*	*26,254*	*305,137*	*83,708*
Debt security financial assets	*1,153,148*	*216,312*	*190,000*	*250,000*	*196,336*	*300,500*
Total assets	*4,042,672*	*2,689,724*	*191,013*	*276,254*	*501,473*	*384,208*
Liabilities						
Deposits by banks	*303*	*303*	-	-	-	-
Customer accounts	*3,841,334*	*3,530,804*	*199,253*	*91,331*	*19,946*	-
Total liabilities	*3,841,637*	*3,531,107*	*199,253*	*91,331*	*19,946*	-
Derivatives	-	*1,162,041*	*(120,400)*	*(208,542)*	*(435,791)*	*(397,308)*
Interest rate gap	*201,035*	*320,658*	*(128,640)*	*(23,619)*	*45,736*	*(13,100)*

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017 (CONTINUED)

29. Financial Risk Management (Continued)

Exposure to market risk: interest rate risk (continued)

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

The bank monitors its exposure to interest rate risk. Consistent with the financial regulator's requirements, the impact of a potential 2.00% shift, both increase and decrease, in the yield curve against the bank's interest bearing assets is computed back to a net present value. This value is monitored and calculated weekly and reported to the ALCO monthly against a Board approved policy limit. The reported interest rate sensitivity as at 31 March 2017 is shown in the table below.

Effect of a change of 2.00% in Sterling Market Rates	**Group 2017 £000**	*Group 2016 £000*
Net Present Value Sensitivity to:		
Positive shift	**(346)**	*1,100*
Negative shift	**368**	*(1,195)*

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

Exposure to market risk: currency risk

Foreign currency balances are driven by the requirements of the bank's customers and do not form a significant part of the balance sheet. In order to limit the bank's exposure to exchange rate risks, limits are placed on the bank's foreign exchange dealers for intraday and end of day positions. The bank's Treasury department is responsible for managing currency risk within intra-day and overnight limits established by ALCO and the Audit, Risk and Compliance Committee.

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

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

Net currency exposure	**Group 2017 £000**	*Group 2016 £000*
US dollar	**141**	*98*
Euro	**383**	*113*
Other	**79**	*(12)*
Total	**603**	*199*

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017 (CONTINUED)

29. Financial Risk Management (Continued)

(e) Fair values of financial assets and liabilities

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

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

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

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

The recognition and measurement provisions of IAS 39 (as adopted for use in the EU) and the disclosure requirements of FRS 102 have been adopted in respect of financial instruments for the fair value hierarchy disclosures.

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

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017 (CONTINUED)

29. Financial Risk Management (Continued)

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.

Group Valuation Hierarchy	**2017** **Level 1** **£000**	**2017** **Level 2** **£000**	**2017** **Level 3** **£000**	**2017** **Total** **£000**
Bank and building society certificates of deposit	723,104	-	-	723,104
Equity securities (unlisted)	-	-	583	583
Debt securities with readily determinable fair values	831,833	-	-	831,833
Derivative financial assets	-	1,751	-	1,751
Total financial assets	1,554,937	1,751	583	1,557,271
Derivative financial liabilities	-	143,507	-	143,507

Group Valuation Hierarchy	*2016* *Level 1* *£000*	*2016* *Level 2* *£000*	*2016* *Level 3* *£000*	*2016* *Total* *£000*
Bank and building society certificates of deposit	*611,334*	-	-	*611,334*
Equity securities (unlisted)	-	-	*726*	*726*
Debt securities with readily determinable fair values	*616,634*	-	-	*616,634*
Derivative financial assets	-	*185*	-	*185*
Total financial assets	*1,227,968*	*185*	*726*	*1,228,879*
Derivative financial liabilities	-	*85,162*	-	*85,162*

The table above includes financial assets as reported in Note 12 and derivative assets and liabilities as reported in Note 11.

The equity securities (unlisted) consist of the legacy investment portfolio of the Group which is being wound down. These securities are measured at the values provided by fund managers. By year end the aggregate value of the investment portfolio had fallen to £583,000 *(2016: £726,000)*, mainly due to the liquidation of one investment and capital distributions.

(f) Capital management

The bank's capital management for regulatory purposes is detailed in the Directors' Report on pages 13 and 14.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017 (CONTINUED)

30. Segmental Information

Materially all income and profits arise from the business of banking and investment management conducted in the United Kingdom. As part of the bank's strategy to refocus on its core banking services, the bank sold the Wealth Management business to Cazenove Capital Management on 17 February 2017 (see Note 33).

31. Related Party Transactions

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

The bank's related parties consists 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 are considered to be key management personnel with significant influence for the purposes of FRS 102.

Among the bank's transactions with key management personnel and their close family members as at 31 March 2017 were outstanding loans in aggregate of £5.1m *(2016: £5.2m)* and deposits in aggregate of £3.4m *(2016: £6.0m).*

The bank provides banking services to the bank's charitable trust, The Golden Bottle Trust, and held deposits in aggregate of £7.2m *(2016:£3.4m)* as at 31 March 2017.

In addition, the bank provided wealth management services to key management personnel and their close family members. The fees from these services amounted in aggregate to £0.08m *(2016: £0.07m).*

During the year, the bank received rental income of £5,090 *(2016:£5,090)* from a related party, where the lease was subject to formal contract terms and conditions.

Mr R. Q. Hoare resigned as a Director from C. Hoare & Co. and all its subsidiaries on 16 March 2017 and transferred his shareholding in Messrs Hoare Trustees at no par value to The Lord Macpherson of Earl's Court GCB (who was appointed as a Director of that company on 19 April 2017).

32. Ultimate Controlling Party

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

33. Charged Assets

As at 31 March 2017 £0.5m *(2016: £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.

In addition, as at 31 March 2017, £10.0m *(2016: £10.0m)* of collateral was charged to Royal Bank of Scotland Plc ("RBS") in relation to RBS providing guarantees jointly, with the bank, to Lloyd's of London on behalf of the bank's customers. See Note 26 for more detail on the guarantees provided by the bank.

As at 31 March 2017, £3.0m *(2016: £Nil)* of collateral was segregated in a client monies account for the benefit of failing trades on behalf of Wealth Management customers. This arrangement will be removed in line with the wind-down of the Wealth-related operations during the year ending 31 March 2018.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017 (CONTINUED)

34. Discontinued operations

In October 2016, the bank announced its intention to restructure, the primary objective of which was to refocus on its core banking activities. The implementation of the restructure resulted in the sale of the Wealth Management business and a new organisation structure, which included a realignment of responsibilities in the Management Committee and associated functional changes required to support the banking business. Restructuring costs include those costs necessary to prepare the Wealth Management business for sale as well as the cost to compensate employees for redundancy following the realignment of the Management Committee and functions.

The bank sold the Wealth Management business to Cazenove Capital Management "Cazenove", a division of Schroders on 17 February 2017. During the year the discontinued operation contributed post-tax profits of £39.4m *(2016: £1.4m loss)* which included the pre-tax gain on sale of £56.8 million. The bank received cash consideration of £72.0m relating to the sale.

35. Post Balance Sheet Event

On 9 May 2017, the bank sold its investment dealing and custody business to Canaccord Genuity Wealth Management UK & Europe. This is in line with the bank's strategy of improving and refocusing on its core banking activities.