
2010

Consolidated Financial Statements

C Hoare & Co

& Subsidiary Companies



Company Number 240822

WEDNESDAY



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COMPANIES HOUSE

CHAIRMAN'S FOREWORD

The past year has marked a historic change in the governance of the Bank

We have welcomed the first non-family Chief Executive of C Hoare & Co, Jeremy Marshall, who took over from Alexander Hoare on 1st October 2009. We record our deep thanks to Alexander who served as CEO for nearly 8 years during which time the Bank balance sheet grew from £670m to over £2bn. Jeremy brings a wealth of experience to the Bank as a former CEO of the UK Private Bank of Credit Suisse.

Increasing interest in corporate governance and more prescriptive regulation have made it timely to review our constitution. With this and the 2006 Companies Act in mind new arrangements were brought into effect on 4th March 2010. At the subsequent Board meeting on the 18th March, I and my fellow Consultants to the Board were appointed directors of the Bank, alongside the existing family members.

The family are as committed as ever to the Bank. They remain sole shareholders and continue to be closely involved in strategy and risk management as members of the Board as well as playing key roles in the day-to-day running of the Bank.

2008 was a tumultuous year for the industry, which the Bank weathered well. 2009 was even more challenging as we began to encounter greater regulation across the industry. This is demanding higher levels of both capital and liquidity and is substantially increasing the cost of banking.

The last 12 months saw many banks take action to repair their balance sheets. This environment has enabled C Hoare & Co to strengthen further its position. This year we announce record profits for the Bank, as well as strong growth in our investment management business.

Further details are given in the Directors' report that follows.



Lord Wilson of Dinton
Chairman

C HOARE & CO
DIRECTORS' REPORT
FOR THE YEAR ENDED 31 MARCH 2010

The Directors present their Annual Report and Consolidated Financial Statements for the year ended 31 March 2010

The financial statements were approved by the Board on 17 June 2010

1 PRINCIPAL ACTIVITIES

C Hoare & Co ("the Bank") is an Unlimited Company with a Share Capital. The Bank's principal activities together with its subsidiaries Messrs Hoare Trustees, Mitre Court Property Holding Company, Hoare's Bank Nominees Ltd and Hoare's Bank Pension Trustees Limited are to provide a wide range of banking, investment and financial advice services to a predominantly high net wealth customer base

2 RESULTS AND DIVIDENDS

The financial results for the year are set out in the profit and loss account on page 13. Underlying business growth continues to be strong and although we have seen new customer loan losses during the year, this has been more than offset by recoveries against provisions made in the previous year. As a result pre tax profit for the year increased by 62% to £24m, compared to £15m for the previous year.

The Board recommended an ordinary share dividend for the year of £50 per share (2009 £50), payable on 22 July 2010.

Retained profits for the year of £17m (2009 £10m) will be used to strengthen reserves and support future growth.

3 BUSINESS REVIEW

Performance

A year ago the Board was pleased to report that the Bank had managed to avoid any direct exposure to the lending activities and securities that led to losses at many competitors and other financial institutions. Nonetheless as many of the Bank's counterparties suffered substantial credit losses and liquidity problems the Bank saw problems emerging in its Floating Rate Note book, which is an exposure to other (rated) financial institutions in the UK and overseas. In the event this led to losses on such assets of £10m, with a further £5m on customer lending.

As with many other financial institutions the Bank's borrowing customers have benefited from the effects of Quantitative Easing and low interest rates. The economic stimulus brought about has enabled the Bank to make recoveries on customer loan provisions and bank counterparty provisions made in 2008. In total we have written back some £5.4m of provisions made during 2008, £3.4m in respect of the Floating Rate Notes and £2.0m on customers.

We have seen liquidity return to the financial markets and the value of the Bank's remaining Floating Rate Note holdings has improved by around £20m during the year.

At the height of the crisis, in October 2008, customer deposits reached then record levels of £1.8 billion. Overall there was growth in customer deposits of 16% during that year. The Board are pleased to note that much of this new money has stayed with the Bank, which has continued to attract new deposits recording further growth of 13% this year bringing total customer deposits to over £1.9 billion.

As a policy matter the Bank chooses not to enter into a bidding war for deposits, preferring to offer security and superior service to customers. This approach will be tested in the coming year as more banks are forced to secure greater levels of retail funding to support their lending books.

The Board is also encouraged by the growth of the Investment Management business. During the year a combination of new money and market movement has grown funds under management by around 50%, bringing total funds under management to over £690m. This is a vindication of our gradual approach to building this part of our business organically by combining our traditional service standards with consistent investment performance.

C HOARE & CO
DIRECTORS' REPORT
FOR THE YEAR ENDED 31 MARCH 2010 (CONTINUED)

Customer borrowing has remained subdued, showing growth of only 7% over the year. This is mainly a reflection of lack of appetite by our customers for making investment in the current economic climate, the Bank's criteria for lending to customers remain unchanged.

Although profits have recovered strongly this year, the Board are not complacent. Our credit criteria although unchanged remain highly conservative. We have also taken the opportunity of an improving economy to further improve the risk profile of the balance sheet by selling down most of the Bank's investment portfolio. The Board also took the decision to sell the Bank's gilt holdings. We continue to hold a sizeable balance in cash at the Bank of England but have decided to place the bulk of our surplus deposits in short term money market instruments such as Certificates of Deposit or in short term bank deposits, all with institutions that carry either explicit or implicit support from the UK or relevant overseas government.

Having been in business for over 300 years, the Bank has accumulated a number of artefacts in the form of the Bank's own ledgers, works of art, and an extensive coin collection. Although no longer used in day to day business these items are held in the Bank's museum and private house for the enjoyment of customers and historical researchers. The Board has taken the view that it is appropriate to value these "heritage" assets and include them in the Bank's accounts in accordance with FRS 30 'Heritage Assets' which was published in June 2009. The Board has obtained a low range valuation of £ 9.6m, which is included in the balance sheet at 31 March 2010. Prior year figures have been restated. Further detail is given in note 18 to the accounts on page 44.

In aggregate shareholders funds have increased by £25m (22%) during the year, primarily as a result of this year's profits, movement in market prices on the Bank's FRN book, offset by the growing pension deficit. The recognition of the value of the Bank's 'heritage assets' has further increased shareholders funds by £10m as detailed in the Statement of Recognised Gains and Losses on page 17.

Despite higher average balances in the banking book, a lower net interest margin led to a decrease in net interest income of £3.8m (8%). Revenue from the Bank's foreign exchange, investment management and advisory businesses were the same as the previous year. Overall, Total income grew by 1% to £66.9m.

The Bank's net interest margin (a key financial performance indicator) declined from 2.70% to 2.35% during the year as the effect of the low interest rate environment worked through into the Bank's low yield deposits. The Board remain of the view that a low yield, low risk money market book is in the best interests of both customers and shareholders.

Excluding performance-related pay, underlying operating expenses increased by 9% over 2009. Staff costs comprise 45% of the Bank's cost base and, excluding bonus payments, these increased by 12%. The Bank continues to invest in both people and information technology. The Bank is experiencing a high level of demand from existing and new customers for the Bank's services, which require proper investment if the Bank is to grow without compromising customer service or risk management.

Within the Bank's costs for the year is £1.2m in respect of its share of the Financial Services Compensation Scheme (FSCS) Levy. This charge, levied on the volume of the Bank's customer deposits, is based upon estimates provided by the Financial Services Authority (FSA) in relation to the interest cost of meeting deposits covered by the Scheme in those UK banks that failed during the year. To date we have had no indication of the likely scale of the capital losses that may be levied against us. Further detail is provided in note 28 to the accounts on page 51.

As a result of the capital investment and external expenses, but excluding the impact of bad debts, the Bank's cost income ratio (another key financial performance indicator) as reported to the Board deteriorated from 54% to 64% during the year.

C HOARE & CO
DIRECTORS' REPORT
FOR THE YEAR ENDED 31 MARCH 2010 (CONTINUED)

The Board took the difficult decision to close the Bank's defined benefit pension scheme to future accrual in 2007. In March 2008 the Scheme was fully funded on an FRS 17 basis. Subsequent economic events took their toll on the Scheme's investments and as a result the Scheme moved back into an FRS 17 deficit during 2008, which has grown further during 2009. This has prompted the Board to recommence contributions into the Scheme, it has also placed further cash in escrow to cover the level of the deficit under FRS 17. The Scheme will be subject to a Triennial Valuation during the coming year, following which the Board will agree a Recovery Plan with the Trustee. Full details are set out in note 3 to the accounts.

The Board maintains a strong philanthropic culture within the Bank. One of the Bank's non-financial Key Performance Indicators is the proportion of staff that share the Bank's values and donate to charity through the Bank's "Give as You Earn" scheme. As at March 2010, 33% of staff chose to give in this way (2009 32%). The Bank's Charitable Trust further increases the value of staff participation by double matching the staff contributions. The Bank also encourages staff to give up some of their own time to charitable causes by matching the time taken with paid leave up to a maximum of two days.

Future Developments

The Board see continuing economic uncertainty in both the UK and overseas as governments struggle to bring their deficits under control. As a result of actions taken over the last 12 months the Bank remains well placed to capitalise on the retrenchment of our competitors. The customer lending book is entirely funded by retail deposits. The Board remain of the view that customers and the Bank will be best served in the future if the Bank maintains its current business model and overall investment programme in both staff and technology.

The Bank will build on the success of our Investment Management business. New systems are currently in implementation that will both improve our efficiency and provide higher levels of service to customers. The Bank is also recruiting strongly into this department to improve further both service and underlying investment performance, as this business grows.

Notwithstanding the political climate the Bank sees a number of our customers who are "resident non-domicile" in the UK and who would benefit from offshore banking facilities. It is currently developing such a service, which is expected to be offered to appropriate customers during the coming year.

As anticipated a year ago, there has been a greater influence from the regulator in the last twelve months, and this is expected to continue. The cost of banking both in the UK and elsewhere is on the increase. Higher capital requirements, the demand for greater liquidity, and the costs of meeting ever more complex regulation will have a significant impact on the profitability of the banking business. The Bank is already run along very conservative lines but greater emphasis on both capital adequacy and liquidity throughout the industry is leading to further pressure on margins as the Bank's competitors look to increase the proportion of their retail funding. This was foreseen a year ago and this has been one of the determinants in developing our investment management activity.

Further costs in relation to the FSCS levy are also expected. At the moment only the interest costs on the loan provided by the Treasury to the FSCS are included in our accounts. At some point the losses in those failed banks covered by the scheme will become known and further, possibly substantial, charges will arise. There is little the Bank can do to mitigate this industry cost, which is effectively a tax on deposits.

Risk Management

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

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

C HOARE & CO
DIRECTORS' REPORT
FOR THE YEAR ENDED 31 MARCH 2010 (CONTINUED)

The Bank has an established risk management framework. Operational risks (such as fraud, transaction errors, and systems failures) are tracked, and any losses recorded, in the Bank's operational risk register, which is reviewed regularly by Management and the Board. Key risks are monitored by reference to leading indicators, which are designed to highlight potential problem areas well in advance.

The Asset/Liability Management Committee (ALCO) meets on a monthly basis. It is the responsibility of the ALCO to oversee the matching of the Bank's assets and liabilities, and manage liquidity, in a formal and co-ordinated manner.

Monitoring and measurement of risks is based upon a series of policies in line with principles established by the FSA, the Bank's principal regulator.

a) Credit Risk

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

The Bank has a Credit Policy Committee, which oversees pricing, security and overall exposure guidelines. This committee is chaired by an experienced member of the Bank's management with participation of up to five Partners. The recent economic uncertainty has led to a more rigorous approach in assessing loans for inclusion in the watch list as detailed in note 34 to the accounts.

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. These are mainly UK incorporated and authorised by the FSA.

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

b) Liquidity

The Bank is supervised by the FSA on a Stock Liquidity basis, which requires the Bank to hold sufficient cash to meet 5% of retail deposits. This will change during the coming year as the FSA move to a more sophisticated approach to liquidity management. The Board has already undertaken a comprehensive assessment of the Bank's liquidity needs and is satisfied the Bank will fully meet any regulatory requirements. The Board has well established criteria on lending and other long term investments such that these should not normally exceed 70% of retail deposits. Liquidity is managed daily by the Bank's Treasury operation under the supervision of the ALCO.

c) Interest Rate Risk and Sensitivity

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

C HOARE & CO
DIRECTORS' REPORT
FOR THE YEAR ENDED 31 MARCH 2010 (CONTINUED)

d) Foreign Currency

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

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

e) Derivatives

The Bank does not deal in derivatives (as defined by the Accounting Standards Board Financial Reporting Standard 13) on its own account other than to manage its own exposure to fluctuations in interest and exchange rates, including the use of interest rate swaps to hedge the fixed rate loan portfolio. The Bank will accept instructions to deal on behalf of a customer, on an execution only basis.

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

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

f) Trading Book

It is the Bank's general policy not to operate any material trading (i.e. non banking) positions.

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

Membership of the ALCO comprises several Partners, Directors and a number of the Bank's senior managers under the Chairmanship of Miss V E Hoare.

C HOARE & CO
DIRECTORS' REPORT
FOR THE YEAR ENDED 31 MARCH 2010 (CONTINUED)

4 CAPITAL MANAGEMENT AND ALLOCATION

Capital Management (audited)

The Bank is supervised and regulated by the FSA and reports to the FSA on capital adequacy. The Bank has adopted the Standardised Approach to Credit Risk since inception from 1 January 2007 under the Capital Requirements Directive, more commonly known as Basel II. The Bank also adopted the Standardised Approach to Operational Risk with effect from September 2008.

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

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

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

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

The Bank's policy is to maintain a strong capital base so as to 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 period.

The table overleaf summarises the Bank's regulatory capital, risk-weighted assets and capital ratios. In accordance with the FSA's requirement, the Bank's available capital resources (i.e. regulatory capital) is measured against its capital resources requirement (CRR) as defined under Pillar 1 of Basel II. The FSA has set an Individual Capital Guidance (ICG) for the Bank, calibrated by reference to the CRR. A key input to the FSA's ICG setting process (which addresses the requirements of Pillar 2 under Basel II) is the Bank's Internal Capital Adequacy Assessment Process (ICAAP). The Bank submitted its ICAAP to the FSA in September 2009 and the FSA advised the Bank of its ICG in March 2010.

C HOARE & CO
DIRECTORS' REPORT
FOR THE YEAR ENDED 31 MARCH 2010 (CONTINUED)

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

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

	2010 £000	2009 £000	2009 £000 <i>As Previously Stated</i>
Tier 1 Capital		<i>Restated</i>	
Ordinary share capital	120	120	120
Reserve Fund	22,748	22,748	22,748
Profit and loss account	88,557	78,515	78,515
Available-for-sale reserve losses (equities)	-	(1,223)	(1,223)
Total	111,425	100,160	100,160
Tier 2 Capital			
Property revaluation reserve	14,279	14,279	14,279
Investment property revaluation reserve	3,396	3,376	3,376
Heritage assets revaluation reserve	9,600	9,600	-
Available-for-sale reserve gains (equities)	952	-	-
Collective Impairment Allowance	1,320	1,110	1,110
Total	29,547	28,365	18,765
Total regulatory capital	140,972	128,525	118,925
Risk-weighted assets (unaudited)	885,540	801,817	792,217
Capital ratios (unaudited)			
Total regulatory capital expressed as a percentage of risk weighted assets	15.92%	16.03%	15.01%
Total tier 1 capital expressed as percentage of risk weighted assets	12.58%	12.49%	12.64%

The restatement refers to the changes in accounting policy and relates to the revaluation gain arising on valuation of heritage assets as explained in note 18.

C HOARE & CO
DIRECTORS' REPORT
FOR THE YEAR ENDED 31 MARCH 2010 (CONTINUED)

5. AUDIT AND COMPLIANCE COMMITTEE

The members of the committee are Messrs H C Hoare, Sir D J Hoare, R P Baker-Bates, D Hall and Mrs A S Hopewell and the independent chairman, Mr I R Peacock. The committee meets six times per year, it receives reports from the external auditors, reviews the annual financial statements and receives regular reports from the Internal Audit department, Compliance department, Money Laundering Reporting Officer, and the Data Protection and Risk Officer. Additionally, the committee reviews the operation and effectiveness of the Bank's internal financial procedures. The internal audit department operates to a work programme agreed with the committee based upon risk assessment.

6 PARTNERS AND THE BOARD

During the year, as part of the ongoing process of improving the overall governance of the Bank the Managing Partners adopted a new form of Articles. The Board of the Bank may now comprise both Partners (shareholders) and other Directors (formerly Consultants to the Board).

The Partners welcome the widening of the membership of the principal governance committee of the Bank, which recognises the broad range of skills now needed to supervise a financial institution in an increasingly complex environment.

Directors of the Bank who held office during the year were as follows -

Mr H C Hoare
Sir David Hoare Bt
Mr R Q Hoare OBE
Mr A S Hoare
Miss V E Hoare
Mr S M Hoare
Mrs A S Hopewell
Lord Wilson of Dinton (Chairman), appointed to Board 18th March 2010
Mr R P Baker-Bates, appointed to Board 18th March 2010
Mr D J Hall, appointed to Board 18th March 2010
Mr J S J Marshall (Chief Executive Officer), appointed to Board 18th March 2010
Mr I R Peacock, appointed to Board 18th March 2010

Messrs Wilson, Baker-Bates, Hall, Peacock and Marshall all offer themselves for re-election at the Annual General Meeting to be held on 22nd July 2010.

7. EMPLOYEES

The Bank has 3167 employees on a full time equivalent basis as at 31 March 2010. The Bank is an equal opportunities employer and recruits the most suitable applicant for any given vacancy regardless of race, sex, age or ethnicity. The Bank recognises its obligation to give disabled persons full and fair consideration for all vacancies and to ensure that such persons are not discriminated against on the grounds of their disability. Employees who become disabled during their working life will be retained in employment wherever possible and given help with rehabilitation and training.

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

C HOARE & CO
DIRECTORS' REPORT
FOR THE YEAR ENDED 31 MARCH 2010 (CONTINUED)

8 CHARITABLE CONTRIBUTIONS

During the year charitable donations amounted to £700,000 (2009 *£nil*)

9 AUDITORS

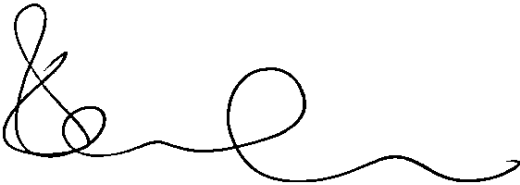
Pursuant to Section 487 of the Companies Act 2006, the auditors will be deemed to be reappointed and KPMG Audit Plc will therefore continue in office

10. 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

By Order of the Board

17 June 2010



D GREEN
Secretary
Registration number 240822

C HOARE & CO
STATEMENT OF DIRECTORS' RESPONSIBILITIES
FOR THE YEAR ENDED 31 MARCH 2010

The directors are responsible for preparing the 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 they have elected to prepare the group and parent company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice)

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 parent company and of their profit or loss for that period

In preparing each of the group and parent company financial statements, the directors are required to

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions

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

We have audited the financial statements of C Hoare & Co for the year ended 31 March 2010 set out on pages 13 to 63. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 11, 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 the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's web-site at www.frc.org.uk/apb/scope/UKNP.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the group's and the parent company's affairs as at 31 March 2010 and of the group's profit for the year then ended,
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

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

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



Nicholas J Edmonds (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
8 Salisbury Square
EC4Y 8B,
London, United Kingdom

17 June 2010

C HOARE & CO AND ITS SUBSIDIARY COMPANIES
CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 MARCH 2010

Continuing Operations:	Notes	2010 £000	2009 £000
Interest income		52,056	89,685
Interest expense		(7,793)	(41,595)
Net interest income	2	<u>44,263</u>	<u>48,090</u>
Other finance cost	3	(1,353)	(603)
Fees and commissions income		16,155	14,785
Fees and commissions expense		(449)	(402)
Net fees and commissions income		<u>15,706</u>	<u>14,383</u>
Net trading income	4	4,474	4,907
Other operating gains /losses	5	3,762	(468)
Total income		<u>66,852</u>	<u>66,309</u>
Operating expenses			
Administrative expenses	6	(42,215)	(33,320)
Depreciation and amortisation		(1,444)	(1,365)
Total operating expenses		<u>(43,659)</u>	<u>(34,685)</u>
Impairment losses on loans and advances		(872)	(4,519)
Impairment recovery/losses on available-for-sale assets		2,141	(11,981)
Profit on ordinary activities before tax		<u>24,462</u>	<u>15,124</u>
Taxation	8	(6,990)	(5,127)
Profit for the financial year	27	<u>17,472</u>	<u>9,997</u>

The notes on pages 18 to 63 form an integral part of these financial statements

C HOARE & CO AND ITS SUBSIDIARY COMPANIES
CONSOLIDATED BALANCE SHEET
31 MARCH 2010

	Notes	2010 £000	2009 £000 <i>Restated¹</i>
ASSETS			
Cash and balances at central banks		221,582	567
Items in course of collection from banks		5,373	7,106
Derivative financial instruments	11	105	295
Loans and advances to banks	12	368,596	222,444
Loans and advances to customers	13	786,055	735,386
Available-for-sale financial assets	15	740,457	877,006
Tangible fixed assets	17	30,340	25,058
Heritage Assets	18	9,600	9,600
Deferred tax	19	102	219
Other assets	20	297	2,529
Prepayments and accrued income	21	5,346	5,415
		<hr/>	<hr/>
Total assets		2,167,853	1,885,625
		<hr/>	<hr/>
LIABILITIES			
Deposits by banks	22	-	128
Customer accounts	23	1,989,921	1,753,852
Derivative financial instruments	11	1,379	494
Other liabilities	24	12,995	6,223
Accruals and deferred income	25	11,246	5,702
Post-retirement benefit liability net of deferred tax	3	14,196	6,172
Called-up share capital	26	120	120
Reserve fund	27	22,748	22,748
Revaluation reserves	27	26,691	11,671
Profit and loss account	27	88,557	78,515
		<hr/>	<hr/>
Shareholders' funds		138,116	113,054
		<hr/>	<hr/>
Total liabilities		2,167,853	1,885,625
		<hr/>	<hr/>

These financial statements were approved by the Directors on 17 June 2010 and were signed on their behalf by



H C HOARE



R Q HOARE


¹ Restated Refer to Note 18

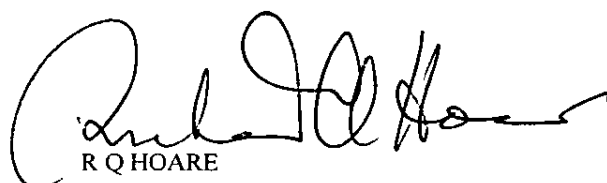
The notes on pages 18 to 63 form an integral part of these financial statements

C HOARE & CO
BALANCE SHEET
31 MARCH 2010

	Notes	2010 £000	2009 £000 <i>Restated¹</i>
ASSETS			
Cash and balances at central banks		221,582	567
Items in course of collection from banks		5,373	7,106
Derivative financial instruments	11	105	295
Loans and advances to banks	12	368,596	222,444
Loans and advances to customers	13	786,055	735,386
Available-for-sale financial assets	15	732,286	812,082
Shares in group undertakings	16	10	10
Loans to subsidiary companies	16	-	35,049
Tangible fixed assets	17	27,260	21,997
Heritage assets	18	9,600	9,600
Deferred tax	19	200	333
Other assets	20	297	3,059
Prepayments and accrued income	21	4,726	4,454
		<hr/>	<hr/>
Total assets		2,156,090	1,852,382
		<hr/>	<hr/>
LIABILITIES			
Deposits by banks	22	-	128
Customer accounts	23	1,989,921	1,753,852
Deposits from subsidiary companies	23	3,804	401
Derivative financial instruments	11	1,379	494
Other liabilities	24	12,922	6,210
Accruals and deferred income	25	11,234	5,687
Post-retirement benefit liability net of deferred tax	3	14,196	6,172
Called-up share capital	26	120	120
Reserve fund	27	21,148	21,148
Revaluation reserves	27	23,209	8,427
Profit and loss account	27	78,157	49,743
		<hr/>	<hr/>
Shareholders' funds		122,634	79,438
		<hr/>	<hr/>
Total liabilities		2,156,090	1,852,382
		<hr/>	<hr/>

These financial statements were approved by the Directors on 17 June 2010 and were signed on their behalf by


H C HOARE


R Q HOARE

¹ Restated Refer to Note 18

The notes on pages 18 to 63 form an integral part of these financial statements

C HOARE & CO AND ITS SUBSIDIARY COMPANIES
CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 MARCH 2010

	Notes	2010 £000	2010 £000	2009 £000	2009 £000
Reconciliation of operating to net cash flows					
Profit on ordinary activities before tax			24,462		15,124
Decrease in prepayments and accrued income			35		1,920
Decrease in other assets			68		804
Increase/ (decrease) in accruals and deferred income			5,544		(6,375)
Increase/ decrease) in other liabilities			6,772		(1,446)
Increase in provisions for bad debts			872		4,519
Loans and advances written off/(back) net of recoveries			39		844
Net charge in respect of defined benefit schemes			1,353		603
Contributions to defined benefit schemes			(500)		-
Depreciation			1,444		1,365
Exchange translation differences on investment securities			3,096		(56)
Profit/ (loss) on sale of investment securities			(2,907)		1,341
Profit on sale of tangible fixed assets			(3)		(15)
Impairment gains/ (losses) on investment securities			(2,141)		11,981
Net cash flow from trading activities			38,134		30,609
Net decrease/ (increase) in cheques in course of collection			1,733		(849)
Net decrease in loans and advances to banks			61,195		144,333
Net increase in customer accounts			236,069		207,379
Net decrease in deposits by banks			(128)		(1,308)
Net increase in loans and advances to customers			(51,580)		(105,392)
Net cash flow from operating activities			285,423		274,772
Taxation					
- United Kingdom corporation tax paid			(9,897)		(2,816)
Capital expenditure and financial investment					
-purchase of investment securities		(3,077,745)		(6,890,352)	
-sale and maturity of investment securities		3,237,290		6,588,153	
-purchase of tangible fixed assets		(6,706)		(1,456)	
-sale of tangible fixed assets		3		15	
Net cash outflow from capital expenditure and financial investment			152,842		(303,640)
Equity dividends paid			(6)		(6)
Increase/ (decrease) in cash	29		428,362		(31,690)

The notes on pages 18 to 63 form an integral part of these financial statements

C HOARE & CO AND ITS SUBSIDIARY COMPANIES
CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
FOR THE YEAR ENDED 31 MARCH 2010

	Notes	2010 £000	2009 £000 <i>Restated</i>
Profit for the financial year		17,472	9 997
Unrealised deficit on revaluation of properties – Land & buildings	27	-	(3,020)
Unrealised surplus/(deficit) on revaluation of properties – Investment properties	27	20	(1,488)
Actuarial loss recognised in the pension scheme	3	(10,292)	(7,969)
Deferred tax arising on loss in the pension scheme		2,742	2,231
Tax credit on additional contributions paid		140	-
		(7,410)	(5 738)
Available-for-sale investments			
Valuation gains/(losses) taken to equity		19,968	(18,910)
Tax arising on valuation gains/(losses) taken to equity		(4,982)	4,107
	27	14,986	(14,803)
Total recognised gains and losses relating to the year		25,068	(15 052)
Prior year adjustment as explained in note 18		9,600	-
Total gains and losses recognised since the last annual report		34,668	(15,052)

The notes on pages 18 to 63 form an integral part of these financial statements.

C HOARE & CO AND ITS SUBSIDIARY COMPANIES
NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31 MARCH 2010

Notes

1 Accounting Policies

Accounting policies have been applied consistently in dealing with amounts which are considered material to the financial statements and are unchanged from 2009, with the exception of the adoption of the new accounting standard as set out below and an amendment to FRS 29 'Financial Instruments Disclosures – Improving Disclosures about Financial Instruments'

- FRS 30 'Heritage Assets'

These changes were adopted for the 31 March 2010 year end and the accounting policies have been amended where the effect of these new standards is relevant

Heritage assets were previously held at historical cost where known, and upon early adoption of FRS 30, the assets are now held at valuation performed by external valuers. The adoption of FRS 30 has resulted in the recognition of heritage assets value of £9.6m from the start of the comparative period of 31 March 2009 and the gain of £9.6m taken to revaluation reserve. The directors, as advised by external valuers, are of the opinion that the prior period values were not materially different from the valuation undertaken as at 31 March 2010. See note 18 for further details.

In FRS 29, the significant additional disclosures required by this amendment includes table of fair value measurements disclosing the source of inputs using a three level fair value hierarchy. This is disclosed in note 34 to the accounts. Prior period comparatives are not required in the first year of adoption and the Bank has not included this information in these accounts.

(a) Basis of Preparation

The financial statements have been prepared under the historical cost basis and on a going concern basis, except that the following assets and liabilities are stated at their fair values: land and buildings, investment properties, heritage assets, financial instruments designated as fair value through the profit or loss or as available-for-sale and derivative contracts. These accounts have been prepared under provisions of Part XV of the Companies Act 2006 relating to Banking Groups, applicable accounting standards and Statements of Recommended Accounting Practice.

(b) Basis of Consolidation

The consolidated financial statements include the results of the Bank and its subsidiary undertakings.

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

(c) Foreign Currencies

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

C HOARE & CO AND ITS SUBSIDIARY COMPANIES
NOTES TO THE ACCOUNTS (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2010

1 ACCOUNTING POLICIES (CONTINUED)

(d) Interest

Interest income and expense are recognised in the profit and loss using the effective interest 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 income statement include

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

(e) Fees and commissions

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

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

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

(f) Net trading income

Net trading income comprises gains less losses related to trading assets and liabilities, and includes all realised and unrealised fair value changes, interest, dividends and foreign exchange differences.

(g) Dividend income

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

(h) Pension Costs

The company operates a 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, since then new staff have been able to join a money purchase scheme. On 1 December 2007 the scheme was closed to future accrual, a "curtailment", and all remaining members were given the option to commence plans with the money purchase scheme.

Pension scheme assets are measured using market values. Pension scheme 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.

C HOARE & CO AND ITS SUBSIDIARY COMPANIES
NOTES TO THE ACCOUNTS (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2010

1 ACCOUNTING POLICIES (CONTINUED)

(h) Pension Costs (continued)

The pension scheme deficit is recognised in full. The movement in the deficit is split between operating charges, finance items and, in the statement of total recognised gains and losses, actuarial gains and losses, in accordance with FRS 17.

The amount charged to the profit and loss account represents the contributions payable to the defined contribution scheme in respect of the accounting period.

(i) Tax

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

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

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

Deferred tax is determined using tax rates that have been enacted or substantially enacted by the balance sheet date which are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax relating to fair value re-measurement of available-for-sale investments which are charged or credited directly to equity, is also credited or charged directly to equity and is subsequently recognised in the profit or loss when the deferred fair value gain or loss is recognised in the profit or loss.

(j) Dividends Payable

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

(k) Cash and Cash Equivalents

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

(l) Classification of financial assets and liabilities

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

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

C HOARE & CO AND ITS SUBSIDIARY COMPANIES

C HOARE & CO AND ITS SUBSIDIARY COMPANIES

NOTES TO THE ACCOUNTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2010

I ACCOUNTING POLICIES (CONTINUED)

(m) Financial assets and liabilities

(i) Recognition

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

(ii) Derecognition

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

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

(iii) Offsetting

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

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

(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.

C HOARE & CO AND ITS SUBSIDIARY COMPANIES
NOTES TO THE ACCOUNTS (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2010

1. ACCOUNTING POLICIES (CONTINUED)

v) Fair value measurement

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

The Bank has applied 'Improving Disclosures about Financial Instruments' (Amendment to FRS29) issued in May 2009 that requires enhanced disclosures about fair value measurement and liquidity risk in respect of financial instruments.

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

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

These disclosures are included in note 34 to the accounts.

(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 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 on the asset 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 has 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 or 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 cash flows discounted at the assets' original effective interest rate. Losses are recognised in the profit or loss and reflected in an allowance account against loans and advances. Interest on the impaired asset continues to be recognised through the unwinding of the discount.

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

C HOARE & CO AND ITS SUBSIDIARY COMPANIES
NOTES TO THE ACCOUNTS (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2010

1. ACCOUNTING POLICIES (CONTINUED)

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

(n) Loans and advances to banks and customers

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

(o) Derivative financial instruments

(i) Derivative financial instruments

Derivatives are financial instruments that derive their value from changes in response to changes in 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 exchange rates.

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

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

(ii) Derivative instruments and hedging activities

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

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

C HOARE & CO AND ITS SUBSIDIARY COMPANIES
NOTES TO THE ACCOUNTS (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2010

I ACCOUNTING POLICIES (CONTINUED)

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

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

When a fair value hedge is discontinued, the hedged asset or liability is no longer adjusted for changes in fair value and the existing basis adjustment is amortised or accreted over the remaining life of the asset or liability. When a cash flow hedge is discontinued but the hedged cash flow or forecasted transaction is still expected to occur, gains and losses that were accumulated in reserves are amortised or accreted into the profit and loss account. Gains and losses are recognised in the profit and loss account immediately if the cash flow hedge was discontinued because a forecasted transaction did not occur.

(p) Fixed Assets and depreciation

- (i) Land and buildings and investment properties are included at the latest professional market valuation.
- (ii) Depreciation is provided on all operational fixed assets from the date brought into use, other than on land and buildings, at rates calculated to write off the cost, less estimated residual value, of each asset over its expected life (3-10 years). No depreciation is charged on land and buildings as the Directors consider the amount to be immaterial. No depreciation is provided in respect of investment properties in accordance with SSAP19.
- (iii) Land and buildings are stated at fair value with the surplus or deficit on book value being transferred to the revaluation reserve, except that a deficit which is in excess of any previously recognised surplus over depreciated cost relating to the same property, or the reversal of such a deficit, is charged (or credited) to the profit and loss account. A deficit which represents a clear consumption of economic benefits is charged to the profit and loss account regardless of any such previous surplus.

(q) Investment Property

Investment properties are properties that are held to earn rental income and for capital appreciation. Properties are stated at fair value.

C HOARE & CO AND ITS SUBSIDIARY COMPANIES
NOTES TO THE ACCOUNTS (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2010

1 ACCOUNTING POLICIES (CONTINUED)

(r) Heritage Assets

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

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

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

(s) Classification of financial instruments issued by the Bank

The Bank does not issue financial instruments other than the Ordinary Shares arising from the incorporation in 1929.

(t) Investment in subsidiaries

The Bank's investments in subsidiaries are stated at cost less any impairment losses.

C HOARE & CO AND ITS SUBSIDIARY COMPANIES
NOTES TO THE ACCOUNTS (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2010

2 NET INTEREST INCOME	2010	2009
	£000	£000
Interest income		
Available-for-sale investments	9,587	33,192
Loans and advances to customers	40,099	42,892
Loans and advances to banks	2,370	13,601
	<u>52,056</u>	<u>89,685</u>
Interest expense		
Deposits from customers and banks	(7,017)	(41,583)
Derivative liabilities	(776)	(12)
	<u>(7,793)</u>	<u>(41,595)</u>
 Net interest income	 <u>44,263</u>	 <u>48,090</u>

Included within interest income is £1,468,000 (2009 £297,000) in respect of impaired financial assets

C HOARE & CO AND ITS SUBSIDIARY COMPANIES
NOTES TO THE ACCOUNTS (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2010

3 PENSION AND OTHER POST-RETIREMENT BENEFITS

The Bank operated a defined benefit pension scheme until 1 December 2007 when it was closed to further accrual and all staff that were then members were made deferred members, all benefits accrued to that date were enhanced and then preserved. Contributions to the defined benefit scheme for the year ended 31 March 2010 were £500,000 (2009 £nil) and there was no charge to the profit and loss (2009 £nil). The Bank now operates a money purchase scheme which has become the main retirement scheme for all employees, the cost for the period of that scheme was £2,624,000 (2009 £2,282,000). There were no outstanding or prepaid contributions to the defined benefit scheme at either the beginning or the end of the financial year.

The pension scheme assets are held in a separate trustee-administered fund to meet long-term liabilities to past and present employees. The Trustee of the fund is required to act in the best interest of the scheme's beneficiaries. The scheme's trustee is Hoares Bank Pension Trustees Limited. The appointment of directors to the 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 Bank has applied the recognition and measurement requirements of FRS17 Revised 'Retirement benefits' along with the Accounting Standards Board Reporting statement Retirement benefits disclosures, in preparing these financial statements.

The principal actuarial assumptions at the balance sheet date were

	2010	2009
	%	%
Rate of increase in salaries	n/a	n/a
Rate of increase in pensions in payment and deferred pensions	3.70	3.00
Discount rate at 31 March	5.50	6.80
Expected return on plan assets at 31 March		
- Equities	7.50	7.50
- LDI Investments	5.50	4.70
- Property	6.00	6.00
- Other & cash	0.50	0.50
Inflation assumption	3.70	3.00

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

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

	2010	2009
Retiring today		
Males	28.6	28.5
Females	31.7	31.7
Retiring in 20 years time		
Males	29.7	29.7
Females	32.8	32.7

C HOARE & CO AND ITS SUBSIDIARY COMPANIES
NOTES TO THE ACCOUNTS (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2010

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

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

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

Assumption	<i>Change in Assumption</i>	<i>Impact on scheme liabilities</i>
Discount rate	+/- 0.5%	-/+£ 7.8m
Rate of life expectations upon retirement at aged 60	<i>Increase by 1 year</i>	+ £2.2m
Rate of increase in pensions payable and deferred pensions	+/- 0.5%	+/- £8.1m

Scheme assets and liabilities

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

The liabilities of the defined scheme are measured by discounting the best estimate of future cash flows to be paid out by the scheme using the projected unit method. This amount is reflected in the scheme surplus or deficit as detailed below. As at 31 March 2010, the valuations of scheme assets less liabilities show a deficit of £19,717,000.

An alternative method of valuation to the projected unit method is a solvency basis, this is the cost of buying out the existing pensions in payment and the accrued entitlements of the current and deferred members as at the balance sheet date. As at 31 March 2010 this was calculated to be £132m (2009 £116m).

C HOARE & CO AND ITS SUBSIDIARY COMPANIES
NOTES TO THE ACCOUNTS (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2010

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

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

	2010	<i>2009</i>	<i>2008</i>	<i>2007</i>	<i>2006</i>
	£000	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Equities	31,287	<i>18,580</i>	<i>24,438</i>	<i>25,209</i>	<i>20,540</i>
LDI Investment	45,745	<i>38,117</i>	<i>-</i>	<i>-</i>	<i>-</i>
Bonds	-	<i>-</i>	<i>36,124</i>	<i>31,336</i>	<i>32,098</i>
Property	1,960	<i>8,069</i>	<i>11,748</i>	<i>11,679</i>	<i>9,432</i>
Other and cash	1,199	<i>914</i>	<i>7,969</i>	<i>5,433</i>	<i>3,517</i>
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total market value of assets	80,191	<i>65,680</i>	<i>80,279</i>	<i>73,657</i>	<i>65,587</i>
Present value of scheme liabilities	(99,908)	<i>(74,252)</i>	<i>(78,023)</i>	<i>(90,289)</i>	<i>(79,667)</i>
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Deficit in scheme	(19,717)	<i>(8,572)</i>	<i>2,256</i>	<i>(16,632)</i>	<i>(14,080)</i>
Related deferred tax asset	5,521	<i>2,400</i>	<i>(631)</i>	<i>4,990</i>	<i>4,224</i>
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Net pension scheme liability	(14,196)	<i>(6,172)</i>	<i>1,625</i>	<i>(11,642)</i>	<i>(9,856)</i>

Changes in the fair value of the scheme assets	2010	<i>2009</i>
	£000	<i>£000</i>
Opening fair value of scheme assets	65,680	<i>80,279</i>
Expected return	3,566	<i>4,671</i>
Actual less expected gains and (losses)	14,274	<i>(16,084)</i>
Contributions from employer	500	<i>-</i>
Benefits paid	(3,829)	<i>(3,186)</i>
	<hr/>	<hr/>
Closing fair value of scheme assets	80,191	<i>65,680</i>

C HOARE & CO AND ITS SUBSIDIARY COMPANIES
NOTES TO THE ACCOUNTS (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2010

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

Changes in the present value of the pension obligation	2010	2009
	£000	£000
Opening pension obligation	74,252	78,023
Service cost	-	-
Past service cost	-	-
Interest cost	4,919	5,274
Actuarial losses/ (gains)	24,566	(5,859)
Benefits paid	(3,829)	(3,186)
	<hr/>	<hr/>
Closing pension obligation	99,908	74,252
	<hr/>	<hr/>

Movement in deficit during the year	2010	2009	2008
	£000	£000	£000
(Deficit) /surplus as at 1 April	(8,572)	2,256	(16,632)
Current service cost	-	-	(1,095)
Past service cost	-	-	(2,624)
Curtailment	-	-	2,502
Employer contributions	500	-	10,200
Other financial cost	(1,353)	(603)	(176)
Actuarial losses	(10,292)	(10,225)	10,081
	<hr/>	<hr/>	<hr/>
Deficit as at 31 March	(19,717)	(8,572)	2,256
	<hr/>	<hr/>	<hr/>

The surplus in 2008 of £2,256,000 was not deemed recoverable from the scheme nor could it be utilised to off-set future contributions and therefore it was not recognised on the Bank's balance sheet. There was an adjustment to the actuarial gains passing through the statement of total recognised gains and losses to reflect this treatment. This adjustment was reversed at 31 March 2009 as the scheme went back into a deficit.

C HOARE & CO AND ITS SUBSIDIARY COMPANIES
NOTES TO THE ACCOUNTS (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2010

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

The following items are recognised in the profit and loss account and the statement of total recognised gains and losses

Analysis of other pension costs charged in arriving at the operating profit	2010 £000	2009 £000
In respect of defined benefit scheme		
Current service cost	-	-
Past service cost	-	-
	<hr/>	<hr/>
In respect of money purchase scheme		
Current service cost	2,624	2,282
	<hr/>	<hr/>
Total operating charge	2,624	2,282
	<hr/>	<hr/>
Analysis of other finance cost		
Interest on liabilities	4,919	5,274
Expected return on assets	(3,566)	(4,671)
	<hr/>	<hr/>
	1,353	603
	<hr/>	<hr/>

The expected return on the scheme assets is arrived at by applying the expected returns on plan assets at 31 March 2009, as detailed above, to the scheme assets at the same date to estimate a full year's income for 2009/10. The expected returns on bonds are an estimate of the yield to redemption for an average portfolio, for equities it is the expected long term return from distributions and capital growth and for property and cash it is the expected long term returns on deposits. These values are provided by the Bank's independent actuaries.

C HOARE & CO AND ITS SUBSIDIARY COMPANIES
NOTES TO THE ACCOUNTS (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2010

3 PENSION AND OTHER POST-RETIREMENT BENEFITS (CONTINUED)

Analysis of statement of total recognised gains and losses (STRGL)	2010 £000	2009 £000	2008 £000	2007 £000	2006 £000
Actual return less expected return on assets	14,274	(16,084)	(4,526)	2,211	6,415
Experience gains and losses arising on liabilities	2,182	311	2,250	400	427
Changes in assumptions	(26,748)	5,548	12,357	(8,430)	(7,672)
Actuarial (loss)/gain	(10,292)	(10,225)	10,081	(5,819)	(830)
Adjustment to reversal/ (recognition) of balance sheet asset	-	2,256	(2,256)	-	-
Actuarial (loss) /gain recognised in STRGL	(10,292)	(7,969)	7,825	(5,819)	(830)
Actual return less expected return on assets as a percentage of scheme assets	17.80%	-24.48%	-5.64%	3.00%	9.78%
Experience gains and losses arising on liabilities as a percentage of the present value of scheme liabilities	2.18%	0.42%	2.88%	0.44%	0.54%
Actuarial gain/ (loss) as a percentage of the present value of scheme liabilities	-10.30%	-13.77%	12.92%	-6.44%	1.04%

Future funding obligations

The most recent triennial actuarial valuation was carried out as at 1 April 2007 and then revised to 1 December 2007 in conjunction with the "curtailment" (closure to further accrual). Following that review it was agreed regular employer contributions would cease and the Bank would only make further contributions as and when agreed with the trustee. Having made no contributions during 2008/09, the Bank recommenced contribution in the current financial year paying £500,000 into the scheme.

The Bank is continuing to work with the trustee to explore ways to stabilise the scheme deficit through an investment strategy to minimise the mismatch between the liabilities and the assets of the scheme, to this end the portfolio of Liability Driven Investments was enhanced to provide inflation protection in addition to interest rate protection and to further improve the match between the scheme's assets and the scheme's liability profile.

The Bank has also established a pledged asset in its balance sheet for the benefit of the scheme. This is comprised of a charged deposit in favour of the Pension Fund Trustee held with the Royal Bank of Scotland. The balance at 31 March 2010 was £8,572,000, matching the last reported deficit as at 31 March 2009.

C HOARE & CO AND ITS SUBSIDIARY COMPANIES
NOTES TO THE ACCOUNTS (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2010

3 PENSION AND OTHER POST-RETIREMENT BENEFITS (CONTINUED)

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

The scheme's assets are invested in a range of funds according to the statement of investment principles (SIP) This was developed in conjunction with the trustee and its appointed investment advisors The spread of investments at 31 March 2010 was as follows

% of total scheme assets	Planned 2010/11 SIP	31 March 2010	31 March 2009
LDI Investments	55%	57%	59%
Global Equities	30%	30%	28%
Property	5%	3%	12%
Diversified Growth	10%	9%	-
Cash	-	1%	1%
Total	100%	100%	100%

The trustee has appointed Lane Clark and Peacock as investment advisors to the scheme Through them, Legal & General, Barings, Standard Life and Russell Investments manage the scheme's investment portfolio day to day through unitised funds and OEICs in accordance with the SIP This ensures that the 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 advisors and monitors these against fund benchmarks

C HOARE & CO AND ITS SUBSIDIARY COMPANIES
NOTES TO THE ACCOUNTS (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2010

4 NET TRADING INCOME

	2010	2009
	£000	£000
Dealing profits	4,547	5,083
Decrease in value of derivative contracts	(73)	(176)
	4,474	4,907

5 OTHER OPERATING GAINS/ LOSSES

	2010	2009
	£000	£000
Rental income	528	455
Profit on sale of fixed assets	3	15
Hedging result	186	-
Dividend income on available-for-sale equity investments	138	403
Gains/(losses) on sale of available-for-sale investments	2,907	(1,341)
	3,762	(468)

C HOARE & CO AND ITS SUBSIDIARY COMPANIES
NOTES TO THE ACCOUNTS (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2010

6 ADMINISTRATIVE EXPENSES

	2010	2009
	£000	£000
Staff costs		
-wages and salaries	23,216	16,234
-social security costs	2,771	1,816
-pension costs	2,624	2,282
Other administrative expenses	13,604	12,988
	42,215	33,320

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

	2010	2009
Full time	264.2	241.6
Part time	14.5	18.2
Contractors and agency staff	22.2	27.7
	300.9	287.5

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

AUDITORS' REMUNERATION

	2010	2009
	£000	£000
Fee payable to the Bank's auditor for the audit of the Bank's annual accounts	112	117
All other services	18	33
	130	150

C HOARE & CO AND ITS SUBSIDIARY COMPANIES
NOTES TO THE ACCOUNTS (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2010

7 EMOLUMENTS OF DIRECTORS	2010 £000	2009 £000
Total emoluments	4,555	2,347
Pension contributions	99	71
Supplementary pensions paid to former Directors' widows	78	158
	4,732	2,576
Highest paid Director		
- emoluments	820	510
- pension contributions	0	0
- accrued pension entitlement	209	209
	0	0
Number of Directors accruing benefits under the Bank's pension scheme at the year end	0	0

The Bank's pension scheme was closed to further accrual with effect from 1 December 2007, the four Directors who were accruing benefits at that date then became deferred members

C HOARE & CO AND ITS SUBSIDIARY COMPANIES
NOTES TO THE ACCOUNTS (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2010

8. TAX ON GROUP PROFIT ON ORDINARY ACTIVITIES

<u>Current tax</u>	2010	2010	<i>2009</i>	<i>2009</i>
	£000	£000	<i>£000</i>	<i>£000</i>
UK corporation tax on profits of the period	7,109		5,365	
Adjustments in respect of previous periods	<u>2</u>		<u>25</u>	
Total current tax (see note 8 (a))		7,111		5,390
Deferred tax (see note 8 (b))		(121)		(263)
Total tax on ordinary activities		<u>6,990</u>		<u>5,127</u>

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

The tax assessed for the period is lower than the standard rate of corporation tax in the UK of 28%
The differences are explained below -

	2010	<i>2009</i>
	£000	<i>£000</i>
Profit on ordinary activities before tax	<u>24,462</u>	<u>15,124</u>
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 28%	6,849	4,235
Effects of		
21% corporation tax on subsidiary company	(7)	(6)
Permanent disallowables	45	35
Timing differences on capital allowances	(117)	69
Pension contributions	239	169
Indexation allowance	-	-
Income from post-tax profits Dividends	(1)	(111)
Unrelieved capital losses	101	974
Adjustment to tax charge in respect of previous periods	2	25
Current tax charge for the period (note 8)	<u>7,111</u>	<u>5,390</u>

8(b) Factors affecting the deferred taxation charge

Timing difference on capital allowances	118	(69)
Prior year adjustment	-	(25)
Deferred tax on pension scheme	(239)	(169)
Deferred tax (credit)/charge	<u>(121)</u>	<u>(263)</u>

In addition to the tax charge in the profit and loss account detailed above, £2,742,000 (2009 £2,231,000) has been credited to the statement of total recognised gains and losses in respect of actuarial losses in the pension scheme. As the bank paid additional pension contributions in excess of the service costs for the scheme (see note 3) a tax credit of £140,000 (2009 £nil) has been included in the statement of total recognised gains and losses.

C HOARE & CO AND ITS SUBSIDIARY COMPANIES
NOTES TO THE ACCOUNTS (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2010

9. GROUP PROFIT DEALT WITH IN THE ACCOUNTS OF C HOARE & CO

£35,830,000 (2009 £12,174,000) of the group profit attributable to shareholders has been dealt with in the accounts of C Hoare & Co, this includes a dividend of £20,000,000 (2009 £nil) received from a subsidiary company. As permitted by Section 408 of the Companies Act 2006, the profit and loss account of C Hoare & Co has not been presented separately.

10. DIVIDENDS

The aggregate of dividends comprises

	2010 per share	2009 per share	2010 £000	2009 £000
Ordinary shares (declared)	£50	£50	6	6

C HOARE & CO AND ITS SUBSIDIARY COMPANIES
NOTES TO THE ACCOUNTS (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2010

11. DERIVATIVE FINANCIAL INSTRUMENTS

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

	2010 Notional amount Group and Company £000	2010 Fair value Group and Company £000	2009 Notional amount Group and Company £000	2009 Fair value Group and Company £000
Derivative assets				
Trading				
Exchange rate contracts				
Forward foreign exchange contracts	56,499	105	150,468	284
Options purchased	-	-	6,980	11
Total derivative assets	56,499	105	157,448	295
Derivative liabilities				
Trading				
Exchange rate contracts.				
Forward foreign exchange contracts	48,677	114	71,856	124
Interest rate contracts				
Interest rate swaps – Trading	4,000	265	9,000	370
Interest rate swaps – Hedging instruments	31,935	1,000	-	-
Total derivative liabilities	84,612	1,379	80,856	494

12. LOANS AND ADVANCES TO BANKS

	2010 Group £000	2010 Company £000	2009 Group £000	2009 Company £000
Repayable on demand	216,270	216,270	8,923	8,923
Other loans and advances				
Remaining maturity				
- over 5 years	15,892	15,892	4,133	4,133
- over 1 year but less than 5 years	-	-	-	-
- 1 year or less but over 3 months	-	-	4,188	4,188
- 3 months or less	136,434	136,434	205,200	205,200
	368,596	368,596	222,444	222,444

C HOARE & CO AND ITS SUBSIDIARY COMPANIES
NOTES TO THE ACCOUNTS (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2010

13 LOANS AND ADVANCES TO CUSTOMERS

	2010	2010	<i>2009</i>	<i>2009</i>
	Group	Company	<i>Group</i>	<i>Company</i>
	£000	£000	<i>£000</i>	<i>£000</i>
Other loans and advances				
Remaining maturity				
-over 5 years	17,997	17,997	17,080	17,080
-5 years or less but over 1 year	43,470	43,470	39,592	39,592
-1 year or less but over 3 months	9,743	9,743	12,014	12,014
-3 months or less	721,993	721,993	673,015	673,015
Allowance for impairment losses (note 14)	(7,148)	(7,148)	(6,315)	(6,315)
	<hr/>	<hr/>	<hr/>	<hr/>
Total loans and advances to customers	786,055	786,055	735,386	735,386
	<hr/>	<hr/>	<hr/>	<hr/>
Of which repayable on demand or at short notice	712,489	712,489	660,326	660,326
	<hr/>	<hr/>	<hr/>	<hr/>

14 ALLOWANCE FOR IMPAIRMENT LOSSES ON LOANS AND ADVANCES

	2010	<i>2009</i>
	£000	<i>£000</i>
Specific allowances for impairment		
Balance at 1 April	5,205	2,230
Impairment loss for the year		
Charge for the year	3,150	4,061
Recoveries	(2,488)	(242)
Net charge/(recovery)	<hr/> 662	<hr/> 3,819
Write-offs	<hr/> (39)	<hr/> (844)
Balance at 31 March	<hr/> 5,828	<hr/> 5,205
Collective allowance for impairment		
Balance at 1 April	1,110	410
Impairment loss for the year		
Charge for the year	<hr/> 210	<hr/> 700
Balance at 31 March	<hr/> 1,320	<hr/> 1,110
Total specific and collective impairment allowances	<hr/> 7,148	<hr/> 6,315

C HOARE & CO AND ITS SUBSIDIARY COMPANIES
NOTES TO THE ACCOUNTS (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2010

15 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2010	2010	2009	2009
	Group	Company	Group	Company
	£000	£000	£000	£000
Treasury bills	-	-	149,980	149,980
Government securities	-	-	19,861	-
Bank and building society - certificates of deposit	475,700	475,700	405,180	405,180
Bank and building society - other securities	231,633	231,633	251,029	251,029
Equity securities	11,477	-	25,055	-
Commercial paper	-	-	9,992	9,992
Unquoted equity securities at cost	1	1	1	1
Debt securities with readily determinable fair values	30,000	30,000	28,145	5,998
Less specific allowances for impairment	(8,354)	(5,048)	(12,237)	(10,098)
Total available-for-sale financial assets	740,457	732,286	877,006	812,082

At 31 March 2010, a subsidiary company had uncalled subscription monies payable in respect of equity shares of £1,200,000 (2009 £1,816,000)

C HOARE & CO AND ITS SUBSIDIARY COMPANIES
NOTES TO THE ACCOUNTS (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2010

16. INVESTMENT IN SUBSIDIARIES

The Company has the following investments in subsidiaries

Activity	%	2010	2009
	Owned	£000	£000
Shares at cost			
Messrs Hoare Trustees 20 shares of No Par Value	Trustee company 100	-	-
Mitre Court Property Holding Company 10,000 Ordinary £1 shares	Property investment 100	10	10
Hoare's Bank Pension Trustees Limited 1 Ordinary £1 share	Pension scheme trustee 100	-	-
Hoares Bank Nominees Limited 72 ordinary £1 shares	Nominee company 100	-	-
Total		10	10
Advances		-	35,049

All companies are incorporated in Great Britain and are 100% owned directly by C Hoare & Co. There has been no change in ownership during the financial year.

17. TANGIBLE FIXED ASSETS

Group	Land and Buildings £000	Investment Properties £000	Equipment £000	Total £000
Cost or valuation 1 April 2009	14,800	6,836	17,972	39,608
Additions	3,744	-	2,962	6,706
Disposals	-	-	(38)	(38)
Revaluations	-	20	-	20
31 March 2010	18,544	6,856	20,896	46,296
Depreciation 1 April 2009	-	-	14,550	14,550
Charge for year	-	-	1,444	1,444
Disposals	-	-	(38)	(38)
31 March 2010	-	-	15,956	15,956
Net book value 31 March 2010	18,544	6,856	4,940	30,340
Net book value 31 March 2009	14,800	6,836	3,422	25,058

C HOARE & CO AND ITS SUBSIDIARY COMPANIES
NOTES TO THE ACCOUNTS (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2010

17 TANGIBLE FIXED ASSETS (continued)

Company	Land and Buildings £000	Investment Properties £000	Equipment £000	Total £000
Cost or valuation				
1 April 2009	14,800	3,775	17,972	36,547
Additions	3,744	-	2,962	6,706
Disposals	-	-	(38)	(38)
Revaluations	-	-	-	-
31 March 2010	18,544	3,775	20,896	43,215
Depreciation				
1 April 2009	-	-	14,550	14,550
Charge for year	-	-	1,443	1,443
Disposals	-	-	(38)	(38)
31 March 2010	-	-	15,955	15,955
Net book value 31 March 2010	18,544	3,775	4,941	27,260
Net book value 31 March 2009	14,800	3,775	3,422	21,997
	2010 Group £000	2010 Company £000	2009 Group £000	2009 Company £000
Land and buildings occupied for own activities				
Net book value	15,500	15,500	14,000	14,000
At cost				
Land and buildings	4,235	4,235	491	491
Investment properties	3,490	2,939	3,490	2,939
	7,725	7,174	3,981	3,430
Future capital expenditure				
-contracted but not provided in the accounts	3,324	3,324	1,296	1,296

All land and buildings and investment properties were valued on the 31 March 2009 by Mr J Ball BA MRICS of Atsreal, Chartered Surveyors. The Directors are not aware of any material change in value and therefore the valuations are the same as last year.

All valuations are on the basis of open market values. Deferred tax has not been recognised on the potential capital gains arising from the sale of the land and buildings or investment properties as there is no current contract or intention to sell. The latest estimate of capital gains tax is £nil on the property portfolio due to net losses.

C HOARE & CO AND ITS SUBSIDIARY COMPANIES
NOTES TO THE ACCOUNTS (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2010

18 HERITAGE ASSETS

Valuation	2010	2010	2010	2009	2009	2009
	Paintings £000	Artefacts £000	Total £000	Paintings £000	Artefacts £000	Restated Total £000
1 April (restated)	8,300	1,300	9,600	8,300	1,300	9,600
Movement	-	-	-	-	-	-
31 March	8,300	1,300	9,600	8,300	1,300	9,600

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

Following the introduction of FRS 30 (Accounting for Heritage Assets) in June 2009 the Board commissioned an external valuer (Messrs Christie's) to undertake a full valuation of the collection as at 31 March 2010.

The valuations were based on commercial markets, including recent transaction information from auctions where similar types of paintings held by the Bank and the figure included in the accounts is based on the lower end of the range indicated. The surplus arising as a result of the inclusion of these assets at valuation has been taken to revaluation reserves (note 27).

Heritage assets were previously held at historical cost where known, and upon early adoption of FRS30, the assets are now held at valuation performed by external valuers. The adoption of FRS30 has resulted in the recognition of heritage assets value of £9.6m from the start of the comparative period of 31 March 2009 and the gain of £9.6m taken to revaluation reserve. The directors, as advised by external valuers, are of the opinion that the prior period values were not materially different from the valuation undertaken as at 31 March 2010.

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 are not open to the public, although access is permitted to historians and others for research purposes.

C HOARE & CO AND ITS SUBSIDIARY COMPANIES
NOTES TO THE ACCOUNTS (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2010

19 DEFERRED TAX

Deferred tax assets are attributable to the following

	2010	2010	<i>2009</i>	<i>2009</i>
	Group	Company	<i>Group</i>	<i>Company</i>
	£000	£000	<i>£000</i>	<i>£000</i>
Fixed assets (equipment)	107	107	225	225
Unamortised balance of transition to FRS26 on 1 April 2006	(5)	93	(6)	108
	<hr/>	<hr/>	<hr/>	<hr/>
Total deferred tax assets	102	200	<i>219</i>	<i>333</i>
	<hr/>	<hr/>	<hr/>	<hr/>

The deferred tax balance at 31 March 2010 does not include any amounts in respect of the Bank's post-retirement pension scheme liability which is shown on the balance sheet after deduction of a deferred tax asset of £5,521,000 (*2009 £2,400,000*)

20 OTHER ASSETS

	2010	2010	<i>2009</i>	<i>2009</i>
	Group	Company	<i>Group</i>	<i>Company</i>
	£000	£000	<i>£000</i>	<i>£000</i>
Corporation tax	-	-	2,197	2,727
Settlement balances	283	283	328	328
Other assets	14	14	4	4
	<hr/>	<hr/>	<hr/>	<hr/>
	297	297	<i>2,529</i>	<i>3,059</i>
	<hr/>	<hr/>	<hr/>	<hr/>

C HOARE & CO AND ITS SUBSIDIARY COMPANIES
NOTES TO THE ACCOUNTS (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2010

21. PREPAYMENTS AND ACCRUED INCOME

	2010	2010	<i>2009</i>	<i>2009</i>
	Group	Company	<i>Group</i>	<i>Company</i>
	£000	£000	<i>£000</i>	<i>£000</i>
Interest receivable	3,488	3,488	3,974	3,255
Other debtors and prepayments	1,858	1,238	1,441	1,199
	<u>5,346</u>	<u>4,726</u>	<u>5,415</u>	<u>4 454</u>

22. DEPOSITS BY BANKS

	2010	2010	<i>2009</i>	<i>2009</i>
	Group	Company	<i>Group</i>	<i>Company</i>
	£000	£000	<i>£000</i>	<i>£000</i>
Repayable on demand	-	-	128	128

23. CUSTOMER ACCOUNTS

	2010	2010	<i>2009</i>	<i>2009</i>
	Group	Company	<i>Group</i>	<i>Company</i>
	£000	£000	<i>£000</i>	<i>£000</i>
With agreed maturity dates or periods of notice				
By remaining maturity				
-2 years or less but over 1 year	11,000	11,000	-	-
-1 year or less but over 3 months	50,838	50,838	3,992	3,992
-3 months or less but not repayable on demand	793,471	793,471	916,809	916,809
	<u>855,309</u>	<u>855,309</u>	<u>920,801</u>	<u>920,801</u>
Repayable on demand	1,134,612	1,134,612	833,051	833,051
	<u>1,989,921</u>	<u>1,989,921</u>	<u>1,753,852</u>	<u>1,753,852</u>
Including amount due to the Pension Fund	680	680	239	239
	<u>680</u>	<u>680</u>	<u>239</u>	<u>239</u>
Amount due to Subsidiary Companies		3,804		401

C HOARE & CO AND ITS SUBSIDIARY COMPANIES
NOTES TO THE ACCOUNTS (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2010

24 OTHER LIABILITIES

	2010	2010	2009	2009
	Group	Company	Group	Company
	£000	£000	£000	£000
Corporation tax	5,565	5,509	-	-
Settlement balances	7,413	7,413	6,015	6,015
Other liabilities	17	-	208	195
	<u>12,995</u>	<u>12,922</u>	<u>6,223</u>	<u>6,210</u>

25 ACCRUALS AND DEFERRED INCOME

	2010	2010	2009	2009
	Group	Company	Group	Company
	£000	£000	£000	£000
Interest payable	838	838	1,129	1,129
Other creditors and accruals	10,408	10,396	4,573	4,558
	<u>11,246</u>	<u>11,234</u>	<u>5,702</u>	<u>5,687</u>

26 CALLED UP SHARE CAPITAL

	2010	2010	2009	2009
	Group	Company	Group	Company
	£000	£000	£000	£000
Authorised, allotted, called-up and fully paid				
120 Ordinary shares of £1,000	120	120	120	120
	<u>120</u>	<u>120</u>	<u>120</u>	<u>120</u>

C HOARE & CO AND ITS SUBSIDIARY COMPANIES
NOTES TO THE ACCOUNTS (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2010

27 RESERVES	2010 Group £000	2010 Company £000	2009 Group £000	2009 Company £000
(i) Reserve fund				
At 1 April	22,748	21,148	22,748	21,148
Movement for the year	-	-	-	-
31 March	<u>22,748</u>	<u>21,148</u>	<u>22,748</u>	<u>21,148</u>

The Directors are authorised under the Articles of Association to set aside such profits as they think proper in the form of a Reserve Fund. This Reserve Fund can be applied in any purpose to which the profits of the Bank may be properly applied.

	2010 Group £000	2010 Company £000	2009 Group £000	2009 Company £000
(ii) Property revaluation reserve				
At 1 April	14,279	14,279	12,329	12,329
Transfer	-	-	4,970	4,970
Movement for the year	-	-	(3,020)	(3,020)
31 March	<u>14,279</u>	<u>14,279</u>	<u>14,279</u>	<u>14,279</u>
(iii) Investment property revaluation reserve				
At 1 April	3,376	866	9,834	6,969
Transfer	-	-	(4,970)	(4,970)
Movement for the year	20	-	(1,488)	(1,133)
31 March	<u>3,396</u>	<u>866</u>	<u>3,376</u>	<u>866</u>
iv) Heritage assets revaluation reserve (following adoption of FRS 30)				
At 1 April restated	9,600	9,600	9,600	9,600
Movement for the year	-	-	-	-
31 March	<u>9,600</u>	<u>9,600</u>	<u>9,600</u>	<u>9,600</u>

C HOARE & CO AND ITS SUBSIDIARY COMPANIES
NOTES TO THE ACCOUNTS (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2010

27. RESERVES (CONTINUED)	2010 Group £000	2010 Company £000	2009 Group £000	2009 Company £000
(v) Available-for-sale reserve				
At 1 April	(15,584)	(16,318)	(781)	(4,373)
Fair value gains/(losses) taken to equity	15,430	13,829	(16,289)	(13,330)
Amounts transferred to profit and loss	(444)	953	1,486	1,385
Net Movement	14,986	14,782	(14,803)	(11,945)
Transfer from profit and loss reserve	14	-	-	-
31 March	(584)	(1,536)	(15,584)	(16,318)
Total revaluation reserves	26,691	23,209	11,671	8,427
(vi) Profit and loss account				
At 1 April	78,515	49,743	74,262	43,313
Losses recognised under FRS 17	(7,410)	(7,410)	(5,738)	(5,738)
Retained profit for the year	17,472	35,830	9,997	12,174
Transfer to Available-for-Sale Reserve	(14)	-	-	-
Dividends paid	(6)	(6)	(6)	(6)
31 March	88,557	78,157	78,515	49,743
(vii) Total reserves	137,996	122,514	112,934	79,318
Reconciliation of movement in shareholders' funds	2010 £000		2009 £000	
Opening shareholders' funds as previously stated	113,054		118,512	
Prior year adjustment (see note 18)	-		9,600	
Opening shareholders' funds as restated	113,054		128,112	
Profit for the financial year	17,472		9,997	
Dividends	(6)		(6)	
Available-for-sale reserve gains/ (losses)	19,968		(18,910)	
Deferred tax thereon	(4,982)		4,107	
Property revaluation reserve gains/ (losses)	20		(4,508)	
Actuarial losses	(10,292)		(7,969)	
Deferred tax and tax credits thereon	2,882		2,231	
Closing shareholders' funds	138,116		113,054	

C HOARE & CO AND ITS SUBSIDIARY COMPANIES
NOTES TO THE ACCOUNTS (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2010

28 CONTINGENT LIABILITIES AND COMMITMENTS

The table below discloses the nominal principal amounts of contingent liabilities and commitments undertaken for customers as at 31 March 2010

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

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

	2010 Group £000	2010 Company £000	2009 Group £000	2009 Company £000
Guarantees	<u>26,651</u>	<u>26,651</u>	<u>23,015</u>	<u>23,015</u>
Letters of credit	5,451	5,451	5,165	5,165
Performance bonds and other transaction-related contingencies	1,564	1,564	1,624	1,624
	<u>7,015</u>	<u>7,015</u>	<u>6,789</u>	<u>6,789</u>
	<u>33,666</u>	<u>33,666</u>	<u>29,804</u>	<u>29,804</u>
Commitments				
Undrawn formal standby facilities, credit lines and other commitments to lend				
Less than 1 year maturity	<u>247,457</u>	<u>247,457</u>	<u>244,029</u>	<u>244,029</u>

C HOARE & CO AND ITS SUBSIDIARY COMPANIES
NOTES TO THE ACCOUNTS (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2010

28 CONTINGENT LIABILITIES AND COMMITMENTS (CONTINUED)

Previously, the Bank had leased office accommodation in buildings owned by the Pension Scheme. On 11 December 2009 the Bank repurchased the head lease on 33 Lowndes Street, terminating the operating leases on that property. There are no operating lease commitments as at 31 March 2010.

Annual commitments under non-cancellable operating leases are as follows:

Group	2010 Land and Buildings £000	2009 Land and buildings £000
Operating leases which expire		
Within one year	-	-
In the second to fifth years inclusive	-	-
Over five years	-	129,367
	-----	-----
	-	129,367
	-----	-----

FSCS Levy

The Financial Services Compensation Scheme ('FSCS') has provided compensation to consumers following the collapse of a number of deposit takers such as Bradford & Bingley plc. The compensation paid out to consumers is currently funded through loans from the Bank of England and HM Treasury. C Hoare & Co could be liable to pay a proportion of the outstanding borrowings that the FSCS has borrowed from HM Treasury which is approximately £20 billion (2009 £19.7 billion). The Bank is also obligated to pay its share of forecast management expenses based on the Bank's market share of deposits protected under the FSCS. The Bank has accrued £2.4m as at 31 March 2010 in respect of the share of forecast management expense, including interest costs for the 2009/10 and 2010/11 levy years. This accrual is based on the Bank's estimated share of total market protected deposits at 31 December 2008 and 2009 respectively. However, the ultimate FSCS levy to the industry as a result of the 2008 collapses cannot currently be estimated reliably as it is dependent upon various uncertain factors including the potential recoveries of assets by the FSCS and changes in the interest rate, the level of protected deposits and the population of FSCS members at the time.

29 CONSOLIDATED CASH FLOW STATEMENT

	2010 £000	2009 £000	Change in year £000
Cash and Cash Equivalents			
Analysis of the balances of cash as shown in the consolidated cash flow statement			
Cash and balances at the Bank of England	221,582	567	
Loans and advances to banks repayable on demand	216,270	8,923	
	-----	-----	-----
	437,852	9,490	428,362
	-----	-----	-----

C HOARE & CO AND ITS SUBSIDIARY COMPANIES
NOTES TO THE ACCOUNTS (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2010

30 SEGMENTAL INFORMATION

All income and profits arise from the business of banking conducted in the United Kingdom. Full details of the profit and loss account for this business are disclosed in other parts of these financial statements.

31 DIRECTORS' LOANS

The aggregate amounts outstanding from the Directors (including connected persons) of C Hoare & Co at 31 March 2010 were as follows:

	Aggregate amount outstanding £000	Number of Persons
Loans and credit transactions	4,972	9

These loans are fully secured on normal business margins.

32 ASSETS PLEDGED TO SECURE LIABILITIES

At 31 March 2010 the amount of assets pledged by the Bank to secure liabilities in respect of Lloyd's Guarantees given on behalf of customers, was £5,328,000 (2009 £3,623,000). The secured liabilities outstanding amounted to £5,328,000 (2009 £3,623,000). There was also £8,572,000 (2009 £nil) pledged in favour of the Hoares Bank Pension Scheme.

33 RELATED PARTY TRANSACTIONS

The Bank has made payments to its Pension Fund in respect of rents on premises occupied by the Bank, the amount for the period was £177,000 (2009 £258,000).

C HOARE & CO AND ITS SUBSIDIARY COMPANIES
NOTES TO THE ACCOUNTS (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2010

34. FINANCIAL RISK MANAGEMENT

(a) Introduction and overview

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

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

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

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

Risk management framework

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

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

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

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

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

The Bank has a number of other committees to oversee operational risk areas such as Information Security and Disaster Recovery. In particular the Bank has recently established a 'New Product and Services' committee which reviews the terms, customer benefit, procedures and risks associated with any new product or service prior to implementation.

(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, and arises principally from the Bank's loans and advances to customers and to other banks and investment securities.

Management of credit risk

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

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

C HOARE & CO AND ITS SUBSIDIARY COMPANIES
NOTES TO THE ACCOUNTS (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2010

34 FINANCIAL RISK MANAGEMENT (CONTINUED)

Interest payments and any capital repayments are generally serviced through a related current account. Therefore, past due events such as late payment or missed interest rarely occur and are thus not monitored as part of the credit risk management process.

Lending to banks is controlled by a restricted list of financial institutions with the main criteria for selection being the stability and reputation of the institution. These are mainly UK incorporated and authorised by the FSA. All lending is undertaken within limits, which are regularly reviewed by the ALCO and approved by the Board.

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

Exposure to credit risk

The table overleaf analyses the lending assets and investment securities.

In the previous year the Bank incurred losses of £10,097,000 in total on two Floating Rate Notes issued by Washington Mutual Bank Inc in the U S A and by Singer & Friedlander Funding Plc in the United Kingdom. During the current year £3,363,000 has been recovered from the administrator and final disposal of the Singer & Friedlander Funding Plc instrument, there has been limited progress on any recovery from Washington Mutual Bank Inc which is subject to litigation in the US.

The AIG credit risk exposure continues to improve. All eligible advances are now fully drawn (£28,263,000) and there have been distributions from the core investment totalling £1,619,000 which have been used to pay down the loan balance, the net asset value of the underlying investments held as security has improved to 93.74p as at 15 March 2010. These loans were made available to a number of customers who had invested in the AIG Enhanced Fund and required access to their investment ahead of the three year redemption lock-out announced by AIG following a run on the fund's assets in September 2008. These facilities were made at C Hoare base rate on a non-recourse basis and relied upon the redemption of the underlying investment and any gains to repay the capital and accumulated interest, with an underpinning guarantee of the principal from the UK subsidiary of AIG ("Alico"). As at 31 March 2010, the total balance outstanding was £27,580,000 (2009 £25,525,000) with impaired interest of £936,000 (2009 £115,000).

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

C HOARE & CO AND ITS SUBSIDIARY COMPANIES
NOTES TO THE ACCOUNTS (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2010

34 FINANCIAL RISK MANAGEMENT (CONTINUED)

£000	Loans and advances to customers		Loans and advances to banks		Available-for-sale financial assets	
	2010	2009	2010	2009	2010	2009
Balance sheet						
Carrying amount	786,055	<i>735,386</i>	368,596	<i>222,444</i>	740,457	<i>877,006</i>
Individually Impaired	35,468	<i>39,838</i>	-	-	9,634	<i>13,894</i>
Allowance for impairment	(5,828)	<i>(5,205)</i>	-	-	(8,354)	<i>(12,236)</i>
Carrying Amount	29,640	<i>34,633</i>	-	-	1,280	<i>1,658</i>
Assets not subject to impairment or on watch list	652,467	<i>560,856</i>	368,596	<i>222,444</i>	739,177	<i>875,348</i>
Watch list loans						
High risk	2,083	<i>11,546</i>	-	-	-	-
Medium risk	103,185	<i>129,461</i>	-	-	-	-
Allowance for collective Impairment	(1,320)	<i>(1,110)</i>	-	-	-	-
Carrying amount	786,055	<i>735,386</i>	368,596	<i>222,444</i>	740,457	<i>877,006</i>
Off balance sheet						
Guarantees	26,651	<i>23,015</i>	-	-	-	-
Letters of credit and performance bonds	7,015	<i>6,789</i>	-	-	-	-
Commitments	247,457	<i>244,029</i>	-	-	1,200	<i>1,816</i>
Total credit risk exposure	1,067,178	<i>1,009,219</i>	368,596	<i>222,444</i>	741,657	<i>878,822</i>

C HOARE & CO AND ITS SUBSIDIARY COMPANIES
NOTES TO THE ACCOUNTS (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2010

34 FINANCIAL RISK MANAGEMENT (CONTINUED)

The credit risk classifications used in the preceding table are

Impaired loans and securities

The Bank regularly assesses whether there is objective evidence that any loans or securities are impaired. Loans and securities are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the assets, and that the loss event has an impact on the future cash flows on the asset that can be estimated reliably. The Bank does not perform any further analysis or grading of impaired loans.

Watch list loans

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

Allowances for impairment

The Bank establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. The main components of this allowance are a specific loss component that relates to identified exposures, and a collective loan impairment allowance in respect of losses that have been incurred but have not been identified at the reporting date.

Impairment losses on the lending to banks and the securities portfolio are established when there has been a sustained decrease in value over an extended period, or where it is expected that a fixed income investment will not meet its future cash flow obligations.

Write-off policy

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

Collateral

The Bank holds collateral against loans and advances to customers in the form of charges over property, investment securities, other assets and guarantees. Estimates of fair value are based upon the value of collateral assessed at the time of borrowing, and generally are not updated except when further lending is required or a loan is assessed as impaired. Collateral is not held against loans to other banks or investment securities. At 31 March 2010, the value of property collateral recorded against customer facilities was £1,657m (2009 £2,177m). The estimated value of collateral against the impaired customer lending is £5.0m (2009 £9.5m).

Renegotiated Lending

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

(c) Liquidity risk

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

Management of liquidity risk

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

C HOARE & CO AND ITS SUBSIDIARY COMPANIES
NOTES TO THE ACCOUNTS (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2010

34 FINANCIAL RISK MANAGEMENT (CONTINUED)

Management of liquidity risk (continued)

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

Exposure to liquidity risk

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

£000	Carrying Amount	Next day	Less than 1 month	1 to 3 months	3 months to 1 year	Over 1 year
As at 31 March 2010						
Balance sheet						
Deposits from banks	-	-	-	-	-	-
Deposits from customers	1,989,921	1,325,574	470,859	131,650	50,838	11,000
Off balance sheet						
Undrawn customer facilities	247,457	247,457	-	-	-	-
Guarantees, Letters of Credit and Performance Bonds	33,666	33,666	-	-	-	-
Total Liabilities	2,271,044	1,606,697	470,859	131,650	50,838	11,000
	Carrying Amount	Next day	Less than 1 month	1 to 3 months	3 months to 1 year	Over 1 year
As at 31 March 2009						
Balance sheet						
Deposits from banks	128	128	-	-	-	-
Deposits from customers	1,753,852	936,642	630,536	182,682	3,992	-
Off balance sheet						
Undrawn customer facilities	244,029	244,029	-	-	-	-
Guarantees, Letters of Credit and Performance Bonds	29,804	29,804	-	-	-	-
Total Liabilities	2,027,813	1,210,603	630,536	182,682	3,992	-

C HOARE & CO AND ITS SUBSIDIARY COMPANIES
NOTES TO THE ACCOUNTS (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2010

34 FINANCIAL RISK MANAGEMENT (CONTINUED)

Exposure to liquidity risk (continued)

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

At present, the key measure for liquidity risk is the Stock Liquidity Ratio (SLR) of liquid assets against short-term customer deposits. This is calculated daily and reported to the ALCO each month. The minimum permitted level is 100%. The recorded ratios over the last year are as follows:

	2010	2009
31 March	497.9%	776.2%
Average month end ratio	737.6%	1,076.2%
Maximum month end ratio	1,061.4%	1,881.5%
Minimum month end ratio	487.5%	464.7%

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

(d) Market risk

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

Management of market risk

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

Cash flows from derivative instruments are spread over the period to which the cash flow relates. The Bank accrues up the differential payment/receipt on the Interest Rate swap for the current quarter adjusting fair values accordingly.

Equity and other investment prices are monitored and the investment portfolio is revalued monthly and reported to the ALCO. The portfolio is managed in defined segments and decisions on profit taking or stop-loss are taken by the investment manager.

Foreign currency balances are driven by customer demand. As with sterling there are surplus currency deposits over currency lending, although this does not form a significant part of the balance sheet. Currency positions are managed in treasury by lending surplus funds to other banks and/or taking forward foreign exchange agreements to cover expected future cash flows.

C HOARE & CO AND ITS SUBSIDIARY COMPANIES
NOTES TO THE ACCOUNTS (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2010

34 FINANCIAL RISK MANAGEMENT (CONTINUED)

Exposure to market risks

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

£000	Carrying Amount	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Over 5 years
As at 31 March 2010						
Assets						
Loans and advances to banks and central banks	589,416	583,386	-	5,328	-	702
Loans and advances to customers	786,055	740,693	-	-	37,584	7,778
Interest bearing available for sale financial assets	737,304	484,585	252,719	-	-	-
Total assets	2,112,775	1,808,664	252,719	5,328	37,584	8,480
Liabilities						
Deposits by banks	-	-	-	-	-	-
Customer accounts	1,989,921	1,928,083	34,157	16,681	11,000	-
Total liabilities	1,989,921	1,928,083	34,157	16,681	11,000	-
Derivatives		35,935			(30,085)	(5,850)
Interest rate gap	122,854	(83,484)	218,562	(11,353)	(3,501)	2,630
£000	Carrying Amount	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Over 5 years
As at 31 March 2009						
Assets						
Loans and advances to banks and central banks	222,444	214,124	7,811	-	-	509
Loans and advances to customers	735,386	699,151	2,150	-	27,684	6,401
Interest bearing available for sale financial assets	854,089	812,081	-	4,189	13,988	23,831
Total assets	1,811,919	1,725,356	9,961	4,189	41,672	30,741
Liabilities						
Deposits by banks	128	128	-	-	-	-
Customer accounts	1,753,852	1,749,861	3,215	776	-	-
Total liabilities	1,753,980	1,749,989	3,215	776	-	-
Derivatives		9,000			(9,000)	
Interest rate gap	57,939	(15,633)	6,746	3,413	32,672	30,741

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34 FINANCIAL RISK MANAGEMENT (CONTINUED)

Exposure to market risk (continued)

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

The interest rate gap table on the previous page shows some distinct changes over the previous year. Customer deposits now extend beyond one year as the Bank now offers Fixed Term Deposits out to 2 years. In response to customer demand, fixed term customer lending has been increased in the 1 to 5 year and over 5 year bands, offset by Interest Rate Swaps as protection against rising interest rates as part of the Bank's risk management process. Interest rate risk on the 'available for sale financial assets' is predominantly short term, following the disposal of long dated Gilts and other Fixed Interest Securities.

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

<i>Effect of a change to 2.00% in Sterling Market Rates</i>	31 March 2010 £000	<i>31 March 2009 £000</i>
Net Present Value Sensitivity to		
Positive shift	(1,375)	<i>(5,380)</i>
Negative shift	1,453	<i>6,415</i>

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

Exposure to currency risk

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

	2010 £000	<i>2009 £000</i>
US dollar	53	<i>477</i>
Euro	128	<i>250</i>
Other	171	<i>81</i>
	<hr/>	<hr/>
Total	352	<i>808</i>
	<hr/>	<hr/>

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

C HOARE & CO AND ITS SUBSIDIARY COMPANIES
NOTES TO THE ACCOUNTS (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2010

34 FINANCIAL RISK MANAGEMENT (CONTINUED)

(e) Operational risk

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

OPERATIONAL RISK MANAGEMENT OBJECTIVES

- To ensure significant operational risks are identified, measured, assessed, prioritised, managed and treated in a consistent and effective manner across the Bank
- Appropriate risk management methodologies are used across the business to support the operational risk management process
- To ensure the Board, management and all staff are accountable for managing operational risk in line with the roles and responsibilities set out in the risk management framework
- To ensure compliance with all relevant legislation, regulatory requirements, guidance and codes of practice, and
- To ensure the Board and management receive timely, dependable assurance that the organisation is managing the significant operational risks to its business

RESPONSIBILITIES

- The Bank manages operational risks within the three lines of defence model which defines the roles and responsibilities for operational risk
- the first line of defence have direct responsibility for strategy, management and control of risk and includes all staff and management working within or managing business units, and the Board,
- the second line of defence co-ordinate, facilitate and oversee the effectiveness and integrity of the operational risk management framework and includes the Chief Financial Officer and the Risk Management function,
- the third line of defence provide independent assurance and challenge across all business functions in respect of the integrity and effectiveness of the operational risk management framework and includes Internal Audit, Compliance, the Audit and Compliance committee and external assurance providers

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

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

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

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

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FOR THE YEAR ENDED 31 MARCH 2010

34. FINANCIAL RISK MANAGEMENT (CONTINUED)

(f) Fair values of financial assets and liabilities

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

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

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

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

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NOTES TO THE ACCOUNTS (CONTINUED)
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34. FINANCIAL RISK MANAGEMENT (CONTINUED)

- Valuation methods are categorised into one of 3 levels as detailed in the table below

Group Valuation Hierarchy	2010 Level 1 £000	2010 Level 2 £000	2010 Level3 £000	2010 Total £000
Bank and building society - certificates of deposit	475,700	-	-	475,700
Bank and building society - other securities	226,585	-	-	226,585
Equity securities	4,142	4,029	-	8,171
Debt securities with readily determinable fair values	30,000	-	-	30,000
Derivative financial assets	-	105	-	105
Total financial assets	736,427	4,134	-	740,561
Derivative financial liabilities	-	1,379	-	1,379

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

(g) Capital management and allocation

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