2011
Consolidated Financial Statements
C Hoare & Co
& Subsidiary Companies

Company Number 240822

CHAIRMAN'S FOREWORD

The Bank has had a good year The final out turn, though slightly down on 2010, is encouraging Through our own resources we have built capital and liquidity buffers comfortably ahead of regulatory requirements and we have put in place the people and systems required to support the business for years to come We have one major item of expenditure to make, which is redevelopment of part of our Fleet Street estate It is an exciting project which will be of great benefit to the Bank, and work on it began in earnest in March 2011

The detailed results for the year to 31st March 2011 are set out in the following pages We always knew that this was going to be a difficult year for growth Our balance sheet records a modest decline of 8% as deposit monies attracted to the Bank at the height of the credit crisis have reduced as customers seek exposure to property and equities Our investment management business continues to grow strongly and our commitment to it is evidenced by our investment in it

As I noted in last year's report, 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 They showed the strength of this commitment earlier in year when they undertook to provide further capital to the Bank should it be required to meet increasing regulatory requirements In the event it has not been necessary to make use of this facility, which remains in place for a further period

I would like to offer a personal thank you to Rodney Baker-Bates who retired from the Bank in September 2010 after 10 year's service as a consultant and more recently director on the Board I know that the family too are deeply grateful for his counsel over the years

We have been particularly fortunate in attracting Laurel Powers-Freeling to the Board She formally joined us in January and brings a wealth of financial services experience

We remain confident in our conservative business model and practices, and believe our customers do too

Further detail on our results is given in the Directors' report that follows

Lord Wilson of Dinton
Chairman

C HOARE & CO
DIRECTORS' REPORT
FOR THE YEAR ENDED 31 MARCH 2011

The Directors present their Annual Report and Consolidated Financial Statements for the year ended 31 March 2011

The financial statements were approved by the Board on 23 June 2011

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 losses on customer lending during the year, once again this has been substantially offset by recoveries against provisions made in 2009 Ongoing investment in our business has lead to a modest decline in pre tax profit for the year of 10% to £22m, compared to £24m for the previous year

The Board recommended an ordinary share dividend for the year of £50 per share (2010 £50), payable on 21 July 2011

Retained profits for the year of £16m (2010 £17m) will be used to strengthen reserves and support future growth

3. BUSINESS REVIEW

Performance

A year ago the Board foresaw increasing pressure on retail deposits as banks in general were driven to improve the quality of their funding, we also expected to see further lending opportunities as competitors continued to conserve capital and rebuild their balance sheets

Much of this has come to pass During the last 12 months we have seen a reduction of £187m (9%) in retail deposits as monies that came to us during the credit crisis drifted back into the market as confidence returned Pricing was also a factor The drive to increase retail funding has led to some aggressive pricing by some institutions where we have found ourselves both unable and unwilling to compete Our stated policy remains to not compete on price We aim to pay a fair rate to our depositors consistent with the low risk nature of the Bank's balance sheet and superior customer service Notwithstanding the fall, aggregate customer deposits continue to run slightly ahead of our long term trend

We did see growth in lending to customers, which increased by £83m (11%) over the previous year Again, we have been consistent in our approach in terms of both the criteria we apply and the pricing of our facilities

Our customer lending experience continues to be good We released further provisions of £1 5m during the year At the present time the UK economy remains fragile and the Board and the credit officers of the Bank are particularly vigilant Our dependence on the UK economy and the impact of this on our customers is the principal risk to our business model We remain confident that in general customers of the Bank undertake relatively low levels of borrowing and will be in a sound position should the economy dip back into recession

We continue to carry some exposure to a couple of struggling European economies through the Bank's Floating Rate Note book. This exposure is to rated financial institutions based overseas The Board has taken the opportunity to reduce this exposure when suitable opportunities have presented themselves in the market During the year sales of £33m were made at a loss of £1 9m The residual exposure to those institutions at risk is not considered material in the context of our £2bn balance sheet

Nonetheless the Board remain alert to the need to keep our own risks low and will continue to seek out opportunities to reduce our exposure further These exposures are already written down to "fair value" in our balance sheet

We reported last year on the growth of the Investment Management business Once again this performed extremely well During the year a combination of new money and market movement has grown funds under management by around 25% Our approach is to build this part of our business organically by combining our traditional service standards with consistent investment performance

In July 2010 the Bank introduced a new service for those customers who are "resident non-domicile" in the UK and who would benefit from offshore banking facilities This offshore banking service has already attracted a number of customers, some of whom who are new to the Bank

Despite lower average balances in the deposit book, a combination of improved income from our treasury assets and higher lending volumes led to an increase in net interest income of £3 5m (8%) In aggregate, revenue from the Bank's foreign exchange, investment management and advisory businesses grew by £2 3m (20)% over the previous year Overall, Total income grew by 8% to £72m

The Bank's net interest margin (a key financial performance indicator) improved from 2 35% to 2 57% during the year as Bank moved some of its surplus deposits back into the money market, mostly in short maturities to highly rated counterparties or supra nationals 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

Although underlying performance remains positive we are acutely aware of ongoing cost pressure This arises not only from the direct costs of being in business, people, systems and the growing regulatory cost pressures but also the pressure on margins particularly on deposits We fully expect interest rates to rise in 2011 and this will put further strain on profits as much of our customer lending is priced at minimum rates, which will not increase in the short term Profits are the primary source of the Bank's capital and with this in mind the Board reluctantly took the decision to increase bank charges in January This was the first increase in two years and we are not expecting to have to make a further increase in 2012 It does however position us for what is to come and will provide income to meet the growing costs of being in business

Excluding performance-related pay, underlying operating expenses increased by 3% over 2010 Staff costs comprise 69% of the Bank's cost base and, excluding bonus payments, these increased by 4% The Bank continues to invest in both people and information technology

Within the Bank's costs for the year is a much reduced charge for 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 transferred to the Scheme in those UK banks that failed during the credit crisis To date we have had no indication of the likely scale of the capital losses that may be levied against us In previous years we have taken a pessimistic view on the rate of interest to be applied As interest rates in the UK have remained low we have reduced the provision accordingly Future years will inevitably see the costs of the levy rise with interest rates Further detail is provided in note 28 to the accounts We also incurred further costs of £0 2m in further FSCS related compensation, this time in connection with losses elsewhere in the investment industry

Towards the end of the year we completed the implementation of a major new system for the investment management business Whilst the cost impact will only become material in the next year as depreciation charges are incurred there has been significant disruption to our underlying business during this implementation phase This will have impacted on our operational efficiency We fully expect both customers and staff to see significant benefits in the near future

During the year the coalition Government offered providers of defined benefit pension schemes the option to move to a CPI based index in the expectation that this would prove less costly in future years After discussing the matter with the Bank's Pension Trustee the Board took the view that pensioners and deferred pensioners of the Scheme would be better served if the Bank maintained an RPI based index, recognising the implicit undertaking made when the Scheme was put in place The cost of retaining RPI has been estimated by the Scheme actuary to be in the order of £2 2m and this charge has been recognised in calculating the profits for the year

Excluding the impact of bad debts, the Bank's cost income ratio (another key financial performance indicator) as reported to the Board improved from 65% to 60% during the year

Following the decision to close the Bank's defined benefit pension scheme to future accrual in 2007, by 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 the period to March 2010 This prompted the Board to recommence contributions into the Scheme and to place further cash in escrow to cover the level of the deficit under FRS 17 Although there has been further reduction in the FRS 17 deficit during the last 12 months the Scheme was subject to a Triennial Valuation during the year and a Recovery Plan was agreed with the Trustee in March 2011 This commits the Bank to making further payments to the Scheme for the next three years Full details are set out in note 3 to the accounts The Bank also made a further payment of £1 1m into escrow during the year to offer additional assurance to the Trustee and scheme members that all pension liabilities will be met in full Detail is given in note 32 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 2011, 37% of staff chose to give in this way (2010 33%) 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

Last year the Board took the opportunity offered by a new accounting standard, FRS 30 'Heritage Assets', to include various artefacts that had been acquired over many years in the Bank's balance sheet The Board does not believe the value of these items has changed materially during the year and they remain at the low range valuation of £ 9 6m Further detail is given in note 18 to the accounts

In aggregate shareholders funds have increased by £19m (13%) during the year, primarily as a result of this year's profits, the reduced FRS17 pension deficit and movement in market prices on the Bank's FRN book

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 since the credit crisis of 2008 the Bank remains well placed to capitalise on the continued retrenchment of our competitors Loans and advances to customers are 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 the Investment Management business New systems have been introduced that will both improve our efficiency and provide higher levels of service to customers The Bank has recruited strongly into this department to improve further both service and underlying investment performance We fully expect customers to see the benefits of these changes during 2012

As noted above, our Offshore Asset Management service is now open for business We expect to see more customers with assets legitimately held offshore take advantage of this service in the coming year

We continue to be of the view that the cost of banking both in the UK and elsewhere is on the increase Several major banks have announced lower return on capital targets as a result of growing pressure on capital and the likely impact of Basel 3 Although Basel 3 is not expected to impact materially on the Bank, we expect the rising level of capital required by those who are affected will influence the industry and indirectly the Bank The Board expect to meet fully any higher capital requirements (real or implied), additional liquidity, and the increasing of new regulation and are preparing our business with this in mind We will maintain our conservative stance on banking, and grow our investment management business with a view to reducing our dependence on the net interest margin

We are also assessing the impact of the FSA's Retail Distribution Review on our advisory and investment management businesses We do not anticipate any profound changes in meeting the stricter requirements and will seek to maintain an optimum balance in these services to meet the needs of customers

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 also the cost of higher interest charges to be factored in once the FSCS have renegotiated the terms of their loan from HM Treasury

Finally we expect to see our largest ever capital project, the refurbishment of 40/43 Fleet Street come to fruition sometime in the first half of 2012 This development will provide not only much needed office accommodation for our staff but also what we hope will be much improved reception facilities for our customers

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

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

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 the same basis as major UK financial institutions The approach was revised during the year from the Stock Liquidity basis to a more comprehensive methodology as set out in the FSA Policy statement "PS 09/16 Strengthening Liquidity Standards"
This change has led to a far more rigorous approach to the regulation of liquidity management, which takes account of the underlying characteristics of our deposit base and establishes bank specific liquidity requirements along similar lines to those used for setting capital requirements
During the year the Bank was the first small bank to be reviewed by the FSA as a part of this process and we remain in dialogue with the FSA

The Board has well established criteria on lending and other long term investments such that these should not normally exceed 70% of retail deposits The change in regulatory approach has not led us to change our own criteria
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 mismatch between the Bank's lending and deposit rates is actively managed For the majority of the Bank's loans and advances to customers, rates are linked to the C Hoare & Co base rate Interest rate margins are closely monitored and evaluated The exposure to interest rate changes and sensitivity is regularly reported to and reviewed by the ALCO, which manages the overall exposure within an agreed limit

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

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

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 During the normal course of business the Bank will undertake foreign exchange trading, income from which is detailed in note 4 to the accounts

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

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 although during the year the Board did reach agreement with a number of the shareholders and put in place with them a £10m standby facility whereby the Bank could call on up to this amount in the form of lower tier 2 capital should it be required To date the Board has not utilised this facility and does not expect to do so The facility expires at the end of March 2012 and the Board has no plan for this to be renewed Further detail is given in note 33 to the accounts

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 The FSA agreed to a further reduction in the Bank's ICG in February 2011

The Bank's capital adequacy and capital resources are managed and monitored in accordance with the regulatory capital requirements of the FSA The Bank must at all times monitor and demonstrate compliance with the relevant regulatory capital requirements of the FSA The Bank has put in place processes and controls to monitor and manage 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

	2011 £000	*2010 £000*
Tier 1 Capital		
Ordinary share capital	**120**	*120*
Reserve Fund	**22,748**	*22,748*
Profit and loss account	**109,320**	*88,557*
Total	**132,188**	*111,425*
Tier 2 Capital		
Property revaluation reserve	**14,279**	*14,279*
Investment property revaluation reserve	**2,058**	*3,396*
Heritage assets revaluation reserve	**9,600**	*9,600*
Available-for-sale reserve gains (equities)	**1,893**	*952*
Collective Impairment Allowance	**1,370**	*1,320*
Total	**29,200**	*29,547*
Total regulatory capital	**161,388**	*140,972*
Risk-weighted assets (unaudited)	**891,133**	*885,540*
Capital ratios (unaudited)		
Total regulatory capital expressed as a percentage of risk weighted assets	**18.11%**	*15 92%*
Total tier 1 capital expressed as percentage of risk weighted assets	**14.83%**	*12 58%*

5. AUDIT AND COMPLIANCE COMMITTEE

The members of the committee are Messrs H C Hoare, Sir D J Hoare, R P Baker-Bates (until 30th September 2010), D Hall, Mrs L Powers-Freeling (from 1st January 2011) 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

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)
Mr R P Baker-Bates, resigned 30th September 2010
Mr D J Hall
Mr J S J Marshall (Chief Executive Officer)
Mr I R Peacock
Mrs L C Powers-Freeling, appointed 1st January 2011

Mrs Powers-Freeling offered herself for re-election at the Annual General Meeting to be held on 21st July 2011

7. EMPLOYEES

The Bank has 327 employees on a full time equivalent basis as at 31 March 2011 (*2010 317*) 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

8 CHARITABLE CONTRIBUTIONS

During the year charitable donations amounted to £1,000,000 (*2010 £700,000*)

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

23 June 2011

D GREEN
Secretary
Registration number 240822

C HOARE & CO

STATEMENT OF DIRECTORS' RESPONSIBILITIES

FOR THE YEAR ENDED 31 MARCH 2011

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 2011 set out on pages 13 to 64 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 AuditingPractices 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 2011 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

Mike Peck

Mike Peck (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
15 Canada Square
E14 5GL,
London, United Kingdom

8 July 2011

C Hoare & Co and its Subsidiary Companies
Consolidated Profit and Loss Account
For the Year Ended 31 March 2011

Continuing Operations:	Notes	**2011 £000**	*2010 £000*
Interest income		**53,489**	*52,056*
Interest expense		**(5,699)**	*(7,793)*
Net interest income	2	**47,790**	*44,263*
Other finance cost	3	**(459)**	*(1,353)*
Fees and commissions income		**19,877**	*16,155*
Fees and commissions expense		**(468)**	*(449)*
Net fees and commissions income		**19,409**	*15,706*
Net trading income	4	**4,152**	*4,474*
Other operating gains	5	**1,085**	*3,762*
Total income		**71,977**	*66,852*
Operating expenses			
Administrative expenses	6	**(47,793)**	*(42,215)*
Depreciation and amortisation		**(1,955)**	*(1,444)*
Total operating expenses		**(49,748)**	*(43,659)*
Impairment losses on loans and advances		**(181)**	*(872)*
Impairment losses/ recovery on available-for-sale assets		**(228)**	*2,141*
Profit on ordinary activities before tax		**21,820**	*24,462*
Taxation	8	**(5,682)**	*(6,990)*
Profit for the financial year	27	**16,138**	*17,472*

The notes on pages 18 to 64 form an integral part of these financial statements.

C HOARE & CO AND ITS SUBSIDIARY COMPANIES

CONSOLIDATED BALANCE SHEET

31 MARCH 2011

	Notes	2011 £000	2010 £000
ASSETS			
Cash and balances at central banks		**172,401**	*221,582*
Items in course of collection from banks		**3,330**	*5,373*
Derivative financial instruments	11	**299**	*105*
Loans and advances to banks	12	**348,159**	*368,596*
Loans and advances to customers	13	**869,180**	*786,055*
Available-for-sale financial assets	15	**554,784**	*740,457*
Tangible fixed assets	17	**33,095**	*30,340*
Heritage Assets	18	**9,600**	*9,600*
Deferred tax	19	**72**	*102*
Other assets	20	**476**	*297*
Prepayments and accrued income	21	**6,435**	*5,346*
Total assets		**1,997,831**	*2,167,853*
LIABILITIES			
Deposits by banks	22	**10**	-
Customer accounts	23	**1,802,672**	*1,989,921*
Derivative financial instruments	11	**1,105**	*1,379*
Deferred tax	19	**589**	-
Other liabilities	24	**11,248**	*12,995*
Accruals and deferred income	25	**14,718**	*11,246*
Post-retirement benefit liability net of deferred tax	3	**10,760**	*14,196*
Called-up share capital	26	**120**	*120*
Reserve fund	27	**22,748**	*22,748*
Revaluation reserves	27	**24,541**	*26,691*
Profit and loss account	27	**109,320**	*88,557*
Shareholders' funds		**156,729**	*138,116*
Total liabilities		**1,997,831**	*2,167,853*

These financial statements were approved by the Directors on 23 June 2011 and were signed on their behalf by

H C HOARE   R Q HOARE

The notes on pages 18 to 64 form an integral part of these financial statements

C HOARE & CO

BALANCE SHEET

31 MARCH 2011

	Notes	2011 £000	*2010 £000*
ASSETS			
Cash and balances at central banks		172,401	*221,582*
Items in course of collection from banks		3,330	*5,373*
Derivative financial instruments	11	299	*105*
Loans and advances to banks	12	348,159	*368,596*
Loans and advances to customers	13	869,180	*786,055*
Available-for-sale financial assets	15	550,751	*732,286*
Shares in group undertakings	16	10	*10*
Loans to subsidiary companies	16	-	-
Tangible fixed assets	17	31,175	*27,260*
Heritage assets	18	9,600	*9,600*
Deferred tax	19	72	*200*
Other assets	20	474	*297*
Prepayments and accrued income	21	6,435	*4,726*
Total assets		1,991,886	*2,156,090*
LIABILITIES			
Deposits by banks	22	10	-
Customer accounts	23	1,802,672	*1,989,921*
Deposits to subsidiary companies	23	12,418	*3,804*
Derivative financial instruments	11	1,105	*1,379*
Deferred Tax	19	192	-
Other liabilities	24	11,031	*12,922*
Accruals and deferred income	25	14,705	*11,234*
Post-retirement benefit liability net of deferred tax	3	10,760	*14,196*
Called-up share capital	26	120	*120*
Reserve fund	27	21,148	*21,148*
Revaluation reserves	27	21,456	*23,209*
Profit and loss account	27	96,269	*78,157*
Shareholders' funds		138,993	*122,634*
Total liabilities		1,991,886	*2,156,090*

These financial statements were approved by the Directors on 23 June 2011 and were signed on their behalf by

H C HOARE R Q HOARE

The notes on pages 18 to 64 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 2011

	Notes	2011 £000	*2010* *£000*
Cash flows from operating activities			
Profit before tax		**21,820**	*24,462*
Adjustments for			
Non-cash items included in profit before tax	29	**6,045**	*1,753*
Change in operating assets	29	**(37,954)**	*11,451*
Change in operating liabilities	29	**(181,826)**	*248,257*
Contributions paid to defined benefit schemes		**(1,000)**	*(500)*
Tax paid		**(8,843)**	*(9,897)*
Net cash flow from operating activities		**(201,758)**	*275,526*
Cash flows from investing activities			
-purchase of investment securities		**(1,327,896)**	*(3,077,745)*
-sale and maturity of investment securities		**1,509,016**	*3,237,290*
-purchase of tangible fixed assets		**(5,899)**	*(6,706)*
-sale of tangible fixed assets		**1,616**	*3*
Net cash used in investing activities		**176,837**	*152,842*
Cash flows from financing activities			
Equity dividends paid		**(6)**	*(6)*
Net Cash used from financing activities		**(6)**	*(6)*
Net Increase in cash and cash equivalents		**(24,927)**	*428,362*
Cash and cash equivalents 1 April	29	**437,852**	*9,490*
Cash and cash equivalents 31 March	29	**412,925**	*437,852*

The notes on pages 18 to 64 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 2011

	Notes	2011 £000	*2010* *£000* *Restated*
Profit for the financial year		**16,138**	*17,472*
Valuation loss/(gains) on Investment properties taken to equity	27	(1,027)	*20*
Deferred tax arising on valuation losses taken to equity		(311)	*-*
		(1,338)	*20*
Actuarial gains/(losses) recognised in the pension scheme	3	6,835	*(10,292)*
Deferred tax arising on (gains)/ losses in the pension scheme		(2,194)	*2,742*
Change in corporation tax rate		(290)	*-*
Tax credit on additional contributions paid		280	*140*
		4,631	*(7,410)*
Available-for-sale investments			
Valuation (losses)/gains taken to equity		(1,494)	*19,968*
Tax arising on valuation (losses)/gains taken to equity		682	*(4,982)*
	27	(812)	*14,986*
Total recognised gains and losses relating to the year		18,619	*25,068*
Prior year adjustment as explained in note 18		-	*9,600*
Total gains and losses recognised since the last annual report		18,619	*34,668*

The notes on pages 18 to 64 form an integral part of these financial statements

Notes

1 **Accounting Policies**

Accounting polices have been applied consistently in dealing with amounts which are considered material to the financial statements and are unchanged from 2010

(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

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

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

1. 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 assets 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

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 2010 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 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

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

1. 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

(iv) Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount might not be recoverable In the event that an asset's carrying value is determined to be greater than its recoverable amount it is written down immediately The recoverable amount is the higher of the asset's fair value less costs to sell and its value in use

(q) **Investment Property**

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

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 recoded at current value ascertained by the Directors with reference, where possible, to commercial markets using recent transaction information

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

(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

2. NET INTEREST INCOME

	2011 £000	*2010 £000*
Interest income		
Available-for-sale investments	**6,942**	*9,587*
Loans and advances to customers	**43,197**	*40,099*
Loans and advances to banks	**3,350**	*2,370*
	53,489	*52,056*
Interest expense		
Deposits from customers and banks	**(4,871)**	*(7,017)*
Derivative liabilities	**(828)**	*(776)*
	(5,699)	*(7,793)*
Net interest income	**47,790**	*44,263*

Included within interest income is £1,207,000 *(2010 £1,468,000)* in respect of impaired financial assets

3. PENSION AND OTHER POST-RETIREMENT BENEFITS

The Bank operated a defined benefit pension scheme until 1 December 2007 when it was closed to further accrual and all staff that were members at that date were made deferred members, all benefits accrued to that date were enhanced and then preserved Contributions to the defined benefit scheme for the year ended 31 March 2011 were £1,000,000 *(2010 £500,000)* and the charge the profit and loss was £2,200,000 *(2010 £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 £2,874,000 *(2010 £2,624,000)* 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

In preparing these financial statements, the Bank has applied the recognition and measurement requirements of FRS17 Revised 'Retirement benefits', Accounting Standards Board Reporting statement Retirement benefits disclosures and has considered the Urgent Issues Task Force (UITF) Abstract 48 (UITF 48)

Impact of Legislation Switch from Retail to Consumer Prices Index as inflation measure

During the year HM Government announced its intention to use the Consumer Prices Index (CPI) instead of the Retail Prices Index (RPI) as the inflation measure for determining the minimum pension increases for the statutory index-linked features of retirement benefits If incorporated into the Bank's scheme, this change would apply to pensions in payment and deferred pensions Historically, CPI has been lower than RPI Using a lower inflation rate (i e CPI) to forecast pension growth would effectively reduce the current value of the scheme's actuarial liabilities, which would result in a net gain on the scheme for the Bank

The impact of this change in pensions legislation is reflected in a £2 2m reduction to the liabilities as a result of the change in actuarial assumptions taken through the statement of total recognised gains and losses However, with the agreement of the Bank, the Trustee has amended the Trust Deed and Rules to specify that increases in benefits will reflect changes in RPI rather than CPI, for both pensions in payment and for the revaluation of deferred pensions, this results in a £2 2m past service cost to the profit and loss account effectively cancelling the actuarial gain The actuarial assumptions for 31 March 2011 are made with specific reference to RPI

The principal actuarial assumptions at the balance sheet date were:

	2011	*2010*
	%	*%*
Rate of increase in salaries	**n/a**	*n/a*
Rate of increase in pensions in payment and deferred pensions	**3.50**	*3 70*
Discount rate at 31 March	**5 50**	*5 50*
Expected return on plan assets at 31 March		
- Equities	**7.50**	*7 50*
- LDI Investments	**4.90**	*5 50*
- Property	**6.00**	*6 00*
- Other & cash	**0.50**	*0 50*
Inflation assumption	**3 50**	*3 70*

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

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

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

	2011	*2010*
Retiring today		
Males	**27.9**	*28 6*
Females	**30.8**	*31 7*
Retiring in 20 years time		
Males	**31.2**	*29 7*
Females	**34.0**	*32 8*

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	*Change in Assumption*	*Impact on scheme liabilities*
Discount rate	*+/- 0 5%*	*-/+£7 9m*
Rate of life expectations upon retirement at aged 60	*Increase by 1 year*	*+ £2 4m*
Rate of increase in pensions payable and deferred pensions	*+/- 0 5%*	*+/- £7 9m*

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

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 pension 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 2011, the valuations of scheme assets less liabilities show a deficit of £14,541,000

An alternative method of valuation to the projected unit method is a solvency basis, this is the cost of buying out the existing pensions in payment and the accrued entitlements of the current and deferred members as at the balance sheet date As at 31 March 2011 this was calculated to be £163m *(2010 £132m)*

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

	2011	*2010*	*2009*	*2008*	*2007*
	£000	*£000*	*£000*	*£000*	*£000*
Equities	**31,409**	*31,287*	*18,580*	*24,438*	*25,209*
LDI Investment	**49,677**	*45,745*	*38,117*	-	-
Bonds	**-**	-	-	*36,124*	*31,336*
Property	**2,022**	*1,960*	*8,069*	*11,748*	*11,679*
Other and cash	**249**	*1,199*	*914*	*7,969*	*5,433*
Total market value of assets	**83,357**	*80,191*	*65,680*	*80,279*	*73,657*
Present value of scheme liabilities	**(97,898)**	*(99,908)*	*(74,252)*	*(78,023)*	*(90,289)*
Deficit in scheme	**(14,541)**	*(19,717)*	*(8,572)*	*2,256*	*(16,632)*
Related deferred tax asset	**3,781**	*5,521*	*2,400*	*(631)*	*4,990*
Net pension scheme liability	**(10,760)**	*(14,196)*	*(6,172)*	*1,625*	*(11,642)*

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

Changes in the fair value of the scheme assets	**2011** **£000**	*2010* *£000*
Opening fair value of scheme assets	80,191	*65,680*
Expected return	4,934	*3,566*
Actual less expected gains and (losses)	924	*14,274*
Contributions from employer	1,000	*500*
Benefits paid	(3,692)	*(3,829)*
Closing fair value of scheme assets	83,357	*80,191*

Changes in the present value of the pension obligation	**2011** **£000**	*2010* *£000*
Opening pension obligation	99,908	*74,252*
Service cost	-	-
Past service cost	2,200	-
Interest cost	5,393	*4,919*
Actuarial loss/ (gain) on liabilities due to experience	1,571	*(2,182)*
Actuarial (gain) /loss on liabilities due to assumption changes	(7,482)	*26,748*
Benefits paid	(3,692)	*(3,829)*
Closing pension obligation	97,898	*99,908*

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

Movement in deficit during the year	**2011** **£000**	*2010* *£000*	*2009* *£000*
(Deficit) /surplus as at 1 April	(19,717)	*(8,572)*	*2,256*
Current service cost	-	-	-
Past service cost	(2,200)	-	-
Employer contributions	1,000	*500*	-
Other financial cost	(459)	*(1,353)*	*(603)*
Actuarial gains/ (losses)	6,835	*(10,292)*	*(10,225)*
Deficit as at 31 March	(14,541)	*(19,717)*	*(8,572)*

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	**2011** **£000**	*2010* *£000*
In respect of defined benefit scheme		
Current service cost	-	-
Past service cost	2,200	-
	2,200	-
In respect of money purchase scheme		
Current service cost	2,874	*2,624*
Total operating charge	5,074	*2,624*

Analysis of other finance cost		
Interest on liabilities	5,393	*4,919*
Expected return on assets	(4,934)	*(3,566)*
	459	*1,353*

The expected return on the scheme assets is arrived at by applying the expected returns on plan assets at 31 March 2010, as detailed above, to the scheme assets at the same date to estimate a full year's income for 2010/11 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

3 PENSION AND OTHER POST-RETIREMENT BENEFITS (CONTINUED)

Analysis of statement of total recognised gains and losses (STRGL)	**2011 £000**	*2010 £000*	*2009 £000*	*2008 £000*	*2007 £000*
Actual return less expected return on assets	**924**	*14,274*	*(16,084)*	*(4,526)*	*2,211*
Experience gains and losses arising on liabilities	**(1,571)**	*2,182*	*311*	*2,250*	*400*
Changes in assumptions	**7,482**	*(26,748)*	*5,548*	*12,357*	*(8,430)*
Actuarial (loss)/gain	**6,835**	*(10,292)*	*(10,225)*	*10,081*	*(5,819)*
Adjustment to reversal/ (recognition) of balance sheet asset	-	-	*2,256*	*(2,256)*	-
Actuarial (loss) /gain recognised in STRGL	**6,835**	*(10,292)*	*(7,969)*	*7,825*	*(5,819)*
Actual return less expected return on assets as a percentage of scheme assets	**1 11%**	*17 80%*	*-24 48%*	*-5 64%*	*3 00%*
Experience gains and losses arising on liabilities as a percentage of the present value of scheme liabilities	**1 60%**	*2 18%*	*0 42%*	*2 88%*	*0 44%*
Actuarial gain/ (loss) as a percentage of the present value of scheme liabilities	**7.64%**	*-10 30%*	*-13 77%*	*12 92%*	*-6 44%*

Future funding obligations

The most recent triennial actuarial valuation was carried out as at 1 April 2010 As the scheme is closed to future accrual there are no further employer contributions required to support future service As at 1 April 2010, the actuarial valuation showed a £14m deficit in respect of past service funding and it was agreed that the Bank will reduce this deficit by a series of contributions over 4 years commencing with £1m paid in the current financial year 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

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 The deposit is held with a third party financial institution which meets the Pensions Regulator's criteria The balance at 31 March 2011 was £19,717,000 (*2010 £8,572,000*), matching the last reported deficit as at 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 2011 was as follows

% of total scheme assets	Planned 2011/11 SIP	31 March 2011	31 March 2010
LDI Investments	55%	60%	57%
Global Equities	30%	29%	30%
Property	5%	2%	3%
Diversified Growth	10%	9%	9%
Cash	-	-	1%
Total	100%	100%	100%

The trustee has appointed Lane Clark and Peacock as investment advisors to the scheme Through them, Legal & General, Barings and Standard Life 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

4 NET TRADING INCOME

	2011 £000	*2010* *£000*
Dealing profits	4,002	*4,547*
Increase/(decrease) in value of derivative contracts	150	*(73)*
	4,152	*4,474*

5 OTHER OPERATING GAINS/ LOSSES

	2011 £000	*2010* *£000*
Rental income	446	*528*
Profit on sale of fixed assets	1,454	*3*
Hedging result	(310)	*186*
Dividend income on available-for-sale equity investments	69	*138*
(Losses) /gains on sale of available-for-sale investments	(574)	*2,907*
	1,085	*3,762*

6. ADMINISTRATIVE EXPENSES

	2011 £000	*2010* *£000*
Staff costs		
-wages and salaries	26,148	*23,216*
-social security costs	3,165	*2,771*
-pension costs	5,074	*2,624*
Other administrative expenses	13,406	*13,604*
	47,793	*42,215*

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

	2011	*2010*
Full time	275.4	*264 2*
Part time	26 4	*14 5*
Contractors and agency staff	24 1	*22 2*
Total average headcount (FTE)	325.9	*300 9*

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

AUDITORS' REMUNERATION

	2011 £000	*2010* *£000*
Fee payable to the Bank's auditor for the audit of the Bank's annual accounts	116	*112*
Other services relating to tax	2	*-*
All other services	47	*18*
	165	*130*

7. EMOLUMENTS OF DIRECTORS

	2011 £000	*2010* *£000*
Total emoluments	6,997	*4,555*
Pension contributions	99	*99*
Supplementary pensions paid to former Directors' widows	80	*78*
	7,176	*4,732*
Highest paid Director		
- emoluments	1,189	*820*
- pension contributions	-	-
- accrued pension entitlement	6	-
Number of Directors accruing benefits under the Bank's pension schemes at the year end	5	*5*

8. TAX ON GROUP PROFIT ON ORDINARY ACTIVITIES

Current tax	2011 £000	2011 £000	*2010 £000*	*2010 £000*
UK corporation tax on profits of the period	5,724		*7,109*	
Adjustments in respect of previous periods	112		*2*	
Total current tax (see note 8 (a))		5,836		*7,111*
Deferred tax (see note 8 (b))		(138)		*(121)*
Change in tax rate		(16)		-
Total tax on ordinary activities		5,682		*6,990*

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 -

	2011 £000	*2010 £000*
Profit on ordinary activities before tax	21,820	*24,462*
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 28%	6,109	*6,849*
Effects of		
21% corporation tax on subsidiary company	(5)	*(7)*
Permanent disallowables	72	*45*
Timing differences on capital allowances	(33)	*(117)*
Research & development capital expenditure	(280)	-
Pension contributions	465	*239*
Net chargeable gains	109	-
Income from post-tax profits Dividends	-	*(1)*
Accounting profit on disposal of investments	(777)	-
Non deductible impairment of investments	64	*101*
Adjustment to tax charge in respect of previous periods	112	*2*
Current tax charge for the period (note 8)	5,836	*7,111*

8(b) Factors affecting the deferred taxation charge

	2011 £000	*2010 £000*
Timing difference on capital allowances	314	*118*
Prior year adjustment	12	-
Deferred tax on pension scheme	(464)	*(239)*
Deferred tax (credit)/charge	(138)	*(121)*

In addition to the tax charge in the profit and loss account detailed above, £2,194,000 (*2010 £2,742,000 credit*) has been charged 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 £280,000 *(2010 £140,000)* has been included in the statement of total recognised gains and losses The Bank is evaluating a 'Research and Development' capital expenditure claim for the new Investment management system, an estimate of £1m of eligible expenditure has been included in these accounts

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

£13,487,000 *(2010 £35,830,000)* of the group profit attributable to shareholders has been dealt with in the accounts of C Hoare & Co 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

	2011 per share	*2010 per share*	**2011 £000**	*2010 £000*
Ordinary shares (declared)	**£50**	*£50*	6	*6*

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

Derivative assets	2011 Notional amount Group and Company £000	2011 Fair value Group and Company £000	*2010 Notional amount Group and Company £000*	*2010 Fair value Group and Company £000*
Trading				
Exchange rate contracts				
Forward foreign exchange contracts	41,696	123	*56,499*	*105*
Interest rate contracts				
Interest rate swaps – Hedging instruments	11,615	176	-	-
Total derivative assets	53,311	299	*56,499*	*105*
Derivative liabilities				
Trading				
Exchange rate contracts:				
Forward foreign exchange contracts	28,605	112	*48,677*	*114*
Interest rate contracts				
Interest rate swaps – Trading	69,000	130	*4,000*	*265*
Interest rate swaps – Hedging instruments	44,985	863	*31,935*	*1,000*
Total derivative liabilities	142,590	1,105	*84,612*	*1,379*

12. LOANS AND ADVANCES TO BANKS

	2011 Group £000	2011 Company £000	*2010 Group £000*	*2010 Company £000*
Repayable on demand	240,524	240,524	*216,270*	*216,270*
Other loans and advances				
Remaining maturity				
- over 5 years	28,146	28,146	*15,892*	*15,892*
- over 1 year but less than 5 years	-	-	-	-
- 1 year or less but over 3 months	-	-	-	-
- 3 months or less	79,489	79,489	*136,434*	*136,434*
	348,159	348,159	*368,596*	*368,596*

13. LOANS AND ADVANCES TO CUSTOMERS

	2011 Group £000	2011 Company £000	*2010 Group £000*	*2010 Company £000*
Other loans and advances				
Remaining maturity				
-over 5 years	22,254	22,254	*17,997*	*17,997*
-5 years or less but over 1 year	59,666	59,666	*43,470*	*43,470*
-1 year or less but over 3 months	17,324	17,324	*9,743*	*9,743*
-3 months or less	777,152	777,152	*721,993*	*721,993*
Allowance for impairment losses (note 14)	(7,216)	(7,216)	*(7,148)*	*(7,148)*
Total loans and advances to customers	869,180	869,180	*786,055*	*786,055*
Of which repayable on demand or at short notice	*767,935*	*767,935*	*712,489*	*712,489*

Included in the above loans and advances to customers are fixed rate loans which have been hedged against interest rate funding risk using interest rate swaps The value of lending hedged at 31 March 2011 was £56,600,000 *(2010 £31,395,000)*

14 ALLOWANCE FOR IMPAIRMENT LOSSES ON LOANS AND ADVANCES

	2011 £000	*2010 £000*
Specific allowances for impairment		
Balance at 1 April	5,828	*5,205*
Impairment loss for the year		
Charge for the year	1,591	*3,150*
Recoveries	(1,460)	*(2,488)*
Net charge/(recovery)	131	*662*
Write-offs	(113)	*(39)*
Balance at 31 March	5,846	*5,828*
Collective allowance for impairment		
Balance at 1 April	1,320	*1,110*
Impairment loss for the year		
Charge for the year	50	*210*
Balance at 31 March	1,370	*1,320*
Total specific and collective impairment allowances	7,216	*7,148*

15. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2011 Group £000	2011 Company £000	*2010 Group £000*	*2010 Company £000*
Bank and building society - certificates of deposit	235,280	235,280	*475,700*	*475,700*
Bank and building society - other securities	195,518	195,518	*231,633*	*231,633*
Equity securities	7,288	-	*11,477*	-
Unquoted equity securities at cost	1	1	*1*	*1*
Debt securities with readily determinable fair values	125,000	125,000	*30,000*	*30,000*
Less specific allowances for impairment	(8,303)	(5,048)	*(8,354)*	*(5,048)*
Total available-for-sale financial assets	554,784	550,751	*740,457*	*732,286*

At 31 March 2011, a subsidiary company had uncalled subscription monies payable in respect of equity shares of £440,000 *(2010 £1,200,000)*

16 INVESTMENT IN SUBSIDIARIES

The Company has the following investments in subsidiaries

	Activity	% Owned	2011 £000	*2010 £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			-	-

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 2010	*18,544*	*6,856*	*20,896*	*46,296*
Additions	-	-	*5,899*	*5,899*
Disposals	-	*(1,400)*	*(152)*	*(1,552)*
Revaluations	-	*239*	-	*239*
31 March 2011	**18,544**	**5,695**	**26,643**	**50,882**
Depreciation				
1 April 2010	-	-	*15,955*	*15,955*
Charge for year	-	-	*1,955*	*1,955*
Disposals	-	-	*(123)*	*(123)*
31 March 2011	-	-	17,787	17,787
Net book value 31 March 2011	18,544	5,695	8,856	33,095
Net book value 31 March 2010	*18,544*	*6,856*	*4,940*	*30,340*

17. **TANGIBLE FIXED ASSETS** (continued)

	Land and Buildings	Investment Properties	Equipment	Total
Company	£000	£000	£000	£000
Cost or valuation				
1 April 2010	*18,544*	*3,775*	*20,896*	*43,215*
Additions	-	-	*5,899*	*5,899*
Disposals	-	-	*(152)*	*(152)*
Revaluations	-	-	-	-
31 March 2011	**18,544**	**3,775**	**26,643**	**48,962**
Depreciation				
1 April 2010	-	-	*15,955*	*15,955*
Charge for year	-	-	*1,955*	*1,955*
Disposals	-	-	*(123)*	*(123)*
31 March 2011	-	-	**17,787**	**17,787**
Net book value 31 March 2011	**18,544**	**3,775**	**8,856**	**31,175**
Net book value 31 March 2010	*18,544*	*3,775*	*4,941*	*27,260*

	2011 Group £000	**2011 Company £000**	*2010 Group £000*	*2010 Company £000*
Land and buildings occupied for own activities				
Net book value	**15,500**	**15,500**	*15,500*	*15,500*
At cost				
Land and buildings	**4,235**	**4,235**	*4,235*	*4,235*
Investment properties	**3,357**	**2,939**	*3,490*	*2,939*
	7,592	**7,174**	*7,725*	*7,174*

The Company's' land and buildings and investment properties were valued on the 31 March 2009 by Mr J Ball BA MRICS of AtisReal, Chartered Surveyors The Directors are not aware of any material change in value and therefore the valuations are unchanged from the previous year All valuations are on the basis of open market values Deferred tax has not been recognised on the potential capital gains arising as there is no current contract or intention to sell The latest estimate of capital gains is £nil due to net losses on the overall property portfolio

The subsidiary, Mitre Court Property Holding Co has two properties under offer as at 31 March 2011 These have been valued at offer price less an allowance for selling expenses Capital gains tax of £310,000 is expected to arise upon disposal

Future capital expenditure				
-contracted but not provided in the accounts	7,815	7,815	*3,324*	*3,324*

18. HERITAGE ASSETS

	2011	2011	2011	*2010*	*2010*	*2010*
	Paintings	Artefacts	Total	*Paintings*	*Artefacts*	*Total*
Valuation	£000	£000	£000	*£000*	*£000*	*£000*
1 April	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 Directors are not aware of any material change in value during the year and therefore the valuations are unchanged from the previous year

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

The Bank's Museum maintains a register for its collections of heritage assets which records the nature, provenance and current location of each asset

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

The adoption of FRS30 in the previous financial year 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 This is shown as a prior year adjustment to the Statement of Total Recognised Gains and Losses on page 17 for the year ended 31 March 2010

19. DEFERRED TAX

Deferred tax assets are attributable to the following

	2011 Group £000	2011 Company £000	*2010 Group £000*	*2010 Company £000*
Deferred tax asset				
Fixed assets (equipment)	-	-	*107*	*107*
Unamortised balance of transition to FRS26 on 1 April 2006	72	72	*(5)*	*93*
Total deferred tax assets	72	72	*102*	*200*
Deferred tax liability				
Fixed assets (equipment)	192	192	-	-
Unamortised balance of transition to FRS26 on 1 April 2006	86	-		
Deferred tax on gain on investment properties	311	-	-	-
Total deferred tax liability	589	192	-	-

The deferred tax balance at 31 March 2011 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 £3,781,000 *(2010 £5,521,000)*

20. OTHER ASSETS

	2011 Group £000	2011 Company £000	*2010 Group £000*	*2010 Company £000*
Settlement balances	474	474	*283*	*283*
Other assets	2	-	*14*	*14*
	476	474	*297*	*297*

21. PREPAYMENTS AND ACCRUED INCOME

	2011 Group £000	2011 Company £000	*2010 Group £000*	*2010 Company £000*
Interest receivable	3,200	3,200	*3,488*	*3,488*
Other debtors and prepayments	3,235	3,235	*1,858*	*1,238*
	6,435	6,435	*5,346*	*4,726*

22. DEPOSITS BY BANKS

	2011 Group £000	2011 Company £000	*2010 Group £000*	*2010 Company £000*
Repayable on demand	10	10	-	-

23 CUSTOMER ACCOUNTS

	2011 Group £000	2011 Company £000	*2010 Group £000*	*2010 Company £000*
With agreed maturity dates or periods of notice				
By remaining maturity				
-2 years or less but over 1 year	395	395	*11,000*	*11,000*
-1 year or less but over 3 months	60,689	60,689	*50,838*	*50,838*
-3 months or less but not repayable on demand	581,782	581,782	*793,471*	*793,471*
	642,866	642,866	*855,309*	*855,309*
Repayable on demand	1,159,806	1,159,806	*1,134,612*	*1,134,612*
	1,802,672	1,802,672	*1,989,921*	*1,989,921*
Including amount due to the Pension Fund	289	289	*680*	*680*
Amount due to Subsidiary Companies		12,418		*3,804*

24. OTHER LIABILITIES

	2011 Group £000	2011 Company £000	*2010 Group £000*	*2010 Company £000*
Corporation tax	2,497	2,299	*5,565*	*5,509*
Settlement balances	8,685	8,685	*7,413*	*7,413*
Other liabilities	66	47	*17*	-
	11,248	11,031	*12,995*	*12,922*

25 ACCRUALS AND DEFERRED INCOME

	2011 Group £000	2011 Company £000	*2010 Group £000*	*2010 Company £000*
Interest payable	622	622	*838*	*838*
Other creditors and accruals	14,096	14,083	*10,408*	*10,396*
	14,718	14,705	*11,246*	*11,234*

26 CALLED UP SHARE CAPITAL

	2011 Group £000	2011 Company £000	*2010 Group £000*	*2010 Company £000*
Authorised, allotted, called-up and fully paid				
120 Ordinary shares of £1,000	120	120	*120*	*120*

27. RESERVES

(i) Reserve fund	2011 Group £000	2011 Company £000	2010 Group £000	2010 Company £000
At 1 April	22,748	21,148	22,748	21,148
Movement for the year	-	-	-	-
31 March	22,748	21,148	22,748	21,148

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

(ii) Property revaluation reserve	2011 Group £000	2011 Company £000	2010 Group £000	2010 Company £000
At 1 April	14,279	14,279	14,279	14,279
Transfer	-	-	-	-
Movement for the year	-	-	-	-
31 March	14,279	14,279	14,279	14,279
(iii) Investment property revaluation reserve				
At 1 April	3,396	866	3,376	866
Transfer	-	-	-	-
Movement for the year	240	-	20	-
Sale of Freehold Property	(1,267)	-	-	-
Deferred Tax	(311)	-	-	-
31 March	2,058	866	3,396	866
iv) Heritage assets revaluation reserve				
At 1 April restated	9,600	9,600	9,600	9,600
Movement for the year	-	-	-	-
31 March	9,600	9,600	9,600	9,600

27. RESERVES (CONTINUED)

	2011 Group £000	2011 Company £000	*2010 Group £000*	*2010 Company £000*
(v) Available-for-sale reserve				
At 1 April	(584)	(1,536)	*(15,584)*	*(16,318)*
Fair value gains/(losses) taken to equity	253	(373)	*15,430*	*13,829*
Amounts transferred to profit and loss	(1,065)	(1,380)	*(444)*	*953*
Net Movement	(812)	(1,753)	*14,986*	*14,782*
Transfer from profit and loss reserve	-	-	*14*	-
31 March	(1,396)	(3,289)	*(584)*	*(1,536)*
Total revaluation reserves	24,541	21,456	*26,691*	*23,209*
(vi) Profit and loss account				
At 1 April	88,557	78,157	*78,515*	*49,743*
Gains/Losses recognised under FRS 17	4,631	4,631	*(7,410)*	*(7,410)*
Retained profit for the year	16,138	13,487	*17,472*	*35,830*
Transfer to Available-for-Sale Reserve	-	-	*(14)*	-
Dividends paid	(6)	(6)	*(6)*	*(6)*
31 March	109,320	96,269	*88,557*	*78,157*
(vii) Total reserves	156,609	138,873	*137,996*	*122,514*

Reconciliation of movement in shareholders' funds	2011 £000	*2010 £000*
Opening shareholders' funds	138,116	*113,054*
Profit for the financial year	16,138	*17,472*
Dividends	(6)	*(6)*
Available-for-sale reserve (losses)/ gains	(1,494)	*19,968*
Tax thereon	682	*(4,982)*
Property revaluation reserve gains	240	*20*
Sale of Freehold Property	(1,267)	-
Deferred tax thereon	(311)	-
Actuarial gains/ (losses)	6,835	*(10,292)*
Deferred tax and tax credits thereon	(2,204)	*2,882*
Closing shareholders' funds	156,729	*138,116*

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 2011

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

	2011 Group £000	2011 Company £000	*2010 Group £000*	*2010 Company £000*
Guarantees	23,293	23,293	*26,651*	*26,651*
Letters of credit	5,272	5,272	*5,451*	*5,451*
Performance bonds and other transaction-related contingencies	52	52	*1,564*	*1,564*
	5,324	5,324	*7,015*	*7,015*
	28,617	28,617	*33,666*	*33,666*
Commitments Undrawn formal standby facilities, credit lines and other commitments to lend Less than 1 year maturity	282,617	282,617	*247,457*	*247,457*

28. CONTINGENT LIABILITIES AND COMMITMENTS (CONTINUED)

Previously, the Bank had leased office accommodation in a building owned by the Pension Scheme On 11 December 2009 the Bank repurchased the head lease on 33 Lowndes Street, terminating the operating lease There are no operating lease commitments as at 31 March 2011 (*2010 £nil*)

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 £20 billion *(2010 £20 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 £1 7m as at 31 March 2011 in respect of the share of forecast management expense, including interest costs for the 2010/11 and 2011/12 levy years This accrual is based on the Bank's estimated share of total market protected deposits at 31 December 2009 and 2010 respectively The charge to the profit and loss account for the year was a net credit of £64,000 comprised of an accrual of £1,000,000 for the 2011/12 levy less revisions and releases of prior year over estimates of £1,064,000, the previous year profit and loss charge was £1,382,000 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

	2011 £000	*2010 £000*
Non-cash items included in profit before tax		
Increase in provisions for bad debts	181	*872*
Loans and advances written off/(back) net of recoveries	113	*39*
Net charge in respect of defined benefit schemes	2,659	*1,353*
Depreciation	1,955	*1,444*
Exchange translation differences on investment securities	1,789	*3,096*
Loss/(profit) on sale of investment securities	574	*(2,907)*
Profit on sale of tangible fixed assets	(1,454)	*(3)*
Impairment losses/(gains) on investment securities	228	*(2,141)*
Total non-cash items included in profit before tax	6,045	*1,753*
Change in operating assets		
(Increase)/decrease in prepayments and accrued income	(1,089)	*35*
(Increase)/decrease in other assets	(179)	*68*
Net decrease/(increase) in cheques in course of collection	2,043	*1,733*
Net decrease in loans and advances to banks	44,691	*61,195*
Net increase in loans and advances to customers	(83,420)	*(51,580)*
Total change in operating assets	(37,954)	*11,451*
Change in operating liabilities		
Increase in accruals and deferred income	4,794	*5,544*
Increase in other liabilities	619	*6,772*
Net (decrease)/increase in customer accounts	(187,249)	*236,069*
Net increase/(decrease) in deposits by banks	10	*(128)*
Total change in operating liabilities	(181,826)	*248,257*
Cash and cash equivalents		
Cash and balances at the Bank of England	172,401	*221,582*
Loans and advances to banks repayable on demand	240,524	*216,270*
Total cash and cash equivalents	412,925	*437,852*

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 2011 were as follows

	Aggregate amount outstanding £000	Number of Persons
Loans and credit transactions	5,032	8

These loans are fully secured on normal business margins

32 ASSETS PLEDGED TO SECURE LIABILITIES

At 31 March 2011 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 (*2010 £5,328,000*) The secured liabilities outstanding amounted to £5,328,000 *(2010 £5,328,000)* The pledged assets are inter-bank deposits with the financial institution underwriting the guarantees to Lloyd's of London

There was also £19,717,000 *(2010 £8,572,000)* pledged in favour of the Hoare's Bank Pension Scheme This is an inter-bank deposit with a legal charge in favour of Hoare's Bank Pension Trustees Ltd C Hoare & Co receives any income earned from the deposit

33 RELATED PARTY TRANSACTIONS

Previously the Bank had made payments to its Pension Fund in respect of rents on premises occupied by the Bank, this was terminated in December 2009 when the Bank re-acquired the leasehold of these premises and hence no amounts were paid in the current period *(2010 £177,000)*

During the year the following directors Mr R Q Hoare, Mr A S Hoare, Miss V E Hoare, Mr S M Hoare and Mrs A S Hopewell made provision for additional capital funding for the Bank by way of a £10,000,000 subordinated debt facility to be drawn if required If drawn this debt would qualify as lower tier 2 capital for regulatory purposes The duration of the facility was set from 1 October 2010 to 31 March 2012, it has not been utilised in the period and is expected to expire at the end of the term The arrangement was put in place on arms-length terms approved by independent directors A single up-front commitment fee of £150,000 (equivalent to 1% p a) was paid to the subscribing Directors on establishment of the arrangement

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 5 to 6
This note presents information about the Bank's exposure to each of the above risks and the Bank's approach to the management of each risk

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

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

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

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

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

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

(b) Credit risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, 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 loans and advances resides with the lending department, monitored by the Credit Policy Committee Responsibility for credit risk relating to bank counterparties lies with the Treasury Department, and that relating to investments lies with Investment Management, both of these departments are overseen by the ALCO

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

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

The Bank continues to hold £5,048,000 in securities issued by Washington Mutual Bank Inc which went into administration in 2008 These have been fully provided for pending any distribution There has been limited progress on any recovery which is the subject of litigation in the US

The AIG credit risk exposure continues to improve All eligible loan advances are now fully drawn (£28,263,000) and there have been distributions from the core investment totalling £3,373,000 which have been used to pay down the loan balances, the net asset value of the underlying investments held as security has improved to 96 08p as at 15 March 2011 (93 78p last year) These loans were made available to a number of customers who had invested in the AIG Enhanced Fund to allow them to receive cash in advance of the three year redemption lock-out announced by AIG, following the run on the fund's assets in September 2008 These loans were made at the C Hoare & Co base rate on a non-recourse basis and rely upon the redemption of the underlying investments, including any gains, to repay the capital and accumulated interest, with an underpinning guarantee of the principal from the UK subsidiary of AIG ("Alico") As at 31 March 2011, the total balance outstanding was £26,635,000 *(2010 £27,580,000)* with impaired interest of £1,745,000 *(2010 £936,000)*

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

34. FINANCIAL RISK MANAGEMENT (CONTINUED)

£000	Loans and advances to customers		Loans and advances to banks		Available-for-sale financial assets	
	2011	*2010*	**2011**	*2010*	**2011**	*2010*
Balance sheet						
Carrying amount	**869,180**	*786,055*	**348,159**	*368,596*	**554,784**	*740,457*
Individually Impaired	**32,456**	*35,468*	-	-	**9,916**	*9,634*
Allowance for impairment	**(5,846)**	*(5,828)*	-	-	**(8,303)**	*(8,354)*
Carrying Amount	**26,610**	*29,640*	-	-	**1,613**	*1,280*
Assets not subject to impairment nor on watch list	**747,249**	*652,467*	**348,159**	*368,596*	**553,171**	*739,177*
Watch list loans						
High risk	**4,027**	*2,083*	-	-	-	-
Medium risk	**92,664**	*103,185*	-	-	-	-
Allowance for collective Impairment	**(1,370)**	*(1,320)*	-	-	-	-
Carrying amount	**869,180**	*786,055*	**348,159**	*368,596*	**554,784**	*740,457*
Off balance sheet						
Guarantees	**23,293**	*26,651*	-	-	-	-
Letters of credit and performance bonds	**5,324**	*7,015*	-	-	-	-
Commitments	**282,617**	*247,457*	-	-	**440**	*1,200*
Total credit risk exposure	**1,180,414**	*1,067,178*	**348,159**	*368,596*	**555,224**	*741,657*

34. FINANCIAL RISK MANAGEMENT (CONTINUED)

The credit risk classifications used in the preceding table are

Individually impaired loans and securities
The Bank regularly assesses whether there is objective evidence that any loans or securities are impaired Loans and securities are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the assets, and that the loss event has an impact on the future cash flows on the asset that can be estimated reliably 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 sufficient to warrant a full impairment assessment These are assessed by the relationship managers and graded high, medium and low to highlight exposures which require closer management attention because of their greater probability of default and potential loss For reporting purposes low risk balances are not disclosed

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

Write-off policy
Bad debts are usually written off in the event of bankruptcy/insolvency of a customer However, as it is always possible that a customer may acquire assets in the future, debts are often left, fully provisioned, as an aide memoire of the position Bad debts will be written off 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 2011, the value of property collateral recorded against customer facilities was £1,810m *(2010 £1,657m)* The estimated value of collateral against the impaired customer loans and advances was £2 2m *(2010 £5 0m)*

Renegotiated lending
The Bank maintains direct contact with all borrowers through their respective relationship manager Over the life of a loan, should the customer's ability to service or repay become compromised in any way, the loan will be placed on a watch-list as low, medium or high risk depending upon the degree of stress as determined by the relationship manager and/or 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

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 2011						
Balance sheet						
Deposits from banks	10	10	-	-	-	-
Deposits from customers	1,802,672	1,298,404	309,275	133,909	60,689	395
Off balance sheet						
Undrawn customer facilities	282,617	282,617	-	-	-	-
Guarantees, Letters of Credit and Performance Bonds	28,617	28,617	-	-	-	-
Total Liabilities	**2,113,916**	**1,609,648**	**309,275**	**133,909**	**60,689**	**395**

	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*

34. FINANCIAL RISK MANAGEMENT (CONTINUED)

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

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

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

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

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

Fixed rate loans are hedged with Interest Rate Swaps of equal duration which protect the net interest margin against adverse changes in money market rates Cash flows from derivative instruments are spread over the period to which the cash flow relates The Bank accrues the net interest payment/receipt on Interest Rate swaps on a quarterly basis and adjusts the fair value of the remaining cash flows accordingly

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

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 risk is managed by the Treasury Department lending surplus funds to other banks and/or taking forward foreign exchange agreements to cover expected future cash flows

34 **FINANCIAL RISK MANAGEMENT (CONTINUED)**

Exposure to market risks interest rate risk

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

£000	Carrying Amount	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Over 5 years
As at 31 March 2011						
Assets						
Loans and advances to banks and central banks	520,158	519,568	-	-	-	590
Loans and advances to customers	869,180	800,242	-	6,284	53,580	9,074
Interest bearing available for sale financial assets	550,750	399,202	151,548	-	-	-
Total assets	**1,940,088**	**1,719,012**	**151,548**	**6,284**	**53,580**	**9,664**
Liabilities						
Deposits by banks	10	10	-	-	-	-
Customer accounts	1,802,672	1,741,587	33,918	26,772	395	-
Total liabilities	**1,802,682**	**1,741,597**	**33,918**	**26,772**	**395**	**-**
Derivatives	-	125,600	(65,000)	(4,000)	(48,350)	(8,250)
Interest rate gap	**137,406**	**103,015**	**52,630**	**(24,488)**	**4,835**	**1,414**

£000	*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*

34. FINANCIAL RISK MANAGEMENT (CONTINUED)

Exposure to market risk interest rate risk (continued)

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

The interest rate gap table on the previous page shows some distinct changes over the previous year Customer deposits beyond one year have reduced as customers anticipate interest rate rises later in the year In response to customer demand, fixed term customer loans have increased in the 1 to 5 year and over 5 year bands, off-set by Interest Rate Swaps as protection against rising interest rates as part of the Bank's risk management process

Bank monitors its exposure to Interest Rate Risk The impact of a potential 2 00% change, both increase and decrease, in the yield curve against the Bank's interest bearing assets is computed back to a Net Present Value The value is calculated monthly and reported to the ALCO against a Board agreed tolerance level The reported interest rate sensitivity on the year end balance sheet and fixed interest instrument holdings was as follows

Effect of a change to 2 00% in Sterling Market Rates	**31 March 2011**	*31 March 2010*
Net Present Value Sensitivity to	**£000**	*£000*
Positive shift	**111**	*(1,375)*
Negative shift	**(77)**	*1,453*

The interest rate sensitivities set out above are illustrative only and are based on simplified scenarios The figures represent the effect on net interest income and fixed interest security values arising from a parallel fall or rise in the yield curve and do not take into account the effect of any further actions to mitigate the effect The values have reduced as the treasury department have taken a short term view on interest rates rather than commit funds longer term in anticipation of interest rate rises later this year

Exposure to market risk currency risk

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

	2011	*2010*
	£000	*£000*
US dollar	**69**	*53*
Euro	**180**	*128*
Other	**810**	*171*
Total	**1,059**	*352*

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

34. FINANCIAL RISK MANAGEMENT (CONTINUED)

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

OPERATIONAL RISK MANAGEMENT OBJECTIVES

- To 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

34 FINANCIAL RISK MANAGEMENT (CONTINUED)

(f) Fair values of financial assets and liabilities

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

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

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

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

34. FINANCIAL RISK MANAGEMENT (CONTINUED)

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

Group Valuation Hierarchy	**2011** **Level 1** **£000**	**2011** **Level 2** **£000**	**2011** **Level 3** **£000**	**2011** **Total** **£000**
Bank and building society - certificates of deposit	235,280	-	-	235,280
Bank and building society - other securities	190,470	-	-	190,470
Equity securities	556	3,477	-	4,033
Debt securities with readily determinable fair values	125,000	-	-	125,000
Derivative financial assets	-	299	-	299
Total financial assets	551,306	3,776	-	555,082
Derivative financial liabilities	-	1,105	-	1,105

Group Valuation Hierarchy	*2010* *Level 1* *£000*	*2010* *Level 2* *£000*	*2010* *Level 3* *£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 pages 7 and 8