C. Hoare & Co.

Annual Report and Consolidated Financial Statements Year Ended 31 March 2013

Company Number: 240822

CONTENTS

Chairman's Foreword 1

Directors' Report 2

1. Principal Activities 2
2. Results and Dividends 2
3. Business Review 2
4. Principal risks and uncertainties 5
5. Capital Management 8
6. The Board of Directors 10
7. Employees 10
8. Charitable and Political Donations 11
9. Environmental Policy Statement 11
10. Policy and Practice on the Payment of Suppliers 11
11. Land and Buildings 11
12. Independent Auditors 11
13. Disclosure of Information to Auditors 11
14. Statement of Directors' Responsibilities 12

Independent Auditors' Report 13

Consolidated Profit and Loss Account 15

Consolidated Statement of Total Recognised Gains and Losses 16

Consolidated Balance Sheet 17

Company Balance Sheet 18

Consolidated Cash Flow Statement 19

Notes to the Financial statements 20

1. Accounting Policies 20
2. Net Interest Income 28
3. Pension and Other Post-Retirement Benefits 28
4. Dealing Profits 35
5. Other Operating Income 35
6. Employee Information and Administrative Expenses 35
7. Emoluments of Directors 36
8. Tax on Group Profit on Ordinary Activities 37
9. Company Profit Dealt with in the Consolidated Financial Statements of C. Hoare & Co. 38
10. Dividends 38
11. Derivative Financial Instruments 39
12. Loans and Advances to Banks 40
13. Loans and Advances to Customers 40
14. Allowance for Impairment Losses on Loans and Advances to Customers (Group and Company) 41
15. Debt securities and other Available-for-sale Financial Assets 42

16. Investments in Subsidiaries 42
17. Tangible Fixed Assets (Group and Company) 43
18. Heritage Assets (Group and Company) 44
19. Deferred Tax 45
20. Other Assets 46
21. Prepayments and Accrued Income 47
22. Deposits by Banks 47
23. Customer Accounts 47
24. Other Liabilities 48
25. Accruals and Deferred Income 48
26. Called-up Share Capital 48
27. Reserves 49
28. Contingent Liabilities and Commitments 51
29. Consolidated Cash Flow Statement 53
30. Segmental Information 54
31. Directors' Loans 54
32. Related Party Transactions 54
33. Ultimate Controlling Party 54
34. Financial Risk Management 55

CHAIRMAN'S FOREWORD

On behalf of the Board I would like to thank our customers and staff for continuing to contribute so much to the success of the Bank. We have passed two major milestones: our customer lending and our investments under discretionary management both grew to over £1 billion during the year.

Our detailed results for the year to 31 March 2013 are set out in the following pages. Our balance sheet once again demonstrates growth in our banking business with an increase of some 9.2% in customer deposit monies and, as noted above, even stronger growth in our lending and investment management activities.

Despite this underlying business growth, overall profits before tax fell slightly and remain tempered by the conservative position we have taken in relation to our surplus deposit monies. We continue to maintain this cautious stance given the political and economic uncertainty in the UK, Europe and in the developed world generally, which leads us to hold significant levels of cash with the Bank of England.

We continue to build our capital resources by retaining most of the profits we make from the business and remain comfortably ahead of regulatory requirements. The Bank has not found the need to seek external capital and the Board intends this to continue.

The Bank has also been successful in winning a number of awards during the last year. We are not complacent however, and we are actively following up the results of a customer survey undertaken towards the end of 2012.

The Hoare family remain sole shareholders. With unlimited liability they are still, as ever, 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.

Work on our Fleet Street offices is now complete and we are welcoming customers to the new building. Although this completes a period of substantial investment in the Bank's physical infrastructure we continue to invest significant amounts in technology to meet both regulation and changes in the industry, as well as to improve the efficiency of our service to customers.

Standards in banking have come under increasing scrutiny during the last year. I would like to reiterate my remarks in 2012; that we have not found it necessary to change our business model or the values of fairness, honesty and independence on which this model is built. With this in mind we have embraced and participated fully in the work of the Parliamentary Commission on Banking Standards.

Regulatory pressure has forced the industry to provide improved transparency around pricing and business referral, brought into sharp focus with the FSA's Retail Distribution Review, and on the 1st January 2013 the Bank was one of very few to adopt "independent" status under this regulatory initiative.

In short, the Bank has had a good year. It remains in a strong position; dedicated to the service of its customers in accordance with the long held values of the Hoare family.

Lord Wilson of Dinton
Chairman

DIRECTORS' REPORT

The Directors of C. Hoare & Co. ("the Company" or "the Bank") present their Annual Report and audited Consolidated Financial Statements of the Company and its subsidiaries, Messrs Hoare Trustees, Mitre Court Property Holding Company, Hoares Bank Nominees Limited, Hoare's Bank Pension Trustees Limited and C. Hoare & Co. EIG Management Limited ("the Group"), for the year ended 31 March 2013.

The Financial Statements were approved by the Board on 20 June 2013.

1. Principal Activities

C. Hoare & Co. is an unlimited company with a share capital which is incorporated and domiciled in the United Kingdom. The Bank's principal activity, together with its subsidiaries, is the provision of a wide range of banking, investment and financial advice services to a predominantly high net worth customer base.

2. Results and Dividends

The financial results for the year are set out in the profit and loss account on page 15.

Underlying business growth continues despite the weakness in the UK, Eurozone and global economies; notably the lending book and funds under management each exceeded £1bn during the year, and deposits reached a record high of £2.3bn.

Despite these positive trends, overall profit before tax decreased by £0.7m (2.8%) to £24.3m. Although net interest income increased by 7.8%, net fee income by 8.1% and total operating expenses grew by 7.3%, adding £1.9m to profits before tax between them, this increase in profits was offset by a number of smaller variances, including a £0.7m increase in impairment provisions on customer loans and £0.7m of losses on available-for-sale investments.

Retained profits for the year of £18.7m *(2012: £18.4m)* will be used to strengthen reserves and support future growth.

The Board recommends an ordinary share dividend for the year of £50 per share *(2012: £50)*, payable on 18 July 2013.

3. Business Review

Performance

The Board and management continuously assess the performance of the business, including monitoring a range of key performance indicators, such as the capital ratio; net interest margin; cost and income growth rates; cost to income ratio and return on capital; as well as non financial measures, such as headcount; customer take-on rate and profile; and risk related measures, via the risk management framework and risk register.

The past twelve months have been characterised by continuing low interest rates and low economic growth. Governments continue to wrestle with deficits, imposing austerity measures while attempting to stimulate growth. The Funding for Lending Scheme was launched during the year, which depressed market interest rates, while in recent months inflation expectations have crept higher. The UK has remained relatively stable with unemployment rates improving, however low forecast economic growth remains a concern, with few obvious levers available to government to help improve the outlook in the near term. The Eurozone was more stable in the current year than the previous one, but recession and low growth remain an issue, and the situation in Cyprus towards the year end implies a risk of further instability.

Regulatory change is an ongoing theme across the industry, often causing additional investment in systems and infrastructure. We expect the pace of change to remain high for some time, given the regulatory agenda from Europe, a new governor at the Bank of England and the split of the FSA; with the latter two changes potentially leading to further changes in the direction of economic policy or regulatory reform.

DIRECTORS' REPORT (CONTINUED)

Deposit balances reached a record of £2.3bn at year end, equating to 9.2% growth over the year. This was somewhat higher than expected, and was in part due to acceleration in deposit growth in the final weeks of the year. We recognise deposit levels are still somewhat above the level implied by the longer term trend, and are conscious of the risk that some deposits may leave us in search of higher yields, should confidence return. Our stated policy remains, as always, not to 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 our focus on customer service.

The Bank's money market book was stable through the year. At the year end, the Bank held the equivalent of 24% of customers' deposits at the Bank of England and a further £285m of assets capable of repo with the Bank of England. When placing funds with other banks we continued to prefer lower risk over higher return and, following the maturity at par of the Bank's last pre-crisis holding in June 2012, ended the year with no exposure to domestic banks in the Eurozone, other than some small account balances necessary to enable foreign exchange transactions for customers.

The customer lending book grew by 11.7% to £1.1bn, also a record balance. We maintain a consistent approach to lending both in terms of our credit criteria and pricing, and we remain willing lenders to the right customers.

£2.7m of accrued interest on AIG related loans was written off during the year. This had accrued over four years and was fully provided for. The principal on these loans was recovered in full. No material loans were impaired during the year; however, provisions were raised against a small number of loans. This reflects the Board's awareness of weakness in the UK economy and consequent higher risk of loss within the lending book; although overall our customers tend to undertake borrowing at relatively low levels of gearing.

The Bank's net interest margin was 2.6%, consistent with the previous year. This was achieved as income from the customer lending book offset lower yields in the money market book; yields in the money market book were low due to its conservative positioning and the fall in market yields following the introduction of the Bank of England's Funding for Lending Scheme in July 2012. Net interest income increased by £4.0m, or 7.8%.

Our investment management business demonstrated significant growth of 34% in funds under management, including the effect of positive market performance. Excluding this effect, net new funds were £246m or 25%. We maintain our commitment to this maturing business and are pleased to welcome more customers to the Bank who have been attracted by the range of services we offer.

Once again the Bank is pleased to have won a number of awards, notably Spears Private Bank of the Year (UK), two STEP Private Client Awards, two Citywealth Magic Circle Awards and the 2013 PAM Award for 'Total Wealth Solutions – High Net Worth', the latter particularly welcome given the Bank's "independent" approach under RDR.

Fees from investment management, foreign exchange, cash administration and the advisory business grew by 6.0% to £15.8m. Overall, income grew by 5.7% to £83.0m.

Operating expenses grew broadly in line with income, reflecting increased activity and investment in the business.

Excluding performance-related pay, underlying operating expenses increased by 8.3% over 2012. Staff costs comprise 66% of the Bank's cost base and, excluding bonus payments, these increased by 3.5%. The Bank continues to invest in both people and information technology, with much of the Bank's investment programme driven by regulatory change; an effect which is being felt across the industry and which, over time, is likely to increase costs for all banks.

The FSCS Levy was stable this year versus last, but we remain cautious that it could increase in future years. We may also see a step change in other regulatory fees, following the split of the FSA into the Prudential Regulatory Authority ("PRA") and Financial Conduct Authority ("FCA").

DIRECTORS' REPORT (CONTINUED)

Income and realised gains on the Bank's legacy investment portfolio were £1.1m for the year.

The refurbishment of the Bank's buildings in Fleet Street was completed during the year, providing additional customer meeting facilities, a new customer reception area and function room, as well as a more modern working environment for staff. The Bank's property was independently revalued at year end, and its value increased by £6.5m, net of the costs of the refurbishment work.

Excluding the impact of bad debts, investment income and gains, the Bank's cost to income ratio as reported to the Board fell slightly from 64% to 63%, mainly due to income growth exceeding cost growth.

The Bank's defined benefit pension scheme ("the Scheme") was closed to future accrual in 2007 and by March 2008 the Scheme was fully funded on an FRS 17 basis. Subsequent economic events took their toll on the Scheme's investments, which prompted the Board to recommence contributions to the Scheme. These contributions have continued in line with a Recovery Plan that was agreed with the Trustee in March 2011. This plan committed the Bank to making a series of contributions, the last of which is due in the next financial year. Details of this commitment are set out in Note 3 to the Financial Statements. Aside from the effect of the contributions made during the year, the Scheme's deficit increased by £3.7m, as performance of the Scheme's assets was insufficient to match the increase in liabilities resulting from the fall in interest rates and increase in inflation expectations. The next triennial review of the Scheme is in progress; given the ongoing deficit, we anticipate a further Recovery Plan will be required by the Trustee.

In accordance with accounting standard FRS 30, 'Heritage Assets', various artefacts acquired over many years are included in the Bank's balance sheet. The Board does not believe the value of these items has changed materially since they were last independently valued, in the year ended 31 March 2010, and they remain held at £9.6m, which was at the lower end of the valuer's range. Further detail is given in Note 18 to the Financial Statements.

The Board maintains a strong philanthropic culture within the Bank. One of the Bank's key non-financial performance indicators is the proportion of staff who share the Bank's values and donate to charity through the Bank's "Give as You Earn" scheme. As at 31 March 2013, 47% of staff chose to give in this way *(2012: 45%)*. The Bank's charitable trust ("The Golden Bottle Trust") increases the value of staff donations by double matching them. The Bank also encourages staff to give up some of their own time to charitable causes by matching the time taken with paid leave up to a maximum of two days each year. We also established the Master Charitable Trust for philanthropic customers, and this continued to attract new investment during the year.

Total shareholders' funds increased by £25.4m (15%) during the year, primarily as a result of retained profits and an increase in property revaluation reserves, offset by the increase in pension scheme deficit.

Future Developments

The main economic themes expected by the Board for the coming financial year and beyond are: if and when there will be increased appetite for risk; whether, when and by how much interest rates might increase; and whether existing or new catalysts will threaten the global economic recovery. These themes exist in the context of changing regulation, which is increasing costs and requiring higher capital ratios for most banks.

The Bank begins the new financial year with a conservatively positioned money market book with high levels of liquidity. While the Board remains concerned with the weakness of the global, European and UK economies, the economic background is somewhat more stable than it has been in recent years, and the Board is beginning to look at cautiously returning to a more normally positioned money market book.

The split of the FSA may result in a different approach to regulation; in particular we expect to see more penalties and fines imposed on industry participants by the FCA. We also expect overseas regulation to have an increasing impact on the Bank, in particular from the EU (for example COREP, the Mortgage Credit and Consumer Credit Directives), and US (notably FATCA, the Foreign Account Tax Compliance Act, which will impinge further on the way we deal with US persons).

DIRECTORS' REPORT (CONTINUED)

Against this background the Bank continues to focus on conducting business in a manner consistent with its long held core values and on ensuring that sufficient profits are retained to maintain a capital base at least in line with expected future requirements.

The Bank's subsidiary Mitre Court Property Holdings Company is expected to become dormant in the coming year.

4. Principal risks and uncertainties

The Bank's and Group'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 and management to monitor risks closely and to detect and manage any emerging changes at an early stage.

Risk management framework

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

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

Governance structure

The Group's governance structure assigns these roles and responsibilities to a number of committees focused on managing the principal risks faced by the Bank. These committees are described below.

The Board has two sub-committees related to remuneration and nominations:

- The Remuneration Committee, which is responsible for setting the over-arching principles, parameters and governance of remuneration policy across the Bank and approving the remuneration arrangements of the Partners, Executive Group and other senior employees across the bank. The committee members are two non-executive directors, two partners and the Bank's chairman. It meets at least twice each year.

- The Nomination Committee, which is responsible for ensuring there is a formal, rigorous and transparent procedure for the appointment of new directors to the board. The committee members are two non-executive directors, two partners and the Bank's chairman. It meets when necessary.

The following committees are in addition to those above and may be grouped using the three lines of defence model, which is part of the risk management framework and helps to clarify roles and responsibilities.

DIRECTORS' REPORT (CONTINUED)

First line of defence committees

The first line of defence has direct responsibility for strategy, management and control of risk and includes:

- The Executive Group, which consists of the Chief Executive, Deputy Chief Executive and five Heads of Department. The main responsibilities of the Executive Group include: formulating a strategy for the bank; developing new business; creating the organisational structure; managing the day-to-day business of the bank; monitoring financial performance and other operational matters. The group meets weekly.

- The Asset and Liability Committee ("ALCO"), which is responsible for overseeing the Bank's assets and liabilities and managing liquidity, in a formal and co-ordinated manner. 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. The ALCO meets monthly.

- The Credit Policy Committee, which oversees customer pricing, security and overall exposure guidelines and sets customer lending parameters for approval by the Board. This committee meets monthly and is chaired by an experienced member of the Bank's management, with participation of up to five Partners.

Second line of defence committees

The second line of defence co-ordinates, facilitates and oversees the effectiveness and integrity of the risk management framework and includes:

- The Risk Committee, which was established during the year and is a sub-committee of the Board which oversees the implementation of the Bank's risk management framework. The main purposes of the committee are to advise the Executive Group and the Board on risk management and to embed a culture of risk awareness and control consciousness within the Bank. The committee meets monthly and is chaired by Mrs A.S. Hopewell. Membership includes the CEO, CFO, Head of Compliance and Risk, and a Non-executive Director.

Third line of defence committees

The third line of defence provides independent assurance and challenge across all business functions in respect of the integrity and effectiveness of the risk management framework and includes:

- The Audit & Compliance Committee which is responsible for reviewing the effectiveness of the Bank's internal controls and risk management systems; reviewing any statement on internal controls systems and making appropriate recommendations to the Board; and monitoring and reviewing the effectiveness of the Bank's control functions in the context of the Bank's overall risk management. The members of the committee are Mr. H.C. Hoare, Sir David Hoare Bt., Mr. C.J.S. Pink, Mrs L.C. Powers-Freeling, Mrs A.S. Hopewell and the independent chairman is 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.

DIRECTORS' REPORT (CONTINUED)

Principal risks

Principal risks are monitored by reference to leading indicators, which are designed to highlight potential problem areas well in advance. The principal risks faced by the Bank are:

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.

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

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

b) Liquidity Risk

The Bank is supervised by the PRA on the same basis as other major UK financial institutions. The PRA's approach to liquidity management takes account of the underlying characteristics of the deposit base and establishes bank specific liquidity requirements along similar lines to those used to set capital requirements. The Bank's well established liquidity management criteria are consistent with PRA's approach and include, for example, that lending and other long term investments should not normally exceed 70% of retail deposits. Liquidity is managed daily by the Bank's Treasury department under the supervision of the ALCO.

c) Interest Rate Risk

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) Operational Risk

Operational risks are the direct or indirect impact arising from people, inadequate or failed internal processes and systems or external events. Such risks are identified, assessed and monitored in the Bank's operational risk register, which is reviewed regularly by management, the Risk Committee and the Board. The Bank recognises that operational risk is inherent in all its products, activities, processes and systems and seeks to manage risks to an acceptable level that reduces the frequency and impact of operational losses in a cost effective way.

The key operational risks that the Bank faces relate to legal and regulatory change, compliance, information security, IT systems and business continuity. The Board is also conscious of the risks inherent in the growing investment management and advisory business.

e) Foreign Currency Risk

Foreign currency balances are driven by the requirements of the Bank's customers. 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.

DIRECTORS' REPORT (CONTINUED)

f) Derivatives

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

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 in the Profit and Loss Account.

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

g) 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 included in dealing profits (Note 4).

h) Reputational risk

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

Detailed disclosures on credit risk, liquidity risk, interest rate risk, foreign exchange risk and operational risk and the use of derivatives are set out in Notes 11 and 34 in accordance with FRS 29 'Financial Instruments: Disclosures'.

5. Capital Management

The Bank is supervised and regulated by the PRA and regularly reports its capital adequacy position to the PRA. The Bank follows the Standardised Approaches to Credit Risk and to Operational Risk under the Capital Requirements Directive, more commonly known as Basel II.

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 criteria established under Basel II to reflect the varying levels of risk attached to assets and off-balance sheet exposures.

DIRECTORS' REPORT (CONTINUED)

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

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

In accordance with the PRA's requirement, the Bank's available capital resources (i.e. regulatory capital) are measured against its capital resources requirement ("CRR") as defined under Pillar 1 of Basel II. At year end, the FSA (the PRA's predecessor) had set an Individual Capital Guidance ("ICG") for the Bank, calibrated by reference to the CRR. A key input to the FSA's/PRA's ICG setting process (which addresses the requirements of Pillar 2 of 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 and this ICG was in use at year end. The Bank submitted its latest ICAAP to the FSA and met with the FSA on the same topic shortly before year end; a revised ICG was provided by the PRA in April 2013.

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

	2013	*2012*
	£000	*£000*
Tier 1 capital		
Ordinary share capital	**120**	*120*
Reserve Fund	**22,598**	*22,598*
Profit and loss account	**138,168**	*122,290*
Total Tier 1 capital	**160,886**	*145,008*
Tier 2 capital		
Property revaluation reserve	**20,765**	*14,279*
Investment property revaluation reserve	**1,641**	*866*
Heritage assets revaluation reserve	**9,600**	*9,600*
Available-for-sale reserve gains (equities)	**278**	*926*
Collective Impairment Allowance	**2,185**	*1,600*
Total Tier 2 capital	**34,469**	*27,271*
Total regulatory capital	**195,355**	*172,279*
Risk-weighted assets (unaudited)	**1,041,744**	*913,499*
Capital ratios (unaudited)		
Total regulatory capital expressed as a percentage of risk weighted assets	**18.75%**	*18.86%*
Total Tier 1 capital expressed as percentage of risk weighted assets	**15.44%**	*15.87%*

DIRECTORS' REPORT (CONTINUED)

The Bank's regulatory capital ratio decreased slightly year on year from 18.86% to 18.75%, with Tier 1 falling from 15.87% to 15.44%. Both ratios fell as asset growth, including exposure to other banks, drove an increase of 14.0% in risk weighted assets, while Tier 1 capital increased by 10.9% and total capital by 13.4%. Tier 1 capital growth of £15.9m resulted from £18.7m of retained profits offset by the increase in the defined benefit pension scheme deficit; Tier 2 capital increased due to revaluation gains on the Bank's properties. Looking forwards, particularly if economic conditions improve, we expect the capital ratio to fluctuate, as the mix of assets on the balance sheet is adjusted to a more normal composition, which is likely to increase risk weighted assets further.

The Bank's Pillar 3 disclosures, as required under Basel II (implemented in the European Union by the Capital Requirement Directive), are available on the Bank's website: www.hoaresbank.co.uk.

6. The Board of Directors

Directors of the Bank holding office during the year and up to the date of signing the Financial Statements were as follows:

Mr. 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. J. S. J. Marshall (Chief Executive Officer)
Mr. I. R. Peacock
Mr. C. J. S. Pink
Mrs L. C. Powers-Freeling

The Board of Directors includes seven Directors (those marked with an asterisk in the list above) who are all descendants of the Bank's founder. They are known as Partners and all work in the business. Part of their role is to ensure the continuation of the Bank's long-held culture, values and approach to business. They are the Bank's only shareholders and have unlimited liability.

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

7. Employees

The Bank had 370 employees on a full time equivalent basis as at 31 March 2013 *(2012: 340)*. 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 raise and discuss matters with management.

DIRECTORS' REPORT (CONTINUED)

8. Charitable and Political Donations

During the year the Bank made charitable donations of £1,200,000 *(2012: £1,400,000)* to the Bank's charitable trust, The Golden Bottle Trust, whose objective is the continuation of the philanthropic commitments and ideals of the Hoare family.

The Bank did not make any political donations during the year *(2012: £Nil)*.

9. Environmental Policy Statement

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

Climate change is an increasingly important issue for us and future generations. We are committed to running the Bank with minimum adverse impact on the environment.

As a responsible business, we aim to make better use of resources, including managing our energy, waste, and water more efficiently and effectively. This is nothing new; the Bank has been engaged in it for centuries, including, for example, using the Bank's own well water for non-drinking requirements.

10. Policy and Practice on the Payment of Suppliers

Subject to receiving the associated goods or services to a satisfactory standard, the Bank's policy and practice is to pay suppliers promptly, usually in advance of the supplier's credit terms.

11. Land and Buildings

Land and buildings are carried in the balance sheet at estimated market value. The Bank's land and buildings were independently valued at the year end, leading to an increase from £22.7m to £34.9m, part of which was due to the refurbishment of the Bank's buildings in Fleet Street.

12. Independent Auditors

PricewaterhouseCoopers LLP were appointed as the Company's auditors in November 2011 and, pursuant to Section 487 of the Companies Act 2006, they will be deemed to be reappointed and will therefore continue in office.

13. 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.

DIRECTORS' REPORT (CONTINUED)

14. Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report and Consolidated Financial Statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the group and parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law).

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

In preparing these Financial Statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable United Kingdom 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 Company will continue in business.

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

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

By Order of the Board

27 June 2013

D Green
Company Secretary
C. Hoare & Co.
37 Fleet Street
London
EC4P 4DQ
Registration number: 240822

INDEPENDENT AUDITORS' REPORT

We have audited the group and parent company financial statements ("the Financial Statements") of C. Hoare & Co. for the year ended 31 March 2013, which comprise the Consolidated Profit and Loss Account, the Consolidated Statement of Total Recognised Gains and Losses, the Consolidated Balance Sheet, the Company Balance Sheet, the Consolidated Cash Flow Statement and related Notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of directors and auditors

As explained more fully in the Statement of Directors' Responsibilities set out on page 12 the Directors are responsible for the preparation of the Financial Statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Financial Statements in accordance with applicable law and International Standards on Auditing (United Kingdom and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the Financial Statements sufficient to give reasonable assurance that the Financial Statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group and parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the Financial Statements. In addition, we read all the financial and non-financial information in the Annual Report and Consolidated Financial Statements to identify material inconsistencies with the audited Financial Statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

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 2013 and of the group's profit and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

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 have been prepared is consistent with the Financial Statements.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

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 and returns; 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.

Jeremy Jensen

Jeremy Jensen
Senior Statutory Auditor
27 June 2013

For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
7 More London Riverside
London, SE1 2RT

CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Note	2013 £000	*2012 £000*
Continuing operations			
Interest receivable		63,314	*58,556*
Interest payable		(8,121)	*(7,359)*
Net interest income	2	55,193	*51,197*
Dividend income		122	*552*
Other finance costs	3	(265)	*(360)*
Fees and commissions receivable		22,813	*20,808*
Fees and commissions payable		(741)	*(398)*
Net fees and commissions income		22,072	*20,410*
Dealing profits	4	4,430	*4,958*
Other operating income	5	1,433	*1,732*
Total income		82,985	*78,489*
Operating expenses			
Administrative expenses	6	(53,069)	*(49,241)*
Depreciation		(3,025)	*(3,050)*
Total operating expenses		(56,094)	*(52,291)*
Impairment losses on loans and advances		(2,215)	*(1,523)*
Impairment (losses)/recovery on available-for-sale assets		(385)	*309*
Profit on ordinary activities before tax		24,291	*24,984*
Tax on profit on ordinary activities	8	(5,640)	*(6,565)*
Profit for the financial year	27	18,651	*18,419*

All amounts shown in the Consolidated Profit and Loss Account relate to continuing operations.

The Notes on pages 20 to 66 form an integral part of these Financial Statements.

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	Note	2013 £000	*2012 £000*
Profit for the financial year		**18,651**	*18,419*
Unrealised valuation gains/(losses) on properties taken to equity	27	7,261	*-*
Realised valuation loss/(gains) on investment properties		-	*(1,503)*
Deferred tax arising on realised valuation gains		-	*311*
		7,261	*(1,192)*
Actuarial gains/(losses) recognised in the pension scheme	3	(3,383)	*(7,020)*
Deferred tax thereon		812	*1,825*
Change in corporation tax rate		(196)	*(398)*
		(2,767)	*(5,593)*
Available-for-sale investments:			
Valuation gains/(losses) taken to equity		3,132	*1,404*
Tax arising on valuation gains/(losses) taken to equity		(907)	*(617)*
	27	2,225	*787*
Total gains and losses recognised since the last annual report		25,370	*12,421*

The Notes on pages 20 to 66 form an integral part of these Financial Statements.

CONSOLIDATED BALANCE SHEET

	Note	2013 £000	*2012 £000*
Assets			
Cash and balances at central banks		542,377	*631,372*
Items in course of collection from banks		5,059	*5,170*
Derivative financial instruments	11	179	*105*
Loans and advances to banks	12	134,931	*153,499*
Loans and advances to customers	13	1,062,505	*951,488*
Debt securities and other available-for-sale financial assets	15	702,270	*487,835*
Tangible fixed assets	17	45,818	*35,317*
Heritage Assets	18	9,618	*9,600*
Deferred tax	19	329	*111*
Other assets	20	416	*378*
Prepayments and accrued income	21	9,877	*6,262*
Total assets		2,513,379	*2,281,137*
Liabilities			
Deposits by banks	22	4	*476*
Customer accounts	23	2,262,050	*2,070,722*
Derivative financial instruments	11	18,941	*5,536*
Deferred tax	19	46	*63*
Other liabilities	24	6,503	*8,834*
Accruals and deferred income	25	16,222	*11,222*
Defined benefit pension scheme liability net of deferred tax	3	15,105	*15,140*
Called-up share capital	26	120	*120*
Reserve fund	27	22,598	*22,598*
Revaluation reserves	27	33,622	*24,136*
Profit and loss account	27	138,168	*122,290*
Total shareholders' funds		194,508	*169,144*
Total liabilities		2,513,379	*2,281,137*
Memorandum items:			
Contingent liabilities (guarantees)	28	32,830	*30,011*
Commitments	28	319,240	*297,073*

The Financial Statements on pages 16 to 66 were approved by the Board of Directors on 20 June 2013 and signed on its behalf by:

H C Hoare
Director
27 June 2013

R Q Hoare OBE
Director
27 June 2013

The Notes on pages 20 to 66 form an integral part of these Financial Statements.

COMPANY BALANCE SHEET

	Note	2013 £000	2012 £000
Assets			
Cash and balances at central banks		542,377	631,372
Items in course of collection from banks		5,059	5,170
Derivative financial instruments	11	179	105
Loans and advances to banks	12	134,931	153,499
Loans and advances to customers	13	1,062,505	951,488
Available-for-sale financial assets	15	700,093	484,944
Shares in group undertakings	16	1	10
Tangible fixed assets	17	45,818	35,317
Heritage assets	18	9,618	9,600
Deferred tax	19	329	111
Other assets	20	416	378
Prepayments and accrued income	21	9,839	6,262
Total assets		2,511,165	2,278,256
Liabilities			
Deposits by banks	22	4	476
Customer accounts	23	2,262,050	2,070,722
Deposits to subsidiary companies	23	6,148	12,753
Derivative financial instruments	11	18,941	5,536
Deferred Tax	19	-	-
Other liabilities	24	6,390	8,298
Accruals and deferred income	25	16,212	11,209
Defined benefit pension scheme liability net of deferred tax	3	15,105	15,140
Called-up share capital	26	120	120
Reserve fund	27	21,148	21,148
Revaluation reserves	27	33,345	23,210
Profit and loss account	27	131,702	109,644
Total shareholders' funds		186,315	154,122
Total liabilities		2,511,165	1,991,886
Memorandum items:			
Contingent liabilities (guarantees)	28	32,830	30,011
Commitments	28	318,887	296,730

The Financial Statements on pages 16 to 66 were approved by the Board of Directors on 20 June 2013 and signed on its behalf by:

H C Hoare
Director
27 June 2013

R Q Hoare OBE
Director
27 June 2013

The Notes on pages 20 to 66 form an integral part of these Financial Statements.

CONSOLIDATED CASH FLOW STATEMENT

	Note	2013 £000	*2012 £000*
Cash flows from operating activities			
Profit before tax		24,291	*24,984*
Adjustments for:			
Non-cash items included in profit before tax	29	7,498	*3,736*
Change in operating assets	29	(105,693)	*(92,025)*
Change in operating liabilities	29	194,549	*261,362*
Contributions paid to defined benefit scheme		(4,000)	*(2,000)*
Net cash flow from operating activities		116,645	*196,057*
Taxation		(6,921)	*(5,767)*
Capital expenditure and financial investment			
Purchase of investment securities		(1,581,948)	*(1,238,122)*
Sale and maturity of investment securities		1,385,752	*1,310,922*
Purchase of tangible fixed assets		(6,283)	*(6,846)*
Sale of tangible fixed assets		-	*1,572*
Net cash flow for capital expenditure and financial investment		(202,479)	*67,526*
Equity dividends paid		(6)	*(6)*
Net cash used from financing activities		(6)	*(6)*
Net (decrease)/increase in cash and cash equivalents		(92,761)	*257,810*
Cash and cash equivalents 1 April	29	670,735	*412,925*
Cash and cash equivalents 31 March	29	577,974	*670,735*

The Notes on pages 20 to 66 form an integral part of these Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS

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 2012.

(a) Basis of preparation

The Financial Statements have been prepared under the historical cost convention and on a going concern basis, except that the following assets and liabilities are stated at their fair values: land and buildings, investment properties, heritage assets, financial instruments designated as fair value through the profit or loss or as available-for-sale and derivative contracts. The Financial Statements have been prepared under provisions of Part XV of the Companies Act 2006 relating to Banking Groups, SI 2008/410, applicable accounting standards in the United Kingdom (United Kingdom Generally Accepted Accounting Practice) and the Statements of Recommended Accounting Practice (SORPs) issued by the British Bankers' Association and the Finance & Leasing Association. Compliance with SSAP 19 'Accounting for Investment Properties' requires a departure from the requirements of the Companies Act 2006 relating to depreciation and amortisation and an explanation of this departure is given in (p) below.

(b) Basis of consolidation

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

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

(c) Foreign currencies

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

(d) Interest

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

Interest income and expense presented in the Profit and Loss Account 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1. **Accounting Policies (Continued)**

(e) **Fees and commissions**

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

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

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

(f) **Dealing profits**

Dealing profits comprise 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.

(h) **Pension costs**

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

The defined benefit scheme's assets are measured using market values; its liabilities are measured using a projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability. The scheme's deficit is recognised in full. The movement in the deficit is split between operating charges and finance items, which are charged to the Profit and Loss Account, and actuarial gains and losses, which are recognised in the Statement of Total Recognised Gains and Losses, in accordance with FRS 17. A full actuarial valuation of the scheme is undertaken every three years and was last undertaken as at 1 April 2010.

Contributions payable to the defined contribution scheme are charged to the Profit and Loss Account.

(i) **Taxation**

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

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1. **Accounting Policies (Continued)**

(i) Taxation (continued)

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

Deferred tax arising on changes in the fair value of available-for-sale investments that are recognised directly as a movement in reserves is also recognised in reserves; when such fair value gains or losses are subsequently recognised in the Profit and Loss Account, the deferred tax is similarly recognised.

(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 balance sheet and cash flow statement, cash and cash equivalents comprise cash, balances at the Bank of England and loans and advances to other banks that are 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.

(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, cancelled or expire.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1. Accounting Policies (Continued)

(m) Financial assets and liabilities (continued)

(iii) Offsetting

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

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

(iv) Amortised cost measurement

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

(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 using net asset values for unquoted investments in funds.

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 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 Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1. Accounting Policies (Continued)

(m) Financial assets and liabilities (continued)

(vi) Identification and measurement of impairment

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

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

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

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

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

Impairment losses on available-for-sale investment securities are recognised by transferring the difference between the amortised acquisition cost and the current fair value of the available-for-sale investment to Profit and Loss Account. 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.

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 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..

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1. **Accounting Policies (Continued)**

(o) **Derivative financial instruments**

(i) Derivative financial instruments

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

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

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

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

(ii) Derivative instruments and hedging activities

The Bank may designate a derivative as either a hedge of the fair value of a recognised fixed rate asset or liability or an unrecognised firm commitment (fair value hedge). 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 corresponding gain or loss on the hedged asset or liability that is attributable to the hedged risk are both recorded in the Profit and Loss Account, as other operating income. For all hedge relationships, ineffectiveness resulting from differences between the changes in the fair value 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.

At the inception of a hedge transaction, the Bank formally documents the hedge relationship and the risk management objective and strategy for undertaking the hedge. This process includes identification of the hedging instrument, hedged item, the risk being hedged and the methodology for measuring effectiveness. In addition, the Bank assesses both at the inception of the hedge and on a 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 the hedged item; the derivative expires or is sold, terminated or exercised; the derivative is de-designated because it is unlikely that a forecast transaction will occur; or management determines that designation of the derivative as a hedging instrument is no longer appropriate.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1. Accounting Policies (Continued)

(o) Derivative financial instruments (continued)

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.

(p) Tangible fixed assets and depreciation

Land, buildings and investment properties are held at fair value based on the latest professional market valuation, with the surplus or deficit versus book value being transferred to the revaluation reserve, except that a deficit in excess of any previously recognised surplus over cost for a property is charged (or the reversal of such a deficit is 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.

In accordance with SSAP 19 'Accounting for Investment Properties', depreciation is not provided on investment properties that are held as freeholds or on leases having more than 20 years unexpired. This is a departure from the Companies Act 2006 which requires all tangible assets to be depreciated. In the opinion of the Directors, this departure is necessary for the financial statements to give a true and fair view and comply with applicable accounting standards which require properties to be included in the financial statements at market value. The effect of depreciation is implicitly reflected in the valuation of investment properties, and the amount attributable to this factor cannot reasonably be separately identified or quantified by the valuers. Had the provisions of the Act been followed, net assets would not have been affected but revenue profits would have been reduced for this and earlier years and revaluation surpluses/deficits would have correspondingly increased / decreased.

Tangible fixed assets other than land, buildings and investment properties are carried at cost less accumulated depreciation. Cost includes the original purchase price of the asset and any costs attributable to bringing the asset into use. Depreciation is provided on all such assets, on a straight line basis, at rates calculated to write off the cost of the asset, less estimated residual value, over its expected useful economic life (3-10 years) from the date the asset is brought into use.

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

A profit or loss may be recognised on disposal of a tangible fixed asset. The amount recognised is equal to the difference between any net sale proceeds and the net carrying value of the asset prior to disposal.

(q) Investment property

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

(t) Investments in subsidiaries

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

(u) Financial guarantees

The Bank issues guarantees on behalf of its customers. In the majority of cases, the Bank will hold collateral against the resultant exposure or have a right of recourse to the customer, or both. In addition, the Bank issues guarantees on its own behalf. The main types of guarantees provided are financial guarantees given to banks and financial institutions on behalf of customers to secure loans, overdrafts or other banking facilities, including stock borrowing indemnities and standby letters of credit. Other guarantees provided include performance guarantees, advance payment guarantees, tender guarantees, and guarantees to Her Majesty's Revenue and Customs and retention guarantees. The nominal principal amount of these guarantees is set out in Note 28.

(v) Accounting judgements and estimates

The preparation of financial statements requires the use of estimates. It also requires management to exercise judgement in applying the accounting policies. The key areas involving a higher degree of judgement or complexity, or areas where assumptions are significant to the consolidated and individual financial statements, are highlighted under the relevant Notes, on the pages listed below:

- Impairment of financial assets, pages 24, 41 and 42
- Land, buildings and investment properties valuation, pages 26, 43 and 44
- Heritage assets, pages 27 and 45
- Defined benefit pension scheme liability, pages 21 and 28 to 34

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. Net Interest Income

	2013	2012
	£000	*£000*
Interest income		
Available-for-sale investments	8,339	*7,415*
Loans and advances to customers	51,676	*47,846*
Loans and advances to banks	3,299	*3,295*
	63,314	*58,556*
Interest expense		
Deposits from banks and customers	(5,722)	*(5,692)*
Derivative liabilities	(2,399)	*(1,667)*
	(8,121)	*(7,359)*
Net interest income	55,193	*51,197*

Included within interest income is £658,000 *(2012: £1,133,000)* 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 2013 were £4,000,000 *(2012: £2,000,000)*. £48,000 *(2012: £Nil)* was charged to the Profit and Loss Account for past service costs arising from the incorporation of Additional Voluntary Contributions ("AVCs") into the scheme. The Bank now operates a defined contribution scheme which has become the main retirement scheme for all employees, the cost of that scheme for the year was £3,276,000 *(2012: £3,130,000)*. 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 Hoare's Bank Pension Trustees Limited. The appointment of Directors to the trustee company is determined by the scheme's trust documentation. The Bank has a policy that one-third of such Directors should be nominated by members of the scheme and includes at least one Director who is a current pensioner.

In preparing these Financial Statements, the Bank has applied the recognition and measurement requirements of FRS 17 Revised 'Retirement benefits', Accounting Standards Board Reporting statement: Retirement benefits disclosures and has considered the Urgent Issues Task Force Abstract 48 (UITF 48).

The principal actuarial assumptions at the balance sheet date were:

	2013	2012
	%	*%*
Rate of increase in salaries	n/a	*n/a*
Rate of increase in pensions in payment and deferred pensions	3.40	*3.20*
Discount rate at 31 March	4.10	*4.60*
Expected return on plan assets at 31 March		
- Equities	7.00	*7.50*
- Liability Driven Investments ("LDI")	3.00	*3.90*
- Property	5.10	*6.00*
- Other & cash	0.50	*0.50*
Inflation assumption	3.40	*3.20*

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. Pension and Other Post-Retirement Benefits (Continued)

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

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

	2013	*2012*
Retiring today		
- Males	**28.2**	*28.1*
- Females	**31.1**	*31.0*
Retiring in 20 years time		
- Males	**31.5**	*31.4*
- Females	**34.3**	*34.2*

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%	-/+ £10.8m
Rate of life expectations upon retirement at aged 60	Increase by 1 year	+ £3.5m
Rate of increase in pensions payable and deferred pensions	+/- 0.5%	+/- £10.8m

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. Pension and Other Post-Retirement Benefits (Continued)

Scheme assets and liabilities

Until 1 December 2007, the Bank provided retirement benefits to some of its former and many of its current employees through a defined benefit scheme, this scheme was closed to further accrual with effect from that date and all current members became deferred members with preserved benefits and enhanced pension service. These staff then joined the C. Hoare Individual Pension Plan ("CHIPP") which is a defined contribution scheme 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 benefit scheme are measured by discounting the best estimate of future cash flows to be paid out by the scheme using the projected unit method. This amount is reflected in the scheme surplus or deficit as detailed below. As at 31 March 2013, the valuations of scheme assets less liabilities show a deficit of £19,617,000 (*2012: £19,921,000*).

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 2013 this was calculated to be £207m (*2012: £179m*).

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:

	2013 £000	*2012 £000*	*2011 £000*	*2010 £000*	*2009 £000*
Equities	**72,586**	*29,471*	*31,409*	*31,287*	*18,580*
Liability Driven Investments ("LDI")	**23,173**	*57,614*	*49,677*	*45,745*	*38,117*
Bonds	-	-	-	-	-
Property	**8,518**	*2,019*	*2,022*	*1,960*	*8,069*
Other and cash	**320**	*518*	*249*	*1,199*	*914*
Total market value of assets	**104,597**	*89,622*	*83,357*	*80,191*	*65,680*
Present value of scheme liabilities	**(124,214)**	*(109,543)*	*(97,898)*	*(99,908)*	*(74,252)*
Deficit in scheme	**(19,617)**	*(19,921)*	*(14,541)*	*(19,717)*	*(8,572)*
Related deferred tax asset	**4,512**	*4,781*	*3,781*	*5,521*	*2,400*
Net pension scheme liability	**(15,105)**	*(15,140)*	*(10,760)*	*(14,196)*	*(6,172)*

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. Pension and Other Post-Retirement Benefits (Continued)

Changes in the fair value of the scheme assets	**2013 £000**	*2012 £000*
Opening fair value of scheme assets at 1 April	**89,622**	*83,357*
Expected return on assets	**4,671**	*4,918*
Actual less expected return on assets	**10,778**	*3,072*
Contributions from employer	**4,000**	*2,000*
Benefits paid	**(4,714)**	*(3,852)*
Conversion of Additional Voluntary Contributions ("AVCs")	**240**	*127*
Closing fair value of scheme assets at 31 March	**104,597**	*89,622*
Actual return on assets	**15,449**	*7,990*

Changes in the present value of the pension obligation	**2013 £000**	*2012 £000*
Opening pension obligation at 1 April	**109,543**	*97,898*
Service cost	**-**	*-*
Past service cost arising on conversion of AVCs	**48**	*-*
Interest cost	**4,936**	*5,278*
Actuarial loss on liabilities due to experience	**(22)**	*664*
Actuarial loss/(gain) on liabilities due to assumption changes	**14,183**	*9,428*
Benefits paid	**(4,714)**	*(3,852)*
Conversion of AVCs	**240**	*127*
Closing pension obligation at 31 March	**124,414**	*109,543*

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. Pension and Other Post-Retirement Benefits (Continued)

Movement in deficit during the year	**2013 £000**	*2012 £000*	*2011 £000*
Deficit as at 1 April	(19,921)	(14,541)	(19,717)
Current service cost	-	-	-
Past service cost	(48)	-	(2,200)
Employer contributions	4,000	2,000	1,000
Other finance costs	(265)	(360)	(459)
Actuarial gains/(losses)	(3,383)	(7,020)	6,835
Deficit as at 31 March	(19,617)	(19,921)	(14,541)

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

Analysis of other pension costs included within the Profit and Loss Account under Administrative expenses	**2013 £000**	*2012 £000*
In respect of defined benefit scheme:		
- Current service cost	-	-
- Past service cost	48	-
	48	
In respect of defined contribution scheme:		
- Current service cost	3,276	3,130
Included within Administrative expenses (Note 6)	3,324	3,130

Analysis of other pension costs included within the Profit and Loss Account under Other finance costs	**2013 £000**	*2012 £000*
Interest on liabilities	4,936	5,278
Expected return on assets	(4,671)	(4,918)
Other finance costs	265	360

The expected return on the scheme assets is arrived at by applying the expected return of each asset class to the value of investments held in that asset class at 31 March 2012, to estimate a full year's return for the year ended 31 March 2013.

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 return on deposits. These values are provided by the Bank's independent actuaries.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. Pension and Other Post-Retirement Benefits (Continued)

The following items are recognised in the Statement of Total Recognised Gains and Losses ("STRGL"):

Analysis of amounts recognised in STRGL	**2013 £000**	*2012 £000*	*2011 £000*	*2010 £000*	*2009 £000*
Actual return less expected return on assets	**10,778**	*3,072*	*924*	*14,274*	*(16,084)*
Experience gains and losses arising on liabilities	**22**	*(664)*	*(1,571)*	*2,182*	*311*
Changes in assumptions	**(14,183)**	*(9,428)*	*7,482*	*(26,748)*	*5,548*
Actuarial gain/(loss)	**(3,383)**	*(7,020)*	*6,835*	*(10,292)*	*(10,225)*
Adjustment to reversal/ (recognition) of balance sheet asset	**-**	*-*	*-*	*-*	*2,256*
Actuarial gain/(loss) recognised in STRGL	**(3,383)**	*(7,020)*	*6,835*	*(10,292)*	*(7,969)*
Actual return less expected return on assets as a percentage of scheme assets	**10.30%**	*3.43%*	*1.11%*	*17.80%*	*-24.48%*
Experience gains and losses arising on liabilities as a percentage of the present value of scheme liabilities	**0.02%**	*0.61%*	*1.60%*	*2.18%*	*0.42%*
Actuarial gain/ (loss) as a percentage of the present value of scheme liabilities	**-2.72%**	*-6.41%*	*6.98%*	*-10.30%*	*-13.77%*

	2013 £000	*2012 £000*
Cumulative value of actuarial losses recognised in STRGL since the adoption of FRS 17	**(31,669)**	*(28,286)*

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. Pension and Other Post-Retirement Benefits (Continued)

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 would reduce this deficit by a series of contributions over four years with £4m paid in the current financial year *(2012: £2m)*. Under the agreed plan, a final contribution of £8m is due in the year ended 31 March 2014. The Bank is continuing to work with the Trustees 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.

Work on the next triennial actuarial valuation (as at 1 April 2013) has begun and is expected to be completed during the summer of 2013.

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

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

% of total scheme assets	**31 March 2013**	*31 March 2012*
LDI Investments	22%	*64%*
Global Equities	42%	*24%*
Property	8%	*2%*
Diversified Growth	27%	*9%*
Cash	1%	*1%*
Total	**100%**	*100%*

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4. Dealing Profits

	2013 £000	*2012 £000*
Dealing profits	4,430	*4,958*

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

5. Other Operating Income

	2013 £000	*2012 £000*
Rental income	496	*494*
Profit on sale of fixed assets	-	*1,501*
Profit/(Losses) on sale of available-for-sale investments	946	*(552)*
Hedging result:		
- Gain on hedged items attributable to hedged risk	841	*3,139*
- Loss on hedging instruments (swaps)	(852)	*(2,967)*
Net hedging result	(11)	*172*
Increase in value of derivative contracts	2	*117*
	1,433	*1,732*

6. Employee Information and Administrative Expenses

	2013 £000	*2012 £000*
Staff costs		
- Wages and salaries	29,725	*28,445*
- Social security costs	3,742	*3,585*
- Pension costs (Note 3)	3,324	*3,130*
Other administrative expenses	16,278	*14,081*
Total administrative expenses	53,069	*49,241*

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

	2013 FTE	*2012 FTE*
Full time	284.3	*284.2*
Part time	32.6	*28.6*
Contractors and agency staff	36.7	*25.9*
Total average full time equivalent headcount	353.6	*338.7*

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

6. Employee Information and Administrative Expenses (Continued)

Auditors' Remuneration	2013 £000	*2012 £000*
Remuneration payable to the auditor in respect of:		
- Statutory audit of the company and consolidated financial statements	104	*97*
- Statutory audit of the subsidiaries' financial statements	11	*14*
- Other services pursuant to legislation	15	*15*
- Other services	7	*-*
	137	*126*

7. Emoluments of Directors

	2013 £000	*2012 £000*
Aggregate emoluments:	8,174	*6,334*
- Pension contributions	82	*104*
- Supplementary pensions paid to former Directors' widows	89	*85*
	8,345	*6,523*
Highest paid Director:		
- Emoluments	1,383	*1,054*
- Pension contributions	27	*-*
- Accrued pension entitlement (increase)	1	*12*
Cumulative accrued pension entitlement of highest paid director at 31 March	31	*228*
Number of Directors accruing benefits under the Bank's defined benefit pension scheme at the year end	5	*5*

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

8. Tax on Group Profit on Ordinary Activities

The standard rate of corporation tax in the UK changed from 26% to 24% with effect from 1April 2012. Accordingly, the Company's profits for this accounting period are taxed at an effective rate of 24%.

	2013	*2012*
Current tax	**£000**	*£000*
UK Corporation tax on profits of the period	4,970	*6,359*
Adjustments in respect of previous periods	21	*33*
Total current tax (Note 8(a))	4,991	*6,392*
Deferred tax	636	*169*
Change in tax rate	13	*4*
Total deferred tax (Note 8(b))	649	*173*
Total tax on ordinary activities	5,640	*6,565*

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

The tax assessed for the period of £4,991,000 *(2012: £6,392,000)* is lower *(2012: lower)* than the result of applying the standard rate of corporation tax in the UK of 24% *(2012: 26%)* to the accounting profit before tax. The reasons for this are explained below:

	2013	*2012*
	£000	*£000*
Profit on ordinary activities before tax	**24,291**	*24,984*
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 24% *(2012: 26%)*	5,830	*6,496*
Effects of:		
- 20% *(2012: 20%)* corporation tax on subsidiary	-	*(5)*
- Permanent disallowables	105	*181*
- Timing differences on capital allowances	147	*197*
- Pension contributions	(885)	*(426)*
- Net chargeable gains	-	*311*
- Accounting profit on disposal of investments	(227)	*(395)*
- Adjustment to tax charge in respect of previous periods	21	*33*
Current tax charge for the period	4,991	*6,392*

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

8. Tax on Group Profit on Ordinary Activities (Continued)

8(b) Factors affecting the deferred taxation charge

	2013 £000	*2012 £000*
Timing difference on capital allowances	(246)	*(255)*
Prior year adjustment	(3)	*(3)*
Deferred tax on pension scheme	885	*427*
Change in tax rate	13	*4*
Deferred tax charge for the period	649	*173*

In addition to the tax charge in the Profit and Loss Account detailed above, £812,000 *(2012: £1,825,000)* has been credited to the Consolidated Statement of Total Recognised Gains and Losses in respect of actuarial losses in the pension scheme.

The reduction in UK corporation tax from 1 April 2013 (from 24% to 23%) is expected to reduce the Group's charge for corporation tax in future years. The deferred tax calculation anticipates this reduction in rate.

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

£24,831,000 *(2012: £18,974,000)* of the Group profit attributable to shareholders relates to the Company, this includes dividends of £7,489,000 *(2012: £2,469,000)* from subsidiary companies. As permitted by Section 408 of the Companies Act 2006, the Profit and Loss Account of the Company has not been presented separately

10. Dividends

The aggregate of dividends comprises:

	2013 per share	*2012 per share*	2013 £000	*2012 £000*
Ordinary shares (declared)	£50	*£50*	6	*6*

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

11. Derivative Financial Instruments

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

Derivative assets	2013 Notional amount Group and Company £000	2013 Fair value Group and Company £000	*2012 Notional amount Group and Company £000*	*2012 Fair value Group and Company £000*
Trading				
Exchange rate contracts:				
Forward foreign exchange contracts	13,695	62	*20,190*	*105*
Interest rate contracts:				
Interest rate swaps – Hedging instruments	180,000	117	-	-
Total derivative assets	193,695	179	*20,190*	*105*
Derivative liabilities				
Trading				
Exchange rate contracts:				
Forward foreign exchange contracts	21,780	60	*10,252*	*105*
Interest rate contracts:				
Interest rate swaps – Hedging instruments	243,238	18,881	*97,021*	*5,431*
Total derivative liabilities	265,018	18,941	*107,273*	*5,536*

Interest rate swaps are used to hedge the interest rate risk arising when fair valuing the Bank's fixed interest rate assets. The notional principal amount of interest rate swaps, by asset class, is shown below. The notional principal amount has increased significantly during the year to match an increase in fixed rate debt securities and available for sale financial assets held by the Bank.

	2013 Group £000	2013 Company £000	*2012 Group £000*	*2012 Company £000*
Loans and advances to banks	25,000	25,000	-	-
Loans and advances to customers	105,799	105,799	*75,753*	*75,753*
Debt securities and other available for sale financial assets	292,439	292,439	*21,268*	*21,268*
Total interest rate swaps	423,238	423,238	*97,021*	*97,021*

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

12. Loans and Advances to Banks

	2013 Group £000	2013 Company £000	*2012 Group £000*	*2012 Company £000*
Repayable on demand	35,597	35,597	*39,363*	*39,363*
Other loans and advances:				
Remaining maturity				
- over 5 years	19,902	19,902	*6,161*	*6,161*
- over 1 year but less than 5 years	-	-	-	-
- 1 year or less but over 3 months	25,000	25,000	-	-
- 3 months or less	54,432	54,432	*107,975*	*107,975*
	134,931	134,931	*153,499*	*153,499*

Included in the above loans and advances to banks is a fixed term loan of £25.0m *(2012: £Nil)* which has been hedged against interest rate risk using interest rate swaps.

13. Loans and Advances to Customers

	2013 Group £000	2013 Company £000	*2012 Group £000*	*2012 Company £000*
Remaining maturity				
- over 5 years	29,872	29,872	*22,609*	*22,609*
- 5 years or less but over 1 year	78,314	78,314	*74,030*	*74,030*
- 1 year or less but over 3 months	21,918	21,798	*31,930*	*31,930*
- 3 months or less	940,464	940,384	*831,533*	*831,533*
Allowance for impairment losses (Note 14)	(8,063)	(8,063)	*(8,614)*	*(8,614)*
Total loans and advances to customers	1,062,505	1,062,505	*951,488*	*951,488*
Of which repayable on demand or short notice	932,401	932,401	*822,919*	*822,919*

Included in the above loans and advances to customers are fixed rate loans which have been hedged against interest rate risk using interest rate swaps. The value of lending hedged at 31 March 2013 was £105.8m *(2012: £75.8m).*

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

14. Allowance for Impairment Losses on Loans and Advances to Customers (Group and Company)

	2013 £000	*2012 £000*
Specific allowances for impairment		
Balance at 1 April	7,014	*5,846*
Impairment loss for the year		
- Charge for the year	2,585	*1,339*
- Recoveries	(955)	*(46)*
Net charge	1,630	*1,293*
Write-offs	(2,766)	*(125)*
Balance at 31 March	5,878	*7,014*
Collective allowance for impairment		
Balance at 1 April	1,600	*1,370*
Impairment loss for the year		
- Charge for the year	585	*230*
Balance at 31 March	2,185	*1,600*
Total specific and collective impairment allowances	8,063	*8,614*

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

15. Debt securities and other Available-for-sale Financial Assets

	2013 Group £000	**2013 Company £000**	*2012 Group £000*	*2012 Company £000*
Bank and building society certificates of deposit	**358,393**	**358,393**	*237,229*	*237,229*
Debt securities with readily determinable fair values	**346,440**	**346,440**	*252,455*	*252,455*
Equity securities (unlisted)	**2,818**	**1**	*6,002*	*1*
Less specific allowances for impairment	**(5,381)**	**(4,741)**	*(7,851)*	*(4,741)*
Total available-for-sale financial assets	**702,270**	**700,093**	*487,835*	*484,944*

Of the total of £346m *(2012: £252m)* of debt securities shown above:

- net of impairment, £33m are due to mature within one year of the balance sheet date *(2012: £49m).*
- fixed rate securities with a nominal value of £292.4m (*2012:£21.3m)* have been hedged against interest rate risk using interest rate swaps or, where the asset is denominated in a foreign currency, using currency swaps to also hedge the foreign currency risk.

The specific allowances for impairment reduced by £2,470,000 following the sale of investments which had been impaired. The Bank continues to hold £5,048,000 (issue value) of securities issued by Washington Mutual Bank Inc. which entered administration in 2008; the position was fully impaired in the financial year 2008/9 as a result. The Bank continues to hold this position in anticipation of future recoveries, and despite receiving £307,000 in the previous financial year, given a high level of uncertainty remains over the value and timing of any future recoveries, the position remains fully impaired.

16. Investments in Subsidiaries

The Company has the following investments in subsidiaries:

Shares at cost	**Principal Activity**	% Owned	**2013 £000**	*2012 £000*
Messrs Hoare Trustees 20 shares of no par value	Trustee company	100	-	-
Mitre Court Property Holding Company 10,000 Ordinary £1 shares	Property investment company	100	1	*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	-	-
C. Hoare & Co. EIG Management Limited 1 Ordinary £1 share	Holding company	100	-	-
Total Investments in Subsidiaries			**1**	*10*

All subsidiary companies are incorporated and domiciled in the United Kingdom and are 100% owned directly by C. Hoare & Co.. During the financial year Mitre Court Property Holding Company reduced its share capital by £9,000 and repaid this to the Company, this is in anticipation of the subsidiary becoming dormant in the coming year. There were no changes in ownership of the subsidiary companies during the year. The aggregate value of the capital and reserves of each subsidiary is not less than the investment holding value in the Company's Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

17. Tangible Fixed Assets (Group and Company)

	Land and Buildings £000	Investment Properties £000	Equipment £000	**Total £000**
Cost or valuation				
1 April 2012	*18,544*	*4,131*	*27,991*	*50,666*
Additions	-	-	6,265	6,265
Transfers	4,970	-	(4,970)	-
Disposals	-		(1,046)	(1,046)
Revaluation	6,486	775	-	7,261
31 March 2013	**30,000**	**4,906**	**28,240**	**63,146**
Accumulated depreciation				
1 April 2012	-	-	*15,349*	*15,349*
Charge for year	-	-	3,025	3,025
Disposals	-	-	(1,046)	(1,046)
31 March 2013	-	-	**17,328**	**17,328**
Net book value 31 March 2013	**30,000**	**4,906**	**10,912**	**45,818**
Net book value 31 March 2012	*18,544*	*4,131*	*12,642*	*35,317*

	2013 Group £000	**2013 Company £000**	*2012 Group £000*	*2012 Company £000*
Land and buildings occupied for own activities:				
- Net book value	24,440	24,440	*15,500*	*15,500*
At cost:				
- Land and buildings	9,235	9,235	*4,265*	*4,265*
- Investment properties	3,265	3,265	*3,265*	*3,265*
	12,500	12,500	*7,530*	*7,530*

The Company's land, buildings and investment properties were valued on the 31 March 2013 by BNP Paribas Real Estate, Chartered Surveyors. All valuations are on the basis of open market values. Given the age of the Company's properties, it is not practicable to reliably estimate their historical cost. All land, buildings and investment properties are owned freehold.

During the year refurbishment work was completed on a major part of the Company's Fleet Street estate and shortly afterwards the refurbished building was occupied. Associated expenditure incurred was capitalised as Equipment while work was in progress. On occupation, expenditure relating to the construction of the building was transferred to Land and Buildings.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

17. Tangible Fixed Assets (Continued)

	2013 Group £000	2013 Company £000	*2012 Group £000*	*2012 Company £000*
Future capital expenditure contracted but not provided in the Financial Statements	295	295	*3,592*	*3,592*

18. Heritage Assets (Group and Company)

	2013 Paintings £000	2013 Artefacts £000	2013 Total £000	*2012 Paintings £000*	*2012 Artefacts £000*	*2012 Total £000*
Valuation 1 April	*8,300*	*1,300*	*9,600*	*8,300*	*1,300*	*9,600*
Movement	7	11	**18**	-	-	-
Valuation 31 March	**8,307**	**1,311**	**9,618**	*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 heritage assets are no longer used in the day to day running of the Bank but remain in the Bank as part of the Bank's Museum.

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 since that date and therefore the valuations are unchanged. It has not been practicable to estimate the cost of acquisition of the heritage assets; they were not recognised in the Financial Statements prior to the adoption of FRS 30. During the current year two additional items with connections to the Hoare family were added to the collection at a cost of £18,000: a painting dating from the 1770's and a collection of drawings dating from circa 1802.

The 2010 valuations were based on commercial markets, including recent transaction information from auctions where similar types of paintings held by the Bank had been sold; the figure included in the Financial Statements is based on the lower end of the range indicated by these various sources. It is understood that there are forthcoming auctions in 2013 with artwork to be offered for sale of a similar age and nature (and the same artists) to that owned by the Bank; the results of these sales will be a valuable indication of current market values and will enable a review of the current holding values in the Bank's accounts.

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

19. Deferred Tax

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

	2013 Group £000	2013 Company £000	*2012 Group £000*	*2012 Company £000*
Deferred tax asset				
Fixed assets (equipment)	291	291	*58*	*58*
Transition to FRS 26 on 1 April 2006	38	38	*53*	*53*
Total deferred tax asset	329	329	*111*	*111*
Deferred tax liability				
Fixed assets (equipment)	-	-	-	-
Transition to FRS 26 on 1 April 2006	46	-	*63*	-
Gain on disposal of investment properties	-	-	-	-
Total deferred tax liability	46	-	*63*	-

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

	2013 Group £000	2013 Company £000	*2012 Group £000*	*2012 Company £000*
Deferred tax asset				
Balance at 1 April	*111*	*111*	*72*	*72*
Capital allowances on fixed asset additions	246	246	*63*	*63*
10 year amortisation of FRS 26 balance	(13)	(13)	*(15)*	*(15)*
Change in tax rate	(15)	(15)	*(9)*	*(9)*
Balance at 31 March	329	329	*111*	*111*
Deferred tax liability				
Balance at 1 April	*63*	-	*589*	*192*
Disposal of investment property	-	-	*(311)*	-
Capital allowances on fixed asset additions	-		*(192)*	*(192)*
10 year amortisation of FRS 26 balance	(15)	-	*(18)*	-
Change in tax rate	(2)	-	*(5)*	-
Balance at 31 March	46	-	*63*	-

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

19. Deferred Tax (Continued)

FRS 26 was adopted by the Bank on 1 April 2006; the reporting standard implemented the recognition, measurement and hedge accounting requirements of the international reporting standard IAS 39. As part of the transition to the new reporting requirements certain balances arose for taxation purposes, the impact of which is being spread over ten years in accordance with rules introduced by HMRC.

The deferred tax asset and liability balances at 31 March 2013 do not include any amounts in respect of the Bank's defined benefit pension scheme liability, which is shown on the balance sheet after deduction of a deferred tax asset of £4,512,000 *(2012: £4,781,000)* – see Note 3. The movement in this balance is shown below:

	2013 Group £000	2013 Company £000	*2012 Group £000*	*2012 Company £000*
Balance at 1 April	*4,781*	*4,781*	*3,781*	*3,781*
Movement relating to:				
- Past service cost	11	11	-	-
- Employer contributions	(960)	(960)	*(520)*	*(520)*
- Other finance costs	64	64	*93*	*93*
- Actuarial gains/(losses)	812	812	*1,825*	*1,825*
- Change in tax rate	(196)	(196)	*(398)*	*(398)*
Balance at 31 March	4,512	4,512	*4,781*	*4,781*

20. Other Assets

	2013 Group £000	2013 Company £000	*2012 Group £000*	*2012 Company £000*
Settlement balances	416	416	*279*	*279*
Other assets	-	-	*99*	*99*
	416	416	*378*	*378*

Settlement balances relate to unsettled transactions at the year end.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

21. Prepayments and Accrued Income

	2013 Group £000	2013 Company £000	*2012 Group £000*	*2012 Company £000*
Interest receivable	5,333	5,333	*2,443*	*2,443*
Other debtors and prepayments	4,544	4,506	*3,819*	*3,819*
	9,877	9,839	*6,262*	*6,262*

22. Deposits by Banks

	2013 Group £000	2013 Company £000	*2012 Group £000*	*2012 Company £000*
Repayable on demand	4	4	*476*	*476*

23. Customer Accounts

	2013 Group £000	2013 Company £000	*2012 Group £000*	*2012 Company £000*
With agreed maturity date or notice period, by remaining maturity:				
- 2 years or less but over 1 year	12,212	12,212	*6,130*	*6,130*
- 1 year or less but over 3 months	83,252	83,252	*72,748*	*72,748*
- 3 months or less but not repayable on demand	617,653	617,653	*581,715*	*581,715*
	713,117	713,117	*660,593*	*660,593*
Repayable on demand	1,548,933	1,548,933	*1,410,129*	*1,410,129*
	2,262,050	2,262,050	*2,070,722*	*2,070,722*
Including amount due to the Pension Fund	256	256	*508*	*508*
Amount due to Subsidiary Companies		6,148		*12,753*

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

24. Other Liabilities

	2013 Group £000	2013 Company £000	*2012 Group £000*	*2012 Company £000*
Corporation tax	2,740	2,660	*3,764*	*3,249*
Settlement balances	3,705	3,705	*5,029*	*5,029*
Other liabilities	58	25	*41*	*20*
	6,503	6,390	*8,834*	*8,298*

Settlement balances relate to unsettled transactions at the year end.

25. Accruals and Deferred Income

	2013 Group £000	2013 Company £000	*2012 Group £000*	*2012 Company £000*
Interest payable	2,838	2,838	*1,071*	*1,071*
Other creditors and accruals	13,384	13,374	*10,151*	*10,138*
	16,222	16,212	*11,222*	*11,209*

Other creditors and accruals relate to accrued expenses at the year end and include £908,000 *(2012: £768,000)* in respect of the FSCS Levy (Note 28).

26. Called-up Share Capital

	2013 Group £000	2013 Company £000	*2012 Group £000*	*2012 Company £000*
Authorised, allotted, called-up and fully paid:				
120 Ordinary shares of £1,000	120	120	*120*	*120*

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

27. Reserves

	2013 Group £000	2013 Company £000	*2012 Group £000*	*2012 Company £000*
(i) Reserve Fund				
At 1 April	22,598	21,148	*22,748*	*21,148*
Movement for the year	-	-	*(150)*	-
31 March	22,598	21,148	*22,598*	*21,148*

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

(ii) Property Revaluation Reserve	2013 Group £000	2013 Company £000	*2012 Group £000*	*2012 Company £000*
At 1 April	14,279	14,279	*14,279*	*14,279*
Movement for the year	6,486	6,486	-	-
31 March	20,765	20,765	*14,279*	*14,279*
(iii) Investment Property Revaluation Reserve				
At 1 April	866	866	*2,058*	*866*
Movement for the year	775	775	-	-
Sale(s) of freehold property	-	-	*(1,503)*	-
Deferred tax on property sale(s)	-	-	*311*	-
31 March	1,641	1,641	*866*	*866*
(iv) Heritage Assets Revaluation Reserve				
At 1 April	9,600	9,600	*9,600*	*9,600*
Movement for the year	-	-	-	-
31 March	9,600	9,600	*9,600*	*9,600*

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

27. Reserves (Continued)

	2013 Group £000	2013 Company £000	*2012 Group £000*	*2012 Company £000*
(v) Available-For-Sale Revaluation Reserve				
At 1 April	(609)	(1,535)	*(1,396)*	*(3,289)*
Fair value gains/(losses) taken to equity	2,345	2,414	*582*	*1,520*
Amounts transferred to profit and loss	(120)	460	*205*	*234*
Net Movement	2,225	2,874	*787*	*1,754*
31 March	1,616	1,339	*(609)*	*(1,535)*
Total Revaluation Reserves	33,622	33,345	*24,136*	*23,210*
(vi) Profit And Loss Account				
At 1 April	122,290	109,644	*109,320*	*96,269*
Retained profit for the year	18,651	24,831	*18,419*	*18,974*
Gains/(losses) recognised under FRS 17	(2,767)	(2,767)	*(5,593)*	*(5,593)*
Transfer from Reserve Fund	-	-	*150*	-
Dividends paid	(6)	(6)	*(6)*	*(6)*
31 March	138,168	131,702	*122,290*	*109,644*
Total Reserves	194,388	186,315	*169,024*	*154,002*

Reconciliation of movement in shareholders' funds

	2013 £000	*2012 £000*
Opening shareholders' funds	169,144	*156,729*
Profit for the financial year	18,651	*18,419*
Dividends	(6)	*(6)*
Available-for-sale reserve gains/(losses)	3,132	*1,404*
Tax thereon	(907)	*(617)*
Property revaluation reserve gains	7,261	-
Sale of Freehold Property	-	*(1,503)*
Deferred tax thereon	-	*311*
Actuarial (losses)/gains	(3,383)	*(7,020)*
Deferred tax thereon	616	*1,427*
Total movement in shareholders' funds	25,364	*12,415*
Closing shareholders' funds	194,508	*169,144*

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

27. Reserves (Continued)

Amounts recorded in the revaluation reserves exclude the anticipated tax impact of any subsequent realisation. Where there is a tax effect in the year of revaluation, for example on available-for-sale investments that are treated as loan relationships under HMRC rules, then the actual tax effect is included in the reserve movement.

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 2013.

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

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

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

The Bank's maximum exposure is represented by the amounts detailed in the table, 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.

	2013 Group £000	**2013 Company £000**	*2012 Group £000*	*2012 Company £000*
Contingent liabilities:				
- Letters of credit	**3,379**	**3,379**	*5,272*	*5,272*
- Performance bonds and other transaction-related contingencies	**753**	**753**	*44*	*44*
- Other guarantees	**28,698**	**28,698**	*24,695*	*24,695*
Total contingent liabilities (guarantees)	**32,830**	**32,830**	*30,011*	*30,011*
Commitments:				
- Undrawn formal standby facilities, credit lines and other commitments to lend (Less than 1 year maturity)	**318,887**	**318,887**	*296,730*	*296,730*
- Uncalled subscription monies	**353**	**-**	*343*	*-*
Total commitments	**319,240**	**318,887**	*297,073*	*296,730*

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

28. Contingent Liabilities and Commitments (Continued)

Uncalled subscription monies

At 31 March 2013, a subsidiary company had uncalled subscription monies payable in respect of equity shares of £353,000 *(2012: £343,000).*

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 under the FSCS has been funded through loans from the Bank of England and HM Treasury to the FSCS; these loans total £20 billion *(2012: £20 billion).* Under the FSCS Levy rules, all deposit takers, including C. Hoare & Co., will be required to pay a proportion of any irrecoverable principal amounts on the loans. Deposit takers are also obligated to share the interest costs of the loans and the management expenses of the FSCS. The proportion of the total Levy charged to each bank is determined by the Bank's market share of deposits protected through the FSCS.

The Bank accrued £0.9m at 31 March 2013 *(2012: £0.8m)* in respect of its estimated share of the management expenses and interest costs for the 2012/13 and 2013/14 levy years and its estimated share of the expected irrecoverable principal amounts on the outstanding loans. This accrual is based on the Bank's estimated share of total market protected deposits at 31 December 2011 and 2012. The charge to the Profit and Loss Account for the year was £308,000 *(2012: £289,000 net credit).*

The ultimate cost of the FSCS Levy to the industry as a result of the 2008 collapses is dependent upon various still uncertain factors, including the value of potential recoveries of assets by the FSCS, changes in the interest rate on the loans, the level of protected deposits and the population of FSCS members at the time.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

29. Consolidated Cash Flow Statement

	2013 £000	2012 £000
Non-cash items included in profit before tax		
Increase in provisions for bad debts	3,170	1,523
Loans and advances written off/(back) net of recoveries	2,766	125
Net charge in respect of defined benefit schemes	313	360
Depreciation	3,025	3,050
Exchange translation differences on investment securities	(1,215)	(64)
(Profit)/losses on sale of investment securities	(946)	552
Profit on sale of tangible fixed assets	-	(1,501)
Impairment losses/(gains) on investment securities	385	(309)
Total non-cash items included in profit before tax	7,498	3,736
Change in operating assets		
(Increase)/decrease in prepayments and accrued income	(3,615)	174
(Increase)/decrease in other assets	(38)	98
Net decrease/(increase) in cheques in course of collection	111	(1,840)
Net increase/(decrease) in loans and advances to banks	14,802	(6,501)
Net increase in loans and advances to customers	(116,953)	(83,956)
Total change in operating assets	(105,693)	(92,025)
Change in operating liabilities		
Increase/(decrease) in accruals and deferred income	5,000	(3,496)
(Decrease)/increase in other liabilities	(1,307)	(3,658)
Net increase/(decrease) in customer accounts	191,328	268,050
Net increase in deposits by banks	(472)	466
Total change in operating liabilities	194,549	261,362
Cash and cash equivalents		
Cash and balances at the Bank of England	542,377	631,372
Loans and advances to banks repayable on demand	35,597	39,363
Total cash and cash equivalents	577,974	670,735

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

30. Segmental Information

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

31. Directors' Loans

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

	2013	*2012*
	£000	*£000*
Loans and credit transactions:		
- Aggregate amount outstanding	7,544	*4,688*
- Number of persons	7	*7*

These loans are fully secured on normal business margins.

32. Related Party Transactions

There were no related party transactions undertaken during the year *(2012: none)*.

33. Ultimate Controlling Party

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 8.

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 ultimate accountability for the risk and control environment, and is responsible for the establishment and oversight of the Bank's risk management framework.

The Bank manages risks within the three lines of defence model which defines the roles and responsibilities for the management of risk:

- The first line of defence has direct responsibility for strategy, management and control of risk and includes:
    - the Asset and Liability Committee (ALCO) which meets on a monthly basis, is charged with overseeing the matching of the Bank's assets and liabilities, reviewing financial market activity and managing liquidity;
    - the Credit Policy Committee which oversees customer pricing, security and overall exposure guidelines and sets lending parameters for approval by the Board; and
    - the Bank has a number of other committees to oversee operational risk areas such as information security and disaster recovery.
- The second line of defence co-ordinates, facilitates and oversees the effectiveness and integrity of the risk management framework and includes:
    - The Risk Committee which meets monthly and is a sub-committee of the Board. The committee oversees the implementation of the risk management framework across the Bank.
- The third line of defence provides independent assurance and challenge across all business functions in respect of the integrity and effectiveness of the risk management framework and includes:
    - The Audit & Compliance Committee which maintains oversight and monitors the effectiveness of internal control and risk management processes; and
    - Internal Audit who undertake regular and ad-hoc reviews of risk management controls and processes, the results of which are presented to the Audit & Compliance Committee, senior management and the Board.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

34. Financial Risk Management (Continued)

(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. It arises principally from the Bank's loans and advances to customers and other banks and from 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 the Investment Management Department; 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 significant exposures are subject to an annual account review.

Interest payments and any capital repayments are generally serviced through a related current account with the Bank. Therefore, past due events such as late payment or missed interest rarely occur.

Lending to banks is restricted to a selection of financial institutions with the main criteria for selection being the stability and reputation of the institution. All lending is undertaken within limits, which are regularly reviewed by 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 below analyses the lending assets and investment securities.

During the year the capital balances of the Group's AIG related loans to customers were fully repaid *(2012: total loan balance outstanding, excluding interest, was £25,499,000)*. 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 that fund's assets in September 2008. These loans were made at the C. Hoare & Co. base rate on a non-recourse basis and relied 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"). Interest of £2,739,857 *(2012: £2,523,000)* had accrued on these loans at the point of repayment. This interest was above the level of the Alico guarantee and, as a result, was not repaid and was written-off. This outcome had been anticipated, and the interest had been fully provided for.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

34. Financial Risk Management (Continued)

(b) Credit risk (continued)

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

£000	Loans and advances to customers		Loans and advances to banks		Available-for-sale financial assets	
Balance sheet:	**2013**	*2012*	**2013**	*2012*	**2013**	*2012*
Carrying amount	**1,062,505**	*951,488*	**134,931**	*153,499*	**702,270**	*487,835*
Individually impaired	7,444	*31,379*	-	-	5,790	*8,274*
Allowance for impairment	(5,878)	*(7,014)*	-	-	(5,381)	*(7,851)*
	1,566	*24,365*	-	-	409	*423*
Assets not past due, subject to impairment nor on watch list	944,372	*803,225*	134,931	*153,499*	701,861	*487,412*
Watch list loans:						
- High risk	4,423	*7,471*	-	-	-	-
- Medium risk	114,329	*118,027*	-	-	-	-
Allowance for collective Impairment	(2,185)	*(1,600)*	-	-	-	-
Carrying Amount On Balance Sheet	**1,062,505**	*951,488*	**134,931**	*153,499*	**702,270**	*487,835*
Off balance sheet:						
- Guarantees	28,698	*24,695*	-	-	-	-
- Letters of credit and performance bonds	4,132	*5,316*	-	-	-	-
- Commitments	318,887	*296,730*	-	-	353	*343*
Carrying Amount Off Balance Sheet	**351,717**	*326,741*	-	-	**353**	*343*
Total credit risk exposure	**1,414,222**	*1,278,229*	**134,931**	*153,499*	**702,663**	*488,178*

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

34. Financial Risk Management (Continued)

(b) Credit risk (continued)

The maximum credit risk exposure of the Bank is shown in the table below and has been assessed as the balance sheet value for relevant balance sheet items and the contingent or committed value for off balance sheet items.

	2013 £000	*2012 £000*
Balance Sheet items		
Cash and balances at central banks	542,377	*631,372*
Items in course of collection from banks	5,059	*5,170*
Derivative financial instruments	179	*105*
Loans and advances to banks	134,931	*153,499*
Loans and advances to customers	1,062,505	*951,488*
Available-for-sale financial assets	702,270	*487,835*
Other assets	416	*378*
Prepayments and accrued income	9,877	*6,262*
Maximum credit exposure from Balance Sheet items	2,457,614	*2,236,109*
Off balance sheet items		
Contingent liabilities (guarantees)	32,830	*30,011*
Commitments	319,240	*297,073*
Maximum credit exposure from off Balance Sheet items	352,070	*327,084*
Maximum credit exposure	2,809,684	*2,563,193*

Credit quality of assets not subject to impairment is shown below:

	2013 £000	*2012 £000*
Loans and advances to banks, by rating:		
- Aaa to Aa3	59,162	*12,958*
- A1 to A3	75,582	*140,541*
- Baa1 to Baa3	187	*-*
Unimpaired loans and advances to banks	134,931	*153,499*
Available-for-sale financial assets, by rating:		
- Aaa to Aa3	218,971	*265,512*
- A1 to A3	481,122	*202,920*
- Baa1 to Baa3	-	*2,111*
- Caa1 and below	-	*14,400*
- Not rated	1,768	*2,469*
Unimpaired available-for-sale financial assets	701,861	*487,412*

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

34. Financial Risk Management (Continued)

(b) Credit risk (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.

Watch list loans
Watch list loans are loans where there is doubt as to the certainty of future principal and interest repayments but there has not been objective evidence of a loss event sufficient to warrant a full impairment assessment. These are assessed by the relationship managers and graded high, 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 loans 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 only when there is absolute certainty that the residual sums are uncollectable.

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 required by regulation, 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 2013, the value of property collateral recorded against customer facilities was £2,045m *(2012: £2,030m)*. The estimated value of collateral against the impaired customer loans and advances was £0.8m *(2012: £0.4m)*.

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 Senior Lending 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 Financial Statements for "Renegotiated loans".

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

34. Financial Risk Management (Continued)

(c) Liquidity risk

Liquidity risk is the risk that the Bank is unable to meet its liabilities when they fall due or is unable to obtain funding other than by paying a premium.

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.

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
At 31 March 2013						
Balance sheet						
Deposits from banks	4	4	-	-	-	-
Deposits from customers	2,262,050	1,745,800	290,005	130,781	83,252	12,212
Derivative liabilities	18,941	6	15	100	240	18,580
Other liabilities	22,725	-	3,705	19,020	-	-
Off balance sheet						
Undrawn customer facilities	318,887	318,887	-	-	-	-
Guarantees, Letters of Credit and Performance Bonds	32,830	32,830	-	-	-	-
Total liabilities	**2,655,437**	**2,097,527**	**293,725**	**149,901**	**83,492**	**30,792**

£000	*Carrying Amount*	*Next day*	*Less than 1 month*	*1 to 3 months*	*3 months to 1 year*	*Over 1 year*
At 31 March 2012						
Balance sheet						
Deposits from banks	*476*	*476*	-	-	-	-
Deposits from customers	*2,070,722*	*1,486,755*	*363,854*	*141,235*	*72,748*	*6,130*
Derivative liabilities	*5,536*	*3*	*54*	*18*	*12*	*5,449*
Other liabilities	*20,056*	-	*5,030*	*15,026*	-	-
Off balance sheet						
Undrawn customer facilities	*296,730*	*296,730*	-	-	-	-
Guarantees, Letters of Credit and Performance Bonds	*30,011*	*30,011*	-	-	-	-
Total liabilities	*2,423,531*	*1,813,975*	*368,938*	*156,279*	*72,760*	*11,579*

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 (now PRA'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 liquid assets to be held. The Bank monitors its liquidity against this requirement daily and reports any breaches to the PRA.

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

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. As noted above, 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.

Foreign currency balances are driven by customer demand and do 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

34. Financial Risk Management (Continued)

Exposure to market risks: interest rate risk
A summary of the Bank's interest rate gap position based on the contractual obligation is shown below:

£000	Carrying Amount	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Over 5 years
At 31 March 2013						
Assets:						
Loans and advances to banks and central banks	676,931	650,929	-	25,000	-	1,002
Loans and advances to customers	1,057,959	945,096	1,620	14,991	74,752	21,500
Interest bearing available-for-sale financial assets	686,404	273,826	95,000	181,785	72,852	62,941
Total assets	**2,421,294**	**1,869,851**	**96,620**	**221,776**	**147,604**	**85,443**
Liabilities						
Deposits by banks	4	4	-	-	-	-
Customer accounts	2,262,050	2,166,586	65,139	18,113	12,212	-
Total liabilities	**2,262,054**	**2,166,590**	**65,139**	**18,113**	**12,212**	-
Derivatives	-	421,593	(56,620)	(134,700)	(146,385)	(83,888)
Interest rate gap	**159,240**	**124,854**	**(25,139)**	**68,963**	**(10,993)**	**1,555**

£000	*Carrying Amount*	*Up to 3 months*	*3 to 6 months*	*6 to 12 months*	*1 to 5 years*	*Over 5 years*
At 31 March 2012						
Assets:						
Loans and advances to banks and central banks	*784,499*	*783,678*	-	-	-	*821*
Loans and advances to customers	*947,783*	*864,838*	-	*500*	*71,201*	*11,244*
Interest bearing available-for-sale financial assets	*486,043*	*414,775*	*50,000*	-	*9,268*	*12,000*
Total assets	*2,218,325*	*2,063,291*	*50,000*	*500*	*80,469*	*24,065*
Liabilities						
Deposits by banks	*476*	*476*	-	-	-	-
Customer accounts	*2,070,722*	*1,991,844*	*43,882*	*28,866*	*6,130*	-
Total liabilities	*2,071,198*	*1,992,320*	*43,882*	*28,866*	*6,130*	-
Derivatives	-	*97,021*	-	*(400)*	*(73,971)*	*(22,650)*
Interest rate gap	*147,127*	*167,992*	*6,118*	*(28,766)*	*368*	*1,415*

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 Bank monitors its exposure to Interest Rate Risk. Consistent with the financial regulator's requirements, 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 2013**	*31 March 2012*
	£000	*£000*
Net Present Value Sensitivity to:		
Positive shift	**(935)**	*(288)*
Negative shift	**975**	*325*

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 remain low as the Treasury Department has taken a short term view on interest rates.

Exposure to market risk: currency risk

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

	2013	*2012*
Net currency exposure	**£000**	*£000*
US dollar	**1,748**	*992*
Euro	**182**	*53*
Other	**181**	*887*
Total	**2,111**	*1,932*

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

34. Financial Risk Management (Continued)

(e) Operational risk (unaudited)

Operational risks are the direct or indirect impact arising from people, inadequate or failed internal processes and systems or external events.

Operational risk management objectives

- To manage operational risk to an acceptable level that reduces the frequency and impact of operational losses in a cost effective way;
- 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 responsible and 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;
- To ensure the Board and management receive timely, dependable assurance that the organisation is managing the significant operational risks to its business; and
- To ensure the Bank holds sufficient capital to support the operational risks it is exposed to.

The Operational Risk Management 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 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 of the business; and identify the need for new or improved controls.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

34. Financial Risk Management (Continued)

Valuation methods are categorised into one of three levels as detailed in the table below.

Group Valuation Hierarchy	**2013** **Level 1** **£000**	**2013** **Level 2** **£000**	**2013** **Level 3** **£000**	**2013** **Total** **£000**
Bank and building society certificates of deposit	358,393	-	-	358,393
Equity securities (unlisted)	-	2,177	-	2,177
Debt securities with readily determinable fair values	341,700	-	-	341,700
Derivative financial assets	-	179	-	179
Total financial assets	**700,093**	**2,356**	-	**702,449**
Derivative financial liabilities	-	**18,941**	-	**18,941**

Group *Valuation Hierarchy*	*2012* *Level 1* *£000*	*2012* *Level 2* *£000*	*2012* *Level 3* *£000*	*2012* *Total* *£000*
Bank and building society certificates of deposit	*237,229*	-	-	*237,229*
Equity securities	-	*2,891*	-	*2,891*
Debt securities with readily determinable fair values	*247,715*	-	-	*247,715*
Derivative financial assets	-	*105*	-	*105*
Total financial assets	*484,944*	*2,996*	-	*487,940*
Derivative financial liabilities	-	*5,536*	-	*5,536*

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. There were no transfers between categories during the year *(2012: none)*.

(g) Capital management

The Bank's capital management for regulatory purposes is detailed in the Director's Report on pages 8 and 9.