Annual Report
for the year ended 31 March 2023

C. Hoare & Co.
PRIVATE BANKERS SINCE 1672

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Chairman's Foreword

The bank had another good year, despite a difficult external environment. That fact demonstrates the adaptability and agility of our business model as we passed the milestone of 350 years serving customers.

As the challenges of COVID-19 receded, those arising from the Russian invasion of Ukraine increased. The economic recovery from the worst of the pandemic was more tentative than expected, in large part due to resurgent inflation. With hindsight, central banks were too sanguine about inflationary pressures in 2021, and the energy price shock arising from the Russian invasion pushed inflation to levels not seen in 40 years. As a result, central banks have had to raise interest rates much more than was expected a year ago, weakening equity, bond and property markets. On the positive side, industrialised economies have shown extraordinary adaptability in the face of the energy shock. Oil and gas prices have fallen recently, creating a more benign outlook for inflation. Despite predictions to the contrary, a recession has yet to materialise in the UK. And if we are returning to a world of more normal interest rates, that can only enhance efficient asset allocation.

Higher interest rates provide an opportunity to reward depositors, and I am pleased to say that C. Hoare & Co. was quicker than others to raise rates on deposits. Moreover, higher interest rates have also allowed the bank to improve its Net Interest Margin (NIM). Despite market challenges, C. Hoare & Co.'s financial strength has improved, with profits and capital markedly up in the year, supported by rising central bank rates in the UK and US. As we look to protect the bank's capital from the value-eroding effects of inflation, we trust in the strategy that has served C. Hoare & Co. well over the last 350 years. We focus on the UK. We prioritise customer service, and long-term relationships. We invest for the future, stay simple and avoid the exotic. Above all, we seek to be good bankers and good citizens, and we strive to embed this purpose in all that we do.

In terms of the bank's performance, as we predicted last year, underlying profits have returned to more sustainable levels and income from our core activities grew strongly. However, disappointing growth in the wider economy has affected growth of the bank's balance sheet. Deposits dipped 7.1% in the year, following significant tax-year-end payment outflows and the tightening of the money supply as the Bank of England has finally begun to sell some of the £850 billion of gilts it had acquired. The sharp rise in the cost of debt, caused by rising base rates, and the slowdown in the housing market, has caused a significant slowdown in lending across the market. The bank's net lending growth slowed to 1.7%; however, underlying activity was strong as we supported customers to secure rates in a fast and challenging market. Our agility and customer focus allowed us to keep pricing loans, and to keep lending to customers, even in the most volatile months when other major lenders removed products from the market.

Mark-to-market headwinds continued, as expected in the volatile environment. However, the impact of these were muted once profits returned to more normal levels. As markets settle, mark-to-market headwinds are expected to reverse. As explained in last year's Annual Report, the investment reserve was created to make the bank's excess capital work by investing globally and, ideally, outside banking. In effect, it insures the bank against near-zero interest rates. The investment case has been proven in that the performance of the reserve has been inversely related to that of the banking book and, in the twin interests of resilience and stability, we will keep the reserve under review.

The Board remains committed to maintain capital well above levels required by the regulator. The common equity tier 1 capital ratio ended the year at 21.4%, with tier 1 capital standing at £428.5 million. The bank's liquidity is also strong, with £1.5 billion on deposit at the Bank of England.

Given the high rate of inflation, our costs rose markedly in the year. Rising costs are also due, in part, to a significant £16m of additional investment spend, intended to accelerate the bank's transformation plan. The bank has committed to maintain this increased level of investment into next year to deliver on our goals of simplifying processes, refreshing our technology, embedding hybrid working and improving resilience through further allocation of resources to security, fraud prevention, risk and controls, and regulatory compliance. Such measures will ensure the bank is well placed to serve the evolving needs of customers in the future. The increase in average staff headcount from 464 in 2021/22 to 520 reflects the further acceleration of the transformation plan, as well as bolstering teams to support its delivery.

Specific impairment charges increased in the year to £5.3m; however, there were no new material impairments. Charges incurred related largely to the resolution of historic cases that have either been settled, with two significant sales achieved in the course of the year, or that represent minimal further risk of loss to the bank. Although the market experienced downward pressure on house prices at the end of the year, the bank's detailed and rigorously monitored internal credit metrics continue to tell a positive story.

We were pleased to welcome Giles Andrews to the bank as an independent non-executive director. Giles brings extensive knowledge of financial technology, lending and investment, and his experience as an entrepreneur will be highly valuable to the Board.

Finally, I would like to thank everybody working at the bank, and I would like to say a big thank you to our customers. It was wonderful, at our Service of Thanksgiving at St Paul's in March, to see families whose relationships with the bank stretch back over centuries celebrating our landmark anniversary along with others new to the bank community. We strive to provide all our customers with the best possible service, and we are, as ever, grateful for your trust.

The Rt. Hon. Lord Macpherson of Earl's Court GCB
Chairman

Strategic Report

The directors present their Strategic Report on C. Hoare & Co. and its subsidiaries ("the bank" or "the Group") for the year ended 31 March 2023.

1. Statement of Directors' Responsibility under Section 172 of the Companies Act

Section 172 Statement

Our purpose is to be good bankers and good citizens. We recognise that our purpose can only be achieved by addressing the interests of all stakeholders, including customers, colleagues, regulators, owners, suppliers and the wider community in which we operate.

Section 172 of the Companies Act requires us to confirm that our directors have acted in a way that is most likely to promote the success of the bank for the benefit of its members as a whole, and that in doing so they have had regard to (amongst other matters):

- the likely consequences of any decisions in the long term;
- the need to foster the bank's business relationships with suppliers, customers and others;
- the interests of our colleagues;
- the impact of the bank's operations on the community and environment;
- the desirability of the bank maintaining a reputation of high standards of business conduct; and
- the need to act fairly between members of the bank.

The consequences of decision making in the long term

The strong financial position of the bank, coupled with its ownership structure, allows the Board to set, and maintain, a long-term perspective when making decisions.

The Board is responsible for leading the bank in the way which it believes is most likely to promote its long-term sustainable success and have a material positive impact on our society and the environment.

For more information on our Governance, please see section 8 of this report.

Fostering strong relationships with our stakeholders

As good bankers and good citizens, we seek to build strong relationships with all our stakeholders. The Board regularly discusses how to engage with its key stakeholders and the impact that its actions have on them. All matters submitted to the Board include an analysis of which stakeholders will be affected and how their interests have been considered.

There is also a requirement for all Board papers to explain the impact of that matter on our purpose.

For more information on how the bank engages with its key stakeholders, please see sections 3-8 of this report.

The interests of our colleagues

Our colleagues are integral to our business and play a critical role in delivering our strategy. The talent, engagement and wellbeing of those who work at the bank is a major area of focus for the Board, which receives regular reports on a wide range of people issues. This commitment to our people is reflected in our most recent colleague Net Promoter Score of +55, which compares with an average of +44 across the financial services industry.

The shareholders, or partners, engage with colleagues across the bank every day, in formal and informal settings. This allows them to develop a deep understanding of colleagues' perspectives on a wide range of matters.

For more information on our Colleagues, please see section 4 of this report.

Our impact on the community and environment

As a registered B-Corporation, we have a constitutional requirement embedded in our articles of association to ensure that we have a material positive impact on society and the environment. In practice, this means that the Board manages the bank in a holistic way that takes into account economic, social and environmental matters. The Board actively promotes discussion on our wider impact, with time devoted to climate change and to our relationship with customers involved in industries seen as potentially harmful to social or environmental health.

For more information on Community and Environment, please see sections 5 and 7 of this report and our Impact Report.

Maintaining high standards of business conduct

We are committed to acting ethically and with integrity in all our stakeholder relationships. Where possible, we build long standing relationships with our customers and suppliers, and we make clear our expectations of business behaviour. In our most recent customer survey, the vast majority of customers confirmed that C. Hoare & Co. is their first choice for all banking needs, while more customers than ever said they expect to remain with us in the medium term. Nearly all our customers trust the bank to do the right thing for them, and also for society.

For more information on our Customers and our Suppliers, please see sections 3 and 6 of this report.

Acting fairly between members of the bank

Founded in 1672 by Richard Hoare, C. Hoare & Co. has been owned by the Hoare family for twelve generations. The current shareholders, or partners, are fully engaged in all aspects of our business and meet with colleagues and customers on a daily basis.

The partners' deep understanding of the needs of private banking customers, developed over those twelve generations, ensures the continuity of the bank's culture, values and purpose, as well as true parity between members.

For more information on our Governance, please see section 8 of this report.

2. Key Strategic Metrics as Good Bankers and Good Citizens

CUSTOMER SATISFACTION

95% ↓ 2.0% YoY

The percentage of customers who are 'very satisfied' or 'satisfied' in all aspects of their relationship with the bank.

COLLEAGUE ENGAGEMENT

88% ↑ 7.0% YoY

The percentage of colleagues who find their roles at the bank engaging.

MEAN GENDER PAY GAP

8% ↑ 2.0% YoY

Reporting carried out March 2022, in line with regulatory requirements.

CARBON FOOTPRINT

369t ↓ 10.0% YoY

Measured in carbon tonnes, using the location-based method.

PROFIT BEFORE TAX

£67.7m ↑ 309% YoY

MASTER CHARITABLE TRUST

£67.0m ↑ 28.1% YoY

The amount donated across all MCT funds to support charities globally.

DEPOSIT BALANCES

£6,214m ↓ 7.1% YoY

LENDING BALANCES

£2,080m ↑ 1.7% YoY

Financial Performance Review and the Market Environment

> ‘Our strong, stable balance sheet and conservative approach to managing liquidity has served the bank, our customers and partners well for over 350 years and continues to do so in the current financial environment.’
>
> **Alexander Hoare**
> Partner & Director

Financial Performance

Profit before tax (PBT) increased by £51.2m to £67.7m in 2022/23 (2021/22 PBT: £16.5m). This was largely driven by net interest income from core activities of £177.3m (2021/22: £88.3m) which showed an increase of £89.0m. This is due to the increase in BoE base rate to an average of 2.23% (2021/22: 0.19%) driving higher Treasury income. Costs increased by £45.8m in 2022/23 to £136.6m (2021/22: £90.8m), predominantly driven by a 12.1% increase in average headcount to support significant internal transformation, as well as underlying investment in technology. Inflationary pressures increased a number of costs, particularly salaries.

Customer deposits declined £475m (7.1%) to £6,214m (2021/22: £6,689m). The level of fixed deposits increased by 20% as customers sought to lock in higher returns. Customer lending grew 1.7% to £2,080m (2021/22: £2,045m). Treasury balances decreased by £857m due to the sale of gilts and lower deposits placed at the Bank of England as the level of customer deposits fell.

Impairment increased by £4.7m to £6.2m in 2022/23 (2021/22: £1.5m). Increased impairment was mainly due to existing impaired loans. Potential problem loans continue to be monitored and the loan book is expected to stay resilient to wider economic uncertainty.

Tier 1 capital (including current year profits) increased by £46.6m to £428.5m. The bank remains well capitalised with its Tier 1 ratio of 21.4%, 0.4% higher than prior year, and chooses to hold far more capital than required for regulatory purposes. Also, since 2018, more than 20% of total customer deposits have been held at the Bank of England to ensure deep and secure liquidity for customers.

The bank maintained its commitment to philanthropy with a £6.5m donation to the Golden Bottle Trust, an increase of £5.0m on 2021/22.

Market Overview

The impact of the Russian invasion of Ukraine heavily affected the UK economy; inflation rose steeply from the start of the year, driven by rising fuel and commodity prices.

Inflation rose from 9.0% in April to a peak of 11.1% in October, before falling gradually, helped by a reduction in the cost of fuel and transportation.

The political landscape evolved rapidly after the resignation of UK prime minister Boris Johnson in July 2022. The associated instability in economic policy saw the value of the pound fall to a 37-year low, and 30-year gilt yields rise to elevated levels.

UK households have faced multiple pressures from rising energy and food prices throughout the year, leading to a cost-of-living crisis as real disposable incomes fall. The country has also experienced increasing levels of strike action across a number of industries.

Base rate rose rapidly throughout the year, starting at 0.75% and ending at 4.25%. This supported bank profits following many years of ultra-low interest rates. As base rate increased, the bank was quick to raise deposit rates for customers; this corresponded with an increase in customers moving their money from instant access accounts to higher paying fixed term and notice accounts.

The sharp rise in the cost of debt, and slowdown in the housing market, has caused a market-wide slowdown in lending which was mirrored in the bank's own rate of growth in lending. Lending rates have been volatile across the market; however, the bank's agility and customer focus allowed it to keep pricing loans, and to keep lending to customers, even in the most volatile months when other major lenders removed products from the market.

In March, Silicon Valley Bank (SVB) failed and it became necessary for UBS to buy out Credit Suisse. These banks failed for different reasons and under different regulatory regimes to the UK: SVB failed due to balance sheet management and Credit Suisse failed on account of ongoing reputational issues eroding customer confidence. Eventually both succumbed to a classic 'run on the bank' as depositors lost confidence and withdrew their funds. While the wind-down of both banks was managed in an orderly fashion, their failure created a volatile market through the bank's March year-end. However, the net impact on C. Hoare & Co. was minimal.

Despite the turbulent year and continued market uncertainty, the bank's conservatively managed, UK-centric lending portfolio remains resilient and free from material new impairment. The bank closely monitors a lending watch list and maintains a prudent approach to new lending.

The bank's high-quality tailored customer service, in tandem with increased investment in technology, means it is well positioned to remain nimble and alert to customers' changing needs. Our exemplary service, unrivalled customer experience and prudent approach leaves the bank resilient to external uncertainty and well positioned for continued growth in the years ahead.

3. Customers

Good bankers and good citizens

Close personal relationships are at the heart of our business. These are founded on deep trust, and on the bank's values of honesty, empathy, excellence and social responsibility. We aim always to forge long-term relationships (some families have been with the bank for centuries), and our purpose as 'good bankers and good citizens' is consciously embedded in the services we offer.

This year has seen a very large number of customer applications and, as a small bank, we continue to be selective. Each prospective customer has a meeting with a partner to ensure they share our values; when they join the bank, their relationship manager takes time to understand their finances, however complex, and other individual requirements. In this way, we are able to offer truly bespoke banking ranging from day-to-day transactions and flexible lending to specialist services provided by experts in sectors such as Treasury, Farms & Estates, Family Offices & Family Businesses, City Professionals, Entrepreneurs, and Arts, Culture & Entertainment.

Beyond our Fleet Street office and Lowndes Street branch, relationship managers with extensive local knowledge look after customers in East Anglia and the North East, North West and South West of England. This ensures our regional customers receive the highest level of face-to-face, personal service and allows us to build useful connections across the country.

As a pure banking service, we are free to work with our customers' professional advisers. Many of these professional relationships have been in place for decades and customers appreciate our ability to make independent referrals.

Customer Events

A varied programme of events allows us to build and curate close customer communities based on shared interests and values. This opportunity to connect with like-minded individuals and organisations is a highly valued component of the bank's offering.

It was a great pleasure to welcome customers back to events in Fleet Street this year. Hybrid technology developed during the pandemic continues to expand the reach of selected talks.

In addition to our annual series of Winter Talks, we hosted speakers on topical subjects such as the work of the HALO trust in Ukraine and the anniversary of Partition in India (the latter saw some 500 customers joining in person and on Zoom).

Successful regional events were also held in prestigious venues such as Manchester Art Gallery and the Holburne Museum in Bath. In total, 70 events for customers, professional advisers and prospective customers were hosted throughout the year in London and the regions.

Fraud prevention

Fraud prevention remains a particular focus for the bank. We continue to bolster our defences in this fast-moving area through a combination of fraud-detection technology (60% of customers now use voice identification as an extra layer of security when calling the bank) and detailed customer information. In addition to planned and ad hoc messages to customers via post, email and SMS, we have this year instigated a running programme of fraud-awareness events to help protect customers and update them on scams in current circulation. Hosted by Bella Hoare and our Head of Fraud Prevention, these in-person and hybrid events are much appreciated by customers.

Feedback and focus

The bank strives continually to ensure its services are best-in-class. Our annual Net Promoter Score (NPS) customer survey is an important measure of our success. This year, as in previous years, we were pleased to receive a score significantly ahead of the market. The survey confirmed that trust in C. Hoare & Co. 'to do the right thing' is very high. Customers also warmly commended the bank's events, philanthropy, security, and the personal service delivered by relationship managers and our wider Banking Team. In a separate survey, the success of our new telephony model was noted: 80% of customer calls are now resolved at first point of contact. Averaged across the year, calls are answered in fewer than five seconds; in the final quarter of the year, this reduced to fewer than three seconds.

Evolving Services

We listen carefully to feedback, so as to gain a better understanding of customers' evolving requirements. In the coming year, we will continue to focus on improvements to our technological and digital offering, including enhanced functionality in the app. Considerable progress has been made over the past twelve months. Customers are now able to view, freeze/unfreeze and report lost and stolen cards within the mobile app. Our new online currency conversion service, enabling real-time settlement over currency accounts, has also proved popular.

350th anniversary

This year, the bank celebrated its 350th anniversary. We sought customer engagement with this important milestone in a number of ways:

- 1,100 customers attended a Service of Thanksgiving at St Paul's Cathedral in March 2023;
- A letter to customers from Rennie Hoare shared details of special '350' grants awarded by the Golden Bottle Trust to charities with an historic connection to the bank;
- An interview with Alexander Hoare, Venetia Hoare, Rennie Hoare and Amy Rodwell was published in Spear's Magazine. The article explored the importance of succession and sustainability in 'Britain's oldest family bank';
- An illustrated timeline of the bank's history and a series of six 'anniversary stories,' highlighting service excellence through the centuries, were shared on our website and on social media, where these stories garnered very high levels of customer approval; and
- A celebratory video was shared on social media.

Beyond the many celebrations, our 350th anniversary was an opportunity for customers and colleagues to reflect on what makes C. Hoare & Co. distinctive, and for the bank to consider how we can preserve, adapt and enhance these special qualities for generations to come.

4. Colleagues

Our people are the key to the success of the bank.

The board and partners engage with colleagues in a number of ways to ensure that actions taken by management, and approved by the Board, are delivering the people strategy.

This engagement includes:

- Updates on our people, and the progress of our people strategy, by the Chief People Officer at Board meetings throughout the year;
- Review of colleague survey results, together with appropriate challenge to management on proposed actions. We survey our colleagues four times each year, with a full annual Happiness and Engagement survey carried out in November;
- Direct contact with colleagues, both formal and informal, where colleagues are encouraged to share their views and opinions. The bank has a 'speak up' culture in which colleagues are encouraged to raise any concerns or questions. This is a key leadership principle of the Management Team and the Board; and

- Regular meetings with the C. Hoare & Co. Employee Forum (CHEF), which consists of a representative group of colleagues. The CHEF is consulted by management on major changes across the bank.

The bank's people strategy is designed to help our colleagues to feel engaged, motivated and supported to be their best.

In 2022/23, there has been particular focus on the following areas:

- Leadership Development; If we want our people to feel supported and enabled to perform, it is vital that we have effective leaders across the bank. So in June 2022 we launched a Leadership Academy for our top 50 leaders. Modules of the programme have continued into 2023. The goal of the Leadership Academy is to support individual development and to strengthen the collective leadership cohort;
- Colleague and line-manager development; The annual colleague survey of November 2021 made it clear that colleagues wanted to see further investment in career development. To that end, the bank has launched two programmes: the Management Excellence programme for line managers, and the Your Way core-skills development programme for all colleagues. Both started in January 2023. Their shared aim is to promote high-quality colleague development at every level of the bank;
- Talent and Succession; In 2022 we launched a revised approach to identifying talent and strengthening our succession plans. We have identified potential successors to our key leadership roles and made sure those potential successors have robust development plans in place to support their progression;
- Equity, Diversity and Inclusion (ED&I); The bank aims to be a truly inclusive employer, and in 2022 we launched a revised ED&I strategy to help us fulfil that aim. In the course of 2022, the bank recruited four graduates and 15 apprentices from a range of backgrounds. Our internal policies support flexible work patterns, and in 2022 we made improvements to our policies regarding support for new parents. We also launched a Women's Network and a wider ED&I Network. Both these networks, which are colleague-led, helped us focus on inclusive initiatives in the wider world such as Black History Month, International Women's Day and International Day of the Disabled Person; and
- Hybrid Working; Our continued commitment to a hybrid operating model has ensured that colleagues continue to have the opportunity to work flexibly. An increasing number of colleagues are choosing to come into the bank, so we are investing in both our office space and our technology to ensure that hybrid working is seamless and effective for the bank and for colleagues. Workspaces and communal areas are being upgraded and refreshed, and new laptops will be rolled out to all colleagues.

Our success in delivering the People Strategy was clearly evidenced in our latest Colleague Happiness and Engagement Survey, which was undertaken in November and December 2022. The Colleague Net Promoter Score now stands at +55, up from +11 in 2021 and significantly above our strategic target. In addition, scores for happiness and engagement, as well as the inclusion score ('bring whole self to work'), exceeded both our targets and our scores in previous years.

The survey showed improvements and good results across all areas, but some stand out as particular strengths. These include relationships between colleagues (96% positive) and the extent to which colleagues believe we put customers at the heart of our business (95% positive). The results also demonstrated how we are continuing to embed our purpose to be good bankers and good citizens. When colleagues were asked about the extent to which they believe their role contributes towards our purpose, the responses were 95% positive, which is higher than in any previous year.

The bank continues to be an equal opportunities employer and recruits the most suitable applicant for any given vacancy. The impact of such an approach can be seen in our gender pay mean gap, which for the 2023 statutory reporting year was measured at 8% (compared to the current average of 34% in UK banks as at 2022 reporting*). Our median pay gap has narrowed by 5.5% compared with the previous year.

It is crucial that all colleagues feel they are competitively rewarded for their work. This is especially important in the present external market environment. We brought forward our 2023 annual pay review to January 2023 – six months earlier than usual. This means all colleagues have been subject to more than one salary review within the 12-month period. Additionally, in September 2022 we provided all colleagues with a one-off cost-of-living support payment of £2,000.

*The Gender Pay Gap in The UK Banking Industry in 2022 (ticfinance.co.uk)

5. Community

Social responsibility is one of the bank's core values. We understand we have a responsibility to give back to our community, and to mitigate our environmental impact.

Good Bankers and Good Citizens

In 2021, we began a comprehensive assessment of the business, making use of the B-Corporation framework. We believe this is a good way of measuring our performance and see it as a tool we can use to challenge ourselves to be more effective as good bankers and good citizens. A wide range of our colleagues, including our Purpose Leaders, worked together on this initiative. We were pleased that, at the end of the process, we successfully gained B-Corporation certification. We achieved a score of 97.7 without making significant changes to our usual business practices. And now that the certification is in place, our Purpose Leaders will work alongside a newly formed committee, the Innovation Team, to find ways to build on that score and improve our performance in the years to come.

Hoare Family Philanthropy (The Golden Bottle Trust)

Over the course of the year, the bank made charitable donations of £6.5m to The Golden Bottle Trust (GBT) – a large increase on the previous year, when the total amounted to £1.5m. The GBT was set up in 1985 to further the philanthropic aims of the Hoare family and the bank. Each year, the partners donate up to 10% of the bank's profits to the trust and the family aims, through the activities of the GBT, to set an example that both colleagues and customers can follow. In the past year, the GBT distributed grants amounting to £2.7m (2022: £2.6m).

The GBT has developed an approach whereby both grants and investments are designed to create a positive impact. The trust first decided to include impact investments in their portfolio in 2011. In 2016 the GBT co-created a multi-asset social impact investment fund called Snowball IM and in 2019 the GBT put the final liquid portion of the portfolio into discretionary impact mandates. This means that 100% of the GBT's resources are set to have positive social or environmental effects – an approach known as Total Portfolio Impact.

There are four core strands to the GBT's giving, aligned to four of the United Nations' 17 Sustainable Development Goals (SDGs).

- SDG 3 concerns Good Health and Wellbeing. The GBT has supported the Big Give's Mental Health Fund, an initiative that makes use of match-funding to support a number of high-quality mental health charities;
- SDG 10 is termed Reduced Inequalities. The GBT supports charities such as Intermission Youth Theatre which, through drama, changes the lives of young people at risk. The GBT also works with Villiers Park and ThinkForward — charities that offer structured mentoring and training opportunities;
- SDG 13 covers Climate Action. The GBT adopts a concept called 'ecosystem granting'. This means it supports a variety of ecological causes and initiatives, rather than focusing all its funds on one or two causes. Recipients of GBT grants include charities dealing with agro-ecology and the preservation of habitats and ecosystems such as peatland and sea grass; and
- SDG 17 is termed Partnership for the Goals. The GBT enters into partnerships with charities that aim to remove the obstacles to achieving other SDGs. For example, it supports The Fore, a charity that works to catalyse the growth of smaller charities. Another of its projects is Philanthropy Impact, which works to increase charitable giving through the provision of high-quality philanthropy advice.

Customer Philanthropy

Our hope is for our customers to become 'enabled givers'. We look to support them in this by providing thought leadership, as well as tools to support their philanthropy. This support comes in various forms, including our Donor-Advised Fund, the Master Charitable Trust (MCT). In the past year, the MCT recorded £67.0m (2022: £52.3m) of donations.

Colleague Philanthropy

This year has seen a new initiative to support colleagues as practitioners of philanthropy – the Philanthropy Circle. The work of the circle consists of sessions in which colleagues are taught about aspects of our philanthropic practice, such as:

- Aligning priorities: this involves agreeing on focus areas, based on what the group cares about most;
- Understanding due diligence and the importance of necessary checks; and
- Focusing on smaller charities and trust-based giving: this includes learning the principles of unrestricted funding and the value of small and medium charities.

Colleagues are then asked to agree on one grant funded by the GBT. This task tests decision-making skills and helps colleagues get to know one another, but it also provides valuable insight on the everyday challenges faced by philanthropists.

To encourage colleagues' charitable giving, we double-match all charitable donations made via our Give-As-You-Earn (GAYE) scheme. As at 31 March 2023, 290 employees were donating via GAYE (53% of all colleagues). We run our payroll giving scheme through the Charities Aid Foundation and have received their Diamond Award. (We ranked third among financial services organisations with more than 100 colleagues.) Since 2012, colleagues have together donated more than £2.5m to charities of their choosing.

We have continued to support ThinkForward as our Charity of the Year. This charity supports young people who are at risk of being NEET (not in education, employment or training) after they leave school and provides long-term coaching to prepare them for the world of work. We have worked with ThinkForward on a number of initiatives, including:

- Running insight days at the bank, where students are introduced to the range of opportunities available in banking and given the opportunity to ask questions. We have supported 15 students in this way;
- Going into schools to deliver revision skills sessions;
- Running work experience for students interested in banking; and
- Fundraising through social events, the Three Peaks Challenge and the Thames Bridges Trek. This raised more than £35k for the charity.

We encourage all colleagues to volunteer in their local community. This year we have seen colleagues donate over 500 hours' volunteer time to a wide range of charities, including:

- CityHarvest: sorting and packing food to reduce food waste and support food banks;
- The Tree Council: planting trees at a London primary school; and
- Sal's Shoes: sorting and packing second-hand shoes to be delivered to those who can't afford them.

We encourage all volunteers to take their allowance of paid volunteering days, and we aim to be flexible, so that colleagues can volunteer in a range of different settings. Colleagues might, for example, subscribe to volunteering opportunities that come through the bank, or they might help out at the summer fair at their children's school.

Our Impact Report

This year, we were pleased to release our third Impact Report. The report sets out our social and environmental impact alongside key data on our colleague, customer, and supplier relationships. This is an important document for us, because it demonstrates publicly how our purpose as 'good bankers and good citizens' shapes the way we do business. We will continue to develop this reporting format in years to come.

To read the Impact Report, please visit:
www.hoaresbank.co.uk/financial-reports

6. Suppliers

Working effectively with the bank's suppliers is integral to the excellent personal service we offer our customers, and we are committed to acting ethically and with integrity in our supplier relationships. We seek to build long-term relationships with our third-party vendors, working together to achieve our goals. Active and positive interaction with our suppliers is as important as it has ever been. The bank considers strategic partnerships to be key to positive delivery. We take pride in ensuring that organisations with whom we partner understand our purpose, and so are able to operate in a manner aligned to the bank's core values. We speak. We listen. We deliver together.

Governance and oversight of the supplier network are of paramount importance. The Supplier Management Council (chaired by the Chief Transformation and Technology Officer) provides oversight of the business-as-usual activities of the supplier network. The council reviews, discusses and supports decision-making related to the bank's suppliers and the associated risk profile. The Council supplements a defined Supplier Management function at the bank set up to support ongoing partnerships and supplier relationships at all levels. We engage on a 'full contract lifecycle'. Value for money is not defined simply by cost.

The success of our external partnerships is founded on honest, open relationships with suppliers, and on the provision of evidence to support oversight. Standards are reinforced via regular service-review meetings. The strong relationships we have built with our suppliers provide a foundation for success by helping us prevent disruption to the bank's operations caused by major external events such as the recent global pandemic.

In Q1, the bank hosted a face-to-face event with 80 of our key suppliers, enabling positive re-engagement after the pandemic. This event was well received, with great feedback from both suppliers and our internal vendor relationship managers, and serves to highlight the importance the bank places on deep personal relationships with our third-party providers.

7. Environment

We are mindful that our activities have an impact on the environment, and we seek to operate our business in a sustainable manner. As a certified B-Corporation, we are committed to ensuring we have a positive impact on the environment through our business and our operations.

The bank's climate strategy is presented to the Board annually. The strategy has three key elements:

- To calculate, reduce and offset the bank's carbon footprint;
- To support our customers in their transition to a net-zero economy; and
- To understand the bank's stranded asset exposure from a climate perspective.

This year our focus in respect of our carbon footprint has been on calculating and reducing our emissions. We are also looking for a credible partner to help us offset the emissions we cannot reduce.

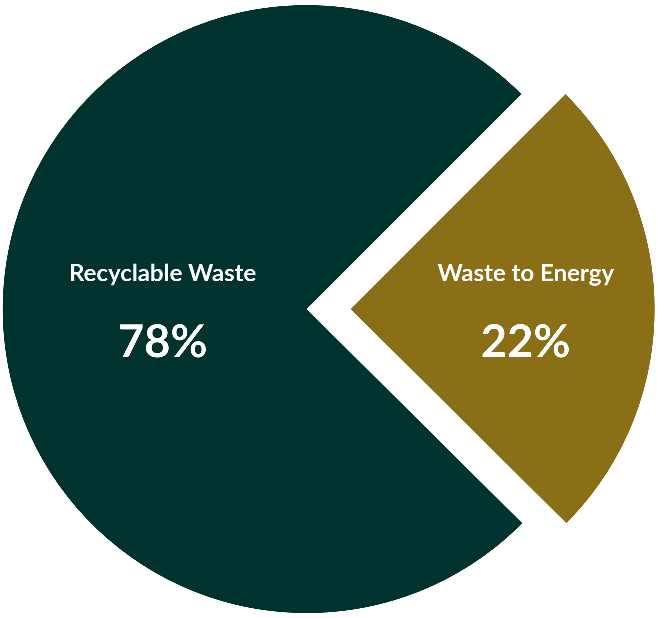
At the start of the financial year, we undertook enhanced audits of our entire physical estate. The purpose was to understand how, through a combination of short-term measures and plant/system building upgrades, the bank could significantly reduce its carbon emissions. The reports identified a potential total estimated saving of 105 tCO_2e (tonnes of CO_2 equivalent) across the estate (to be brought about through a combination of short-term and long-term measures) and a carbon-reduction action plan has been set in place to realise these savings. One of the key findings in the report was that electricity and gas loads outside business hours were higher than expected. The bank carried out extensive testing of its heating and air conditioning system to pinpoint which systems stayed on when the building was closed. In some cases, given the bank's 24/7 operating model and the listed status of our building, the savings were not achievable. However, the exercise yielded an 11% saving in energy usage as a result of changes to running hours.

The bank is in the process of rolling out green lighting across its estate. This upgrade will involve 'smart' measures such as movement and daylight controls. About 85% of our estate now has LED lighting. Where possible, we plan to roll this out across the estate by the end of 2024. We have recently installed environmental sensors in our larger office areas to monitor pollutants, temperature, humidity, pressure, noise, light and greenhouse gases. The data obtained from these sensors helps us make small changes to the building management systems, thereby increasing efficiency and improving the workspace for colleagues.

As part of a range of green measures adopted by the bank this year, we reduced the number of bank-owned vehicles to one (a fully electric car). We also committed to ensuring that each of our 25 tenanted properties have EPCs that meet the government target of an E rating by April 2023, and a B rating by April 2028.

Recycling remains a priority: 78% of our waste is currently recycled. We have separate waste streams for recycled waste, food waste and non-recyclable waste. All electrical waste is disposed of in accordance with the WEEE (Waste of Electrical and Electronic Equipment) Regulation 2006, or else the hardware is donated to charities.

Materials recycled by the bank in the last 12 months



We continue to partner with Bio Collectors and Greener than Green waste collectors. Their 'zero to landfill' policy means that all waste streams are recycled where possible. Unrecyclable waste is not sent to landfill; instead, it goes through a 'waste to energy process' and is made into fuel blocks or sources for electrical power stations. We also partner with Bio-Bean, an organisation that converts our coffee grounds into pellets for biofuel.

And we receive loose deliveries from our food suppliers, so as to minimize packaging.

Our carbon footprint was a key consideration in our recent office-refurbishment project. Our suppliers are required to achieve ISO 14001 accreditation, meaning they have an effective environmental management system in place, as a minimum. They must be a member of the Furniture Industry Sustainability Programme (FISP). We are fitting carpet that is 100% regenerated nylon, with a backing that is 90% recycled.

Hangers for our wardrobes are produced from 100% recycled plastic that is gathered from the ocean. On the technology side, we decommissioned a number of our old IT servers and replaced them with new, more energy-efficient servers. This has led to an annual carbon reduction of 104 GHG Tonnes.

We have calculated and reported on our scope 1 and scope 2 emissions since 2020, and we continue to explore how best to calculate our scope 3 emissions. This year, we engaged Positive Planet – an organisation with a strong track record in helping companies measure, offset and reduce emissions – to help us calculate our complete carbon footprint. We continue to seek out ways to reduce, rather than offset, emissions, as we feel the voluntary carbon-offset market is not sufficiently mature. We are, however, actively engaging with market leaders in this space to find a credible approach to offsetting in future.

To support our customers in their transition to a net-zero economy, we continue to promote and encourage natural capital, biodiversity loss reversal and regenerative farming projects. This frequently involves staging talks and other events where we can bring together individuals with common cause or overlapping interests. This past year, talks have covered themes such as marine vegetation and the survival of the red squirrel.

Through the Golden Bottle Trust, the Hoare family has supported a number of environmental projects, ranging from the protection of eels (Sustainable Eel Trust) to the conservation of peatland (Moors for the Future). The GBT has a number of investments which aim to have positive environmental impacts, including a Rhino conservation bond and an environmental technology bond.

You can find out more about the activities of the Golden Bottle Trust in its annual report:

www.hoaresbank.co.uk/golden-bottle-trust

SECR Reporting

We continue to publish our location-based carbon footprint, as this data provides the most complete picture of our emissions. The location-based method calculates emissions the bank is responsible for through its purchasing decisions.

This year, we saw an increase in our gas oil usage. This is primarily due to measurements being based on periodic gas oil purchasing. In future years, we plan to change this, so our calculations reflect gas oil used on a monthly basis.

We saw a drop in our business mileage over the last 12 months; this was primarily as a result of more customer meetings taking place at the bank, negating relationship managers' need to travel.

Our total location-based emissions for the year were 369.22 tCO2e (tonnes of CO2 equivalent), with an intensity ratio of 1.75 tonnes of CO2 equivalent per million pounds of income. The largest proportion of our greenhouse gas (GHG) emissions was accounted for by office electricity use, which represents 63.96% of total emissions (236.1 tCO2e).

The following methodology has been applied to calculate the required energy and carbon data for Streamlined Energy and Carbon Reporting (SECR):

- Energy consumption data for gas and other fuels used at the bank's properties has been gathered in the form of supplier invoices and/or half-hourly data, where available. For any periods where data was unavailable, monthly consumption calculations were based on a variance analysis between 2022 and 2023;
- Oil is used for an oil-fired boiler plant and backup generator plant. A summary of emissions for gas and oil used by the properties is included in the tables above;
- Fuel and/or mileage data has been provided for each vehicle owned or leased by C. Hoare & Co.;
- In the absence of specific mileage data for employee travel, the bank used total financial claims made for travel by employees. The total amount of claims was divided by £0.45/mile to estimate total mileage. It was assumed petrol was the fuel used;
- The total energy data associated with each data source has been collated to calculate the total energy usage;
- Total energy usage has been converted to GHG emissions by applying the appropriate 2020 UK Government GHG Conversion Factors for Company Reporting, in line with the GHG Protocol Corporate Standard methodology; and
- The selected metric for the emissions intensity ratio is income. Carbon emissions have been reported for each category per £210.5m (2022: £108.8m) total income for the reporting period.

Emissions Summary (Location-Based) (Unaudited)

Scope	Emissions Source Location-Based	2023 Energy Use kWh	2023 Emissions kgCO2e	2023 Emissions tCO2e	2023 Intensity Ratio tCO2e / £mil	2022 Energy Use kWh	2022 Emissions kgCO2e	2022 Emissions tCO2e	2022 Intensity Ratio tCO2e / £mil
Scope1 (direct emissions)	Fuel use for travel by owned and leased vehicles (fleet)	24,536	5,574	5.6	0.1	55,051	12,651	12.7	0.1
	Natural gas consumed in offices	577,572	105,430	105.4	0.5	639,588	117,147	117.1	1.1
	Gas Oil consumed by boilers and back-up generators	85,983	22,080	22.1	0.1	53,573	13,757	13.8	0.1
Scope2 (indirect emissions)	Electricity consumed in offices (including EV charging)	1,221,103	236,137	236.1	1.1	1,253,135	266,078	266.0	2.4
TOTAL		**1,909,194**	**369,221**	**369.2**	**1.8**	**2,001,347**	**409,633**	**409.6**	**3.7**

8. Governance

Regulatory Framework

The bank is authorised and subject to prudential regulation and supervision by the Prudential Regulation Authority (PRA); it is also subject to conduct regulation and supervision by the Financial Conduct Authority (FCA). The PRA and the FCA apply the Senior Managers and Certification Regime (the SMCR), which imposes regulatory approval, individual accountability and a fitness and propriety framework in respect of senior or key individuals within the bank. The bank maintains a Management Responsibilities Map which describes its management and governance arrangements in line with the requirements and expectations of the Senior Managers Regime. SMCR training is provided to all those who hold Senior Manager Function responsibilities, to ensure they are able to discharge their duties appropriately, and to ensure all colleagues understand how SMCR Conduct Rules apply to their role.

The bank is subject to regulatory initiatives undertaken by the UK Payment Systems Regulator (PSR) as a participant in payment systems regulated by the PSR, and it engages with the Information Commissioner's Office and HMRC. Our engagement with regulators ensures we serve our stakeholders' best interests and provides us with important oversight of the bank's management of the various elements of our business model.

The Board

The Board is the key governance body responsible for the overall strategy, business performance and risk management of the bank. It comprises independent non-executive directors, the Chief Executive Officer (CEO) and the bank's partners.

The Board delegates day-to-day executive management of the bank to the CEO, who directs the Management Team to deliver against the bank's strategy. More details of the roles and responsibilities of the Board, the Management Team and other bank committees can be found in section 8.1.2.

This year, Giles Andrews joined the bank as an independent non-executive director; his experience will bring further strength and depth of knowledge to the Board. India Gary-Martin became chair of the bank's newly formed Data Committee and Risk Committee. The Board currently consists of the CEO, the chairman, four independent non-executive directors and six executive directors. The gender split is seven men to five women.

In addition to formal meetings, Board members meet regularly with the CEO and members of MT to discuss key strategic matters.

This year, the annual Board Effectiveness Review was conducted by Lintstock. The evaluation took the form of a confidential questionnaire which assessed the performance of the Board. The questions covered Board effectiveness, Board composition, Board dynamics, succession planning and training. The feedback was collated by Lintstock and discussed by the Board in March 2023.

Overall, the survey produced a positive set of results, confirming the effectiveness of the chairman and the sub-committees of the Board. The Board's oversight of key stakeholders, the focus of Board meetings and the Board's oversight of risk were all rated very highly. When respondents were asked about the top strategic issues facing the bank, the main issues identified were technology, data, growth, and staying relevant to customers.

A number of actions are planned to ensure the Board addresses key themes identified in the feedback over the course of the next year.

8.1 Risk Management and Governance Structure

The Company and Group's business is stable and concentrates on the supply of banking and ancillary services to generations of customers. The bank experiences regular patterns of income and expenditure, which are well understood by the bank's Management Team (MT). This stability enables the Board and MT to monitor risks closely and to detect and manage emerging risks at an early stage.

The bank's approach to risk management is to maintain balance between risk and potential reward, thereby achieving its strategic objectives without exposing the bank to unacceptable residual risk. The principal risks affecting the bank are explained in the next section.

The Risk Management Framework (RMF) has been simplified and updated; it articulates risk governance structures, risk appetite, risk monitoring framework and bank policies required to achieve the bank's risk management objectives.

These objectives are:

i. to articulate and communicate the Board's risk appetite and ensure that the bank's risk profile operates within its defined parameters;

ii. to ensure significant risks are identified, measured, managed, monitored and reported in a consistent and effective manner across the bank;

iii. to re-assess on a regular basis capital requirements and liquidity impacts implied by the bank's risk exposures;

iv. to collect and report all components of risk information in order to provide a comprehensive view of the bank's risk exposure both to the Board and to its committees, allowing them to evaluate risk-adjusted performance against strategic objectives; and

v. to ensure a robust risk-governance structure and risk culture is maintained.

A description of the bank's risk management and governance structure can also be found in the bank's Pillar 3 disclosures. These disclosures, which are unaudited, are available on the bank's website:

www.hoaresbank.co.uk/financial-reports

The RMF is based on the principles and guidance prescribed by the Committee of Sponsoring Organisations and is reviewed and approved at least annually by the Board.

8.1.1 Risk Appetite Statement

Board Strategic Objective

The Hoare family's vision for the business is "to continue to be the preeminent private bank in the UK". With this in mind, the bank's strategic objective is to build profitable long-term relationships with its customers and to offer an exceptional personalised service.

Board Approved Risk Appetite Statement and Risk Appetite Metrics

In order to meet its strategic objectives, the bank is willing to take risk consistent with the bank's values, provided this does not threaten the bank's reputation or sustainability. The Board articulates the level of risk that the bank is willing to accept in achieving its strategic objectives both in total and for individual risk categories. This is articulated in the Risk Appetite Statement which is reviewed and updated at least annually.

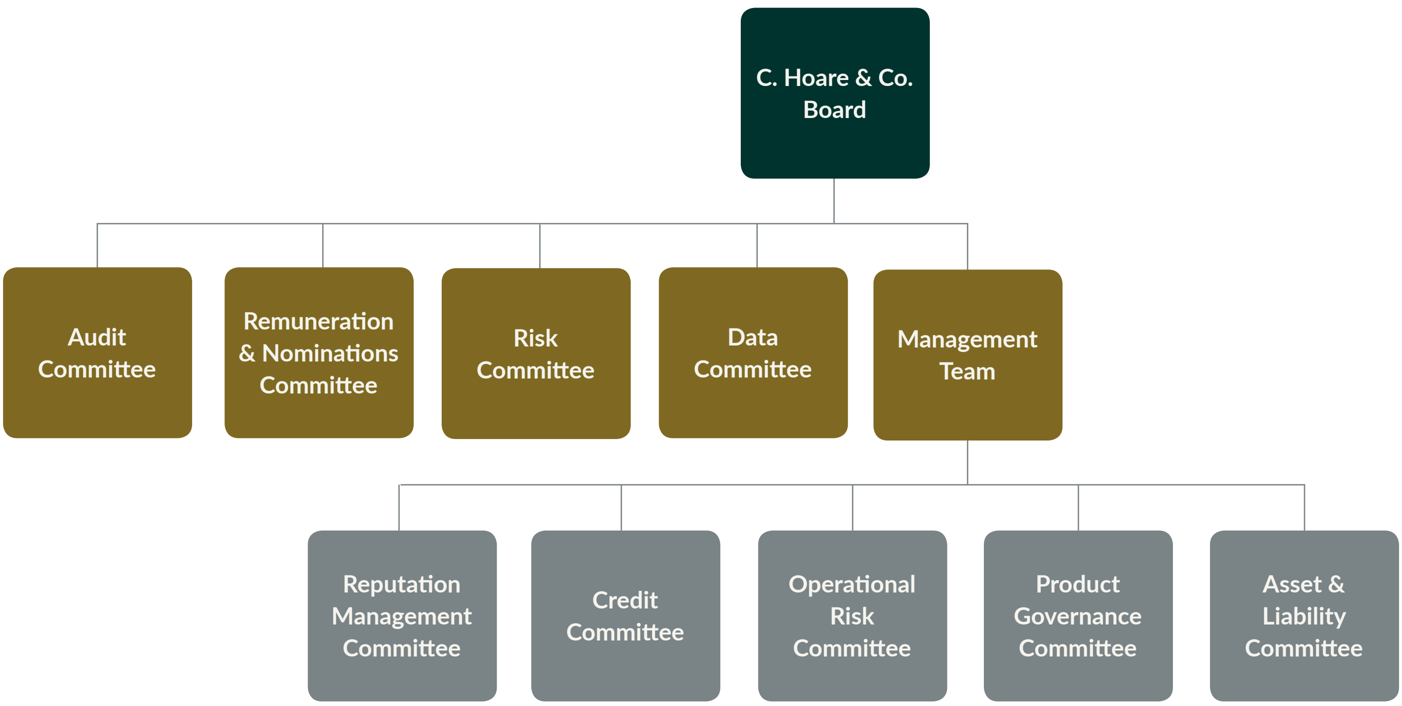
The Board also articulates the level of risk the bank is willing to accept, both quantitatively and qualitatively, through the use of key risk indicators and early warning indicators.

8.1.2 Governance Structure

The Board of Directors ("the Board"), its committees, sub-committees and the Three Lines of Defence model form the bank's risk management governance structure.

The primary structure for the current year is shown below:

Table 1: Governance Structure



Board of Directors

The Board is the key governance body responsible for overall strategy, business performance and risk management of the bank. The Board has established the following committees to provide support in discharging its responsibilities:

- Audit Committee (ACo);
- Risk Committee (RCo);
- Remuneration & Nominations Committee (RemCo);
- Data Committee; and
- Management Team (MT).

The Board is responsible for providing leadership in the following areas:

i. Setting of strategic objectives and the monitoring of implementation thereof by MT;
ii. Development, implementation and monitoring of effective policy, governance and procedures at the bank to execute the strategy;
iii. Development of the bank's culture;
iv. Oversight and approval of the allocation and maintenance of the bank's capital, funding and liquidity and the stress thereof; and
v. Guidance and oversight of key functions delegated to MT, ensuring that the bank operates within the Risk Management Framework (RMF) and remains compliant with all relevant regulation.

Remuneration & Nominations Committee (RemCo)

RemCo, in conjunction with the partners, is responsible for providing leadership in:

i. The appointment of directors and MT members, ensuring robust succession planning;
ii. A formal, transparent and rigorous process of selection and oversight of partner directors and non-executive directors; and
iii. The setting of principles, parameters and governance over the bank's remuneration policy, including the review and approval of senior management remuneration and that of non-executive directors and material risk takers (colleagues whose actions are deemed to have material impact on the bank's risk profile).

Audit Committee (ACo)

ACo is responsible for supporting and advising the Board in its oversight of the following areas:

i. Safeguarding the independence of, and providing oversight of, the performance of internal audit, compliance and risk functions;
ii. Ensuring effective management and maintenance of the bank's capital, funding (where applicable) and liquidity and the reporting thereof; and
iii. External audit and preparation of the annual financial statements.

Risk Committee (RCo)

RCo is responsible for supporting and advising the Board in its oversight of the following areas:

i. Monitoring the effectiveness of the RMF, ensuring that the bank operates in a manner consistent with its risk appetite and strategy;
ii. Independence, autonomy and effectiveness of the bank's policies and control environment; and
iii. Oversight of Risk, Compliance, Financial Crime, Information Security, whistleblowing and recovery planning/resolution.

Data Committee

The Data Committee oversees the bank's data strategy and is responsible for the review and challenge of critical data artefacts against risk appetite. The Committee provides support on data issues to management and escalates material issues to the Board. Progress of key data initiatives are tracked, and thematic reviews carried out as needed.

Management Team (MT)

The Board delegates day-to-day executive management of the bank to the Chief Executive Officer (CEO) who directs MT to deliver in line with the bank's strategy. Each MT member is regulated under the Senior Managers and Certification Regime (the SMCR, as described at the start of section 8.0), meaning they are subject to regulatory approval, individual accountability and a fitness and propriety framework. MT is responsible for supporting and advising the Board in its oversight of the following areas:

i. Development and maintenance of the bank's business model as set by the Board;
ii. Adoption of the bank's culture in the day-to-day management of the bank;
iii. Allocation of all prescribed responsibilities and monitoring the effective implementation of policies and procedures at the bank;

iv. Induction, training and professional development of all bank colleagues, with special emphasis on senior managers and key function holders;
v. Ensuring that compliance, risk management, treasury, finance and other operational functions operate within the RMF of the bank;
vi. Managing the allocation and maintenance of the bank's capital, funding (where applicable) and liquidity in compliance with requirements of the regulatory authorities; and
vii. Ensuring the integrity of the bank's financial, management and regulatory reporting, implementing the firm's internal stress tests and ensuring accuracy and timeliness of information provided to the regulatory authorities in this respect.

Membership of MT is made up by the following individual roles:

- Chief Executive Officer (CEO);
- Chief Financial Officer (CFO);
- Head of Banking;
- Chief People Officer;
- Head of Treasury;
- Chief Risk and Compliance Officer (CRO);
- Chief Transformation and Technology Officer (CTTO);
- Chief Customer Officer (CCO); and
- General Counsel, Company Secretary and Head of Business Services.
- Head of Internal Audit also attends.

MT has in turn established the following sub-committees to support its responsibilities:

i. Asset & Liability Committee (ALCo);
ii. Credit Committee (CCo);
iii. Product Governance Committee (PGCo);
iv. Operational Risk Committee (ORCo); and
v. Reputation Management Committee (RMCo).

Asset and Liability Committee (ALCo)

ALCo oversees the bank's balance sheet, including its free capital. It is also responsible for allocating funds within the balance sheet with the aim of managing liquidity, capital adequacy and financial strength risks.

Credit Committee (CCo)

CCo oversees the bank's approach to customer and counterparty credit risk. It reviews and recommends to the Board the credit risk appetite, oversees the overall lending portfolio and sanctions individual deals against delegated authority limits. It is also responsible for monitoring all credits that are classified as heightened risk.

Product Governance Committee (PGCo)

PGCo provides oversight and leadership of the bank's product and service proposition, including product pricing, aligning it to the bank's strategy and core customer needs.

Operational Risk Committee (ORCo)

ORCo oversees the bank's operating risks and controls. It is responsible for monitoring the internal and external operational risk environments and the tracking, testing of and improvement to existing controls.

Reputation Management Committee (RMCo)

RMCo meets as required to discuss potential threats and situations that might affect the bank's reputation with its various stakeholders.

Three Lines of Defence Model

A Three Lines of Defence model has been adopted by the bank to embed the RMF.

First Line of Defence (1LoD) – People responsible for day-to-day risk management and control

Each department is responsible for recommending its business risk appetite for Board approval. 1LoD owns the management of individual risks and controls directly linked to its business operations. This includes identifying, mitigating, monitoring and reporting risks.

Second Line of Defence (2LoD) – Risk oversight, policies and methodology

The 2LoD is responsible for establishing risk frameworks and policy, facilitating the implementation of effective risk management practices by the 1LoD, providing oversight of the 1LoD and assisting the 1LoD in reporting adequate risk-related information through the bank's risk governance structure.

Third Line of Defence (3LoD) – Internal Audit

The Internal Audit function is responsible for providing independent assurance on the design and operating effectiveness of the RMF, including providing assurance on the bank's internal control framework. Internal Audit is also responsible for validating the Risk Appetite Statement and the bank's adherence to the Risk Appetite Statement approved by the Board.

8.2 Principal Risks and Uncertainties

The Board has ultimate responsibility for identifying and managing the bank's principal risks in order to achieve its strategic objectives. RCo and MT provide oversight and monitor the effectiveness of internal controls and risk management processes, and report on these matters to the Board. The following section sets out the principal risks and uncertainties to which the bank is exposed and how these risks are mitigated.

(a) Customer Credit Risk

Customer Credit risk is the risk of financial loss arising from a borrower failing to meet contractual financial obligations. The risk arises from loans and advances to customers of the bank. The bank seeks to limit loan losses by maintaining a conservative credit portfolio managed via a robust credit risk framework. As part of that framework, the bank has established risk appetite metrics aligned to its lending policy. The bank's customer credit risk exposures and performance against risk appetite are monitored and reported to CCo, MT, RCo and the Board. The bank conducts stress tests to ensure that the bank remains within its risk appetite.

(b) Treasury Credit Risk

Treasury credit risk is governed by risk appetite limits assigned to counterparties to ensure that credit is only extended to high quality counterparties, where credit limits are determined in accordance with their respective credit ratings. In addition, there is a maximum exposure limit for all institutions, in line with the bank's regulatory reporting requirements on large exposures.

The bank's policy is to lend to a restricted list of financial institutions. The main selection criteria are the stability and reputation of the institution.

ALCo regularly reviews the authorised list of bank counterparties and authorises any amendments to the approved list of counterparties and their respective credit limits. ALCo also gives ongoing consideration to changes in external credit ratings, and amends counterparty limits as appropriate.

(c) Capital Risk

Capital risk is the risk of insufficient quantity or quality of capital being available to meet regulatory requirements or support the strategic objectives of the bank. The bank's policy is to maintain a stable capital base in line with the capital risk appetite established by the Board.

The bank's regulatory capital and leverage ratios are monitored closely to ensure that the bank meets current and future known regulatory requirements under business planning and within stressed forecast positions. The bank's current and forecast capital positions are reported monthly to ALCo and MT and to the Board.

The bank maintains a minimum capital appetite threshold that ensures capital remains above the regulatory minimum even in a stress scenario. The minimum threshold is dynamic and refreshed following each five-year-plan cycle and Internal Capital Adequacy Assessment Process (ICAAP). Capital adequacy is assessed on an annual basis through the ICAAP, and more frequently in the event of a material change in capital. The ICAAP is the bank's own assessment of its capital needs and is based on stress testing scenarios measuring the impact of material risks affecting the bank. The ICAAP is presented at least annually to ALCo, MT and ACo for review and challenge, and ultimately to the Board for review, challenge and approval.

(d) Liquidity and Funding Risk

Liquidity risk is the risk that the bank is unable to meet its financial obligations as they fall due. The risk arises from mismatches in the timing of cash flows.

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

The bank does not use wholesale banking to source funds. Instead, the bank funds its operation through customer deposits in the form of current accounts and savings deposits. Although a significant proportion of customer deposits are repayable on demand, they have typically remained stable and reliable through historic periods of market stress.

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

The bank assesses adequacy of its liquidity annually through the Internal Liquidity Adequacy Assessment Process (ILAAP) and more frequently in the event of a material change in liquidity. The ILAAP is the bank's own assessment of its liquidity needs, and is based on stress testing and scenario analysis of the impact of material risks affecting the bank. The ILAAP is presented at least annually to ALCo, MT and ACo for review and challenge, and ultimately to the Board for review, challenge and approval.

(e) Market Risk

Market risk is the risk that changes in market prices, such as interest rates, equity prices, foreign exchange rates and credit spreads, will affect the bank's future cash flows or the fair value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on residual risk taken. Market risk is principally a concern in the banking book since the bank does not operate a significant trading book. Instead, the bank generally holds assets until maturity (consistent with the articles of the Capital Requirements Regulation) and makes investments on a long-term basis. The bank also holds an investment portfolio, primarily as a source of income diversity to complement core banking activities. The portfolio is subject, in part, to equity market price movements. All investments depend on Board approval of allocated capital and are subject to limits and controls monitored by ALCo. The bank's market risk exposures arise from:

• Interest Rate Risk

Interest rate risk is the potential for reduced net interest income and a reduction in net present value ("economic value") in the event of adverse changes in interest rates. As part of its prudent balance sheet risk management, the bank monitors, manages, reports and where necessary appropriately mitigates its interest rate risk – namely, gap risk, basis risk, option risk and credit spread risk.

The Board is responsible for the bank's interest rate risk policy and appetite and has delegated ongoing oversight to ALCo. The Treasury department is responsible for managing interest rate risk within policy and appetite, with oversight from the Finance and Risk departments.

ALCo has set limits for various types of interest rate risk, including:

- Economic value sensitivity to a parallel shift of +/-2% in interest rates;
- Economic value of equity sensitivity to various interest rate shocks prescribed by the regulator ("Supervisory Outlier Test"). The regulatory threshold is set at 15% of tier one capital;
- Net interest income sensitivity over a 12-month period to a downward parallel shift in interest rates, combined with a restricted pass-through rate; and
- Potential exposures to unrealised losses on non-customer assets under a severe stress test scenario, based on the worst observed changes in value during the global financial crisis and the European sovereign debt crisis.

In order to mitigate interest rate risk, the bank aims to hedge naturally where appropriate, i.e. where the repricing nature of its assets and liabilities are matched. Interest rate swaps are used to hedge any unmatched exposures, as set out in the bank's policy.

• Foreign Currency Risk

Foreign currency risk arises from foreign currency needs of the bank's customers and, less materially, from US dollar-denominated investments (see below). Neither exposure forms a significant part of the balance sheet.

Foreign currency balances largely derive from bank customer requirements. In order to limit exposure to exchange rate risk, limits are placed on the bank's foreign exchange dealers for intraday and end of day positions. Liabilities are in respect of foreign currency deposits from customers. Assets are in respect of foreign currency loans and advances to customers, balances with other banks and foreign currency-denominated investments.

The foreign exchange dealers have authority to deal in forward foreign exchange contracts, within specified limits, to meet customer requirements. The resultant positions are independently monitored and reported monthly on a currency-by-currency basis to ALCo.

A small portion of the bank's investments are made in US dollar-denominated funds, which give rise to FX risk exposure on the undrawn components of those commitments. There are limits established for unmatched FX exposures in the bank's investments that are monitored and reported to ALCo, but typical practice has been to hedge such exposure.

The bank uses derivatives to manage fluctuations in foreign exchange risk. It uses currency swaps, if the asset is denominated in a foreign currency, and forward foreign exchange contracts to hedge foreign exchange exposure. As part of its responsibilities, ALCo approves the use of specified derivative instruments within agreed limits and business activities.

• Inflation Risk

The combination of the COVID-19 pandemic, the Ukraine-Russia war, movements in global oil and gas prices, and Brexit transition have created economic pressure, particularly in respect of increased inflation. The UK economy has experienced a more sustained period of higher inflation, which is expected to put pressure on the bank's costs over the medium term.

Increased inflation has been matched by an increase in the Bank of England base rate, which has had a positive effect on the bank's interest income.

The bank is also mindful that rising interest rates may affect borrowers, particularly in their ability to afford loan repayments and interest costs. The bank has an established credit risk framework, as mentioned in the credit risk section, to support the evaluation of customer affordability and to support our customers' evolving needs.

(f) Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes and systems, human error, or external events including legal risk, financial crime risk and information security risk. The definition excludes strategic and reputation risk, which are addressed elsewhere within the bank's RMF.

The bank recognises that operational risk is inherent in all its products, activities, processes and systems. The Board has approved an operational risk framework to ensure that operational risks are adequately identified, monitored and controlled and that any losses resulting from inadequate or failed internal processes, human error and systems, or external events are minimised in line with the bank's risk appetite.

Each department is responsible for operating within the bank's risk appetite, and each department owns the management of the individual risks directly linked to its business operations. This includes identifying, mitigating, monitoring and reporting risks, and ensuring that activities are undertaken within policy requirements. The Risk department is responsible for establishing, documenting and implementing effective risk management practices within the bank and for providing oversight of the risk management and reporting process. (Please also refer to the Three Lines of Defence, above).

The key elements of the Operational Risk Framework are:

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

Business units are responsible for the ongoing application of the operational risk management processes and policies.

Operational Resilience is the ability to prevent, respond to, recover from and learn from operational disruption events. It is the outcome of effective risk management and aims to minimise the impact and likelihood of intolerable harm to customers, colleagues and the financial sector of the UK. Embedding a discipline of 'resilience thinking' across the bank supports our staff in their efforts to be 'good bankers and good citizens'.

The bank recognises the importance of operational resilience, and has made significant progress throughout 2022 to further bolster the resilience of the bank – building on a solid foundation of being a long-serving, strong and stable organisation. This resilient position is demonstrated by a number of deliveries as outlined within the bank's annual operational resilience self-assessment – including various strategic technology deliveries. Additional areas of opportunity have been identified that can be further refined in the course of 2023 to continue improving the bank's resilience.

(g) Concentration Risk

The bank acknowledges that the nature of its business model creates a level of concentration risk. The bank is comfortable that concentration risk is accepted and monitored to appropriate levels.

(h) Conduct Risk

The bank expects the conduct and treatment of its customers, colleagues and third-party suppliers to be consistent with the bank's values. Conduct risk consideration is embedded in product and service design principles and processes, to ensure that resultant products and services are aligned with the bank's values.

The bank has established a robust set of systems and controls, including regular training of staff. Risk appetite metrics for Conduct risk have been established and are monitored by ORCo, MT, RCo and the Board.

(i) Reputational Risk

The bank's standing in the eyes of its customers, regulators, counterparties, colleagues and the general public is of critical importance to the Board. The bank established RMCo to ensure appropriate focus is maintained over this risk. MT, RCo and the Board also monitor a range of associated risk appetite metrics against this risk exposure.

(j) Regulatory Compliance and Conduct Risk

As a regulated entity, the bank is subject to regulatory requirements. Compliance risk is the risk that the bank fails to observe the letter and spirit of all relevant laws, codes, rules, regulations and standards of good practice. Conduct risk is the risk of inappropriate behaviour towards customers which leads to unfair or inappropriate customer outcomes. The regulatory landscape continues to evolve, and 2022 has seen the FCA's

Consumer Duty final guidance which places additional focus on consumer protection.

The bank has a dedicated compliance function that provides advice and oversight to the business on regulatory matters and conducts regular monitoring.

The bank has also established risk appetite limits that are closely monitored by MT, RCo and the Board.

(k) Climate Risk

Climate risk is the threat of financial loss or adverse non-financial impacts associated with climate change. Climate change has the potential to affect the bank directly (Company-related risks) and indirectly (predominantly via the lending book). Climate risks are anticipated to arise through both direct physical effects, such as flooding or subsidence, and indirect transitory effects typically associated with the transition to a lower-carbon global economy. The most common transitory risks relate to policy and legal actions, technology changes, market responses, and reputational considerations. Opportunities will also be created as global economies transition towards net-zero emissions.

• Climate Risk Governance

In the past year, climate-related issues have been reviewed, discussed and challenged at Board level. The Board has received updates on the work to implement the PRA's requirements for climate risk, and has approved an updated climate strategy.

Climate change responsibilities have been formalised into the relevant committees of the bank. Under the Senior Managers Regime, responsibility for climate- risk issues sits with the CRO. Other individuals across the organisation support the CRO in this role. The General Counsel is responsible for ensuring the bank complies with Streamlined Energy & Carbon Reporting Regulations. The bank has also established a climate risk working group which consists of a team of senior individuals across the bank, including the CRO and CFO. This working group has been providing review and challenge of the approach and key outputs of the climate risk management framework. The bank will continue monitoring the outputs and developments on climate change to inform its thinking and actions.

• Streamlined Energy & Carbon Reporting Regulations

The bank continues to monitor and take action to reduce the bank's own carbon footprint. For the past three years, the bank has been monitoring its tier 1 and tier 2 emissions in line with the Streamlined Energy & Carbon Reporting Regulations.

(l) Technology & Change Risk

The bank's business model is dependent upon the technology platform employed to deliver service to customers of the bank. Technology is increasingly seen as a differentiating factor within the banking industry. MT and the Board have recognised this trend and have consequently devoted significant resource to ensuring that the technology platform evolves, so that we can respond efficiently to customer and stakeholder needs.

This results in change/execution risk, which is defined as the risk that, in delivering its change agenda, the Group fails to ensure compliance with laws and regulation, maintain effective customer service and availability, and/or operate within the Group's risk appetite.

The change process is subject to review by committee that ensures all change projects delivered are equally responsive and robust. At the same time, cybersecurity is an increasing threat, and the bank continues to invest to ensure the security of its customers and various stakeholders.

(m) People Risk

The bank's business model is dependent upon its people and their level of capability and engagement. Having the right people in the right positions with robust skill development and succession planning is key to building a long-term business.

To this end, MT, RemCo and the Board are significantly involved in important people decisions to ensure that the bank successfully attracts, retains and develops talent. The People team has focused on delivering the Board-approved people strategy, as part of which the Chief People Officer leads the bank's Enabling People transformation workstream. The strategy is delivering enhanced training and development across all levels, particularly to enhance people-management capability. This also ensures that appropriate standards and conduct are maintained throughout, as the bank continues to develop its hybrid-working capability.

Detailed disclosures on credit risk, liquidity risk, interest rate risk, foreign exchange risk and the use of derivatives are set out in Notes 12 and 31 in accordance with FRS 102 'Financial Instruments: Disclosures'. The bank's capital management is detailed in the Directors' Report on pages 23 to 25.

A fuller description of the bank's principal risks can be found in the bank's unaudited Pillar 3 disclosures which are available on the bank's website:

www.hoaresbank.co.uk/financial-reports

By Order of the Board
15 June 2023

Ms K. White
Company Secretary
C. Hoare & Co.
37 Fleet Street
London
EC4P 4DQ
Registration Number: 240822

Directors' Report

The Directors of C. Hoare & Co. ('the bank' or 'the Company') present their Annual Report and audited consolidated financial statements of the bank 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 2023.

The financial statements were approved by the Board on 15th June 2023.

1. Principal Activities

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

2. Results and Dividends

The financial results for the year are set out in the Statement of Comprehensive Income on page 33.

Total comprehensive income for the year of £41.6m (2022: £18.0m) will be used to strengthen reserves and support future growth.

The Board recommends an ordinary share dividend for the year of £50 per share (2022: £50), resulting in a total dividend of £6,000 payable on 30 June 2023 (2022: £6,000).

3. Capital Management

The bank's policy is to have a strong capital base to provide resilience; to maintain customer, creditor and market confidence; and to sustain future development of the business.

There have been no material changes to the bank's capital management 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 regulation-driven expectations of higher capital ratios across the industry. The Board is responsible for capital management. The Board, MT and ALCo all receive regular reports on the current and forecast level of capital.

The bank continues to monitor, proactively, developments in the regulatory landscape, and to incorporate the impact of forthcoming regulatory changes to the capital forecasts. This ensures that the bank maintains a strong capital base that exceeds minimum regulatory requirements.

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

Under CRD IV, the bank's regulatory capital comprises two tiers:

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

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

4. Capital Adequacy Requirements

The bank calculates its Pillar I capital at a consolidated level using the standardised approach to credit risk, market risk and operational risk from the Basel III framework. The regulatory minimum of total capital is calculated at the standard rate of 8% of the risk weighted assets.

Pillar II Supervisory Review Process includes the requirement for the bank to undertake an Internal Capital Adequacy Assessment Process (ICAAP). The ICAAP represents an internal aggregated view of risks faced by the bank, which are not covered by Pillar 1 framework. Pillar 2A sets out the additional regulatory capital as determined by the PRA, through the issuance of a firm-specific Total Capital Requirement (TCR), following the Supervisory Review and Evaluation Process (SREP). The bank's TCR is 10.9% of Risk Weighted Assets (RWAs), of which at least 56.3% must be met with CET1.

Other Capital buffers required to be met from CET 1 capital include:

- Capital Conservation Buffer (CCoB), a standard buffer calculated as 2.5% of RWAs, designed to provide for losses in the event of a severe but plausible stress; and
- Countercyclical buffer (CCyB) is expressed as a percentage of RWAs to the bank's UK exposures. The Financial Policy Committee is responsible for setting the UK countercyclical capital buffer rate, which for the UK is currently set at 1%, with a projected increase to 2% applied from July 2023.

Pillar 3 complements Pillar 1 and Pillar 2, and aims to encourage market discipline by developing a set of disclosure requirements which allow market participants to assess the scope of application of Basel III, capital, risk exposures and risk assessment processes, and hence the capital adequacy of the firm.

The bank's total regulatory capital ratio increased year on year from 21.2% to 21.7%, while the Common Equity Tier 1 ratio increased from 21.0% to 21.4%. The capital ratios remain comfortably above the regulatory requirements.

The increase in total regulatory capital during the year was due to retained profits.

Full details of the bank's regulatory capital framework are disclosed in the bank's Pillar 3 disclosures which are unaudited and are available on the bank's website:

www.hoaresbank.co.uk

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

Group (Unaudited)	2023 £000	2022 £000
Common Equity Tier 1 capital		
Ordinary share capital*	120	120
Reserve fund*	22,598	22,598
Profit and loss account*	402,610	357,097
Property revaluation reserve*	21,022	24,896
Heritage assets revaluation reserve*	10,982	10,982
Intangible assets adjustment for CRR II treatment	(25,895)	(26,331)
Net defined benefit obligation	(2,894)	(7,373)
Total Common Equity Tier 1 capital and Total Tier 1 capital	**428,543**	**381,989**
Tier 2 capital		
Collective Impairment Allowance*	5,313	4,403
Total Tier 2 capital	**5,313**	**4,403**
Total regulatory capital	**433,856**	**386,392**
Risk weighted assets	**1,997,896**	**1,822,244**
Capital ratios		
Total regulatory capital expressed as a percentage of risk weighted assets	**21.7%**	**21.2%**
Common Equity Tier 1 capital expressed as percentage of risk weighted assets	**21.4%**	**21.0%**

* Denotes that the figure is audited. All other figures are unaudited.

5. The Board of Directors

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

Mr A. S. Hoare

Mrs V. E. Hoare

Mr S. M. Hoare

Mrs A. S. Hoare

Mr A. R. Q. Hoare

Mr R. R. Hoare (appointed 20 April 2022)

The Rt. Hon. Lord Macpherson of Earl's Court GCB (Chairman)

Mrs D. S. Brightmore-Armour

Mr A. J. McIntyre

Mrs J. E. M. Waterous

Mrs I. Gary-Martin

Mr G. E. C. Andrews (appointed 1 July 2022)

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

6. Disclosure of Information to Auditors

Directors who held office at the date of approval of this Directors' Report confirm that they have made themselves aware of any relevant audit information and that all relevant audit information was shared with the bank's auditors.

7. Statement of Directors' Responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

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

Under company law, 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 Company and of the profit or loss of the Group for that period. In preparing the financial statements, the directors are required to:

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

The directors are also responsible for safeguarding the assets of the Group and Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and Company's transactions, disclose with reasonable accuracy at any time the financial position of the Group and Company, and enable directors to ensure that the financial statements comply with the Companies Act 2006.

The directors are responsible for the maintenance and integrity of the bank'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
15 June 2023

Kate White

Ms K. White
Company Secretary
C. Hoare & Co.
37 Fleet Street
London
EC4P 4DQ
Registration Number: 240822

Independent Auditors' Report to the Members of C. Hoare & Co.

Report on the audit of the financial statements

Opinion

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

- give a true and fair view of the state of the Group's and of the Company's affairs as at 31 March 2023 and of the Group's profit and the Group's cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Consolidated Financial Statements (the "Annual Report"), which comprise: the consolidated and Company balance sheets as at 31 March 2023; the consolidated statement of comprehensive income, the consolidated and Company statement of changes in equity and the consolidated cash flow statement for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit committee.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided.

We have provided no non-audit services to the Company in the period under audit.

Our audit approach

Overview

Audit scope

- We scoped our audit to gain sufficient audit assurance over all material financial statement line items
- The Group and Company operate solely in the UK and the Company is the only significant component of the Group

Key audit matters

- Valuation of provisions for impairment of loans and advances to customers (Group and Company)
- Valuation of Heritage Assets - Paintings (Group and Company) Materiality
- Overall Group materiality: £2,143,000 (2022: £1,955,000) based on 0.5% of Tier 1 Capital (2022: 0.5% of Tier 1 Capital).
- Overall Company materiality: £2,076,000 (2022: £1,883,000) based on 0.5% of Tier 1 Capital (2022: 0.5% of Tier 1 Capital).
- Performance materiality: £1,607,000 (2022: £1,466,000) (Group) and £1,557,000 (2022: £1,412,000) (Company).

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

Key audit matters

Key audit matters are those matters that, in the auditors’ professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

This is not a complete list of all risks identified by our audit.

The key audit matters below are consistent with last year.

Key audit matter	How our audit addressed the key audit matter
Valuation of provisions for impairment of loans and advances to customers (Group and Company) The Group and Company have loans and advances to customers of £1,967m (2022: £1,995m) which is net of a provision for impairment of £22.3m (2022: £30m). This provision is split between a collective provision of £5m (2022: £4m) to account for losses where a loss event may have occurred but is yet to emerge and a specific provision of £17m (2022: £26m) to cover losses on loans where a loss event has occurred. The collective provision is derived from historical loss rates incurred in the past five years. The specific provision is assessed by reference to the assumed sales price of the collateral held against the exposure. Determining provisions for impairment of loans and advances to customers involves management judgement and is subject to a high degree of estimation uncertainty. Management makes various assumptions when estimating these provisions. The significant assumptions that we focus on in our audit included those with greater levels of management judgement and for which variations had the most significant impact on the provisions. Specifically these related to the incomplete capturing of specific provision indicators. This risk is partially mitigated by the nature of the lending, in particular given the majority of lending is secured, with the value of the collateral typically in excess of the amount of the customer exposure. We considered this a key audit matter because the Directors make subjective judgments over both the timing of recognition and the size of impairment provisions, and individual exposures are in excess of audit materiality.	We held discussions with the Audit Committee covering governance and controls over provisions for impairment of loans and advances to customers with a significant focus on the rationale for the accounts identified within the specific provision. We evaluated the design and tested the operating effectiveness of relevant controls including: Governance and credit reviews meeting approving lending decisions including review of provisioned borrowing or any watch list or past due customers. We tested all material loans and advances to customers identified as impaired by management and formed our own judgement as to whether the provisions recorded on these exposures were appropriate. This included assessing: • Relevant evidence about the customer’s ability to repay; • The appropriateness of collateral valuation estimates; • External projections of future movements in property price and how these compared to the estimated collateral realisations assumed in the impairment provisions, and • The time period assumed before collateral can be realised. We also assessed the completeness of the credit impairment provision, including by: Testing a sample of customer accounts identified as ‘non-performing’ but for which no impairment was recorded,including by obtaining evidence to support how the collateral held is in excess of the exposure; • Testing a sample of performing customer accounts, for example by obtaining evidence customers are servicing the loan; and • Assessing whether the collective provision was appropriate in light of uncertainties relating to the nature of the loan book and the collateral held against most exposures. We evaluated and tested the Credit Risk disclosures made in the Annual Report and Consolidated Financial Statements 2023.

Key audit matter	How our audit addressed the key audit matter
Valuation of Heritage Assets - Specific paintings (Group and Company) The Group and Company hold heritage assets of £15m (2022: £15m) of which £10m (2022: £10m) relates to specific higher value paintings. There was no change in the valuation of these specific paintings in the current year (2022: £4m revaluation gain). Management makes various assumptions when estimating the value of these paintings. The significant assumptions that we focus on in ouraudit included those with greater levels of management judgement and for which variations had the most significant impact on the valuation. Specifically these related to the condition and provenance of the paintings and the comparable sales reference points in the commercial market. Management makes use of professionals with specialised skill and knowledge in forming their estimate.	We held discussions with the Audit Committee focused on the key judgements and assumptions including the condition, provenance and recent commercial comparators used in estimating the valuation of the paintings. We tested all material painting assets where the valuation has been assessed by management and formed our own judgement as to whether the valuations attached to these assets were appropriate. This included: • Evaluating valuation reports prepared by management's experts; • Assessing the competence, capabilities and objectivity of a management's expert; • Conducting independent research in relation to the market valuation of comparable assets; • Physically inspecting the condition of the assets; • Examining the provenance attached to the assets. We also assessed the completeness of the credit impairment provision, including by: We evaluated and tested the heritage assets disclosures made in the Annual Report and Consolidated Financial Statements 2023.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Group and the Company, the accounting processes and controls, and the industry in which they operate.

The Group has subsidiary entities on which we perform audit testing to statutory materiality levels, but as over 98% of Group profit before tax arises in the Company, for Group audit scoping purposes we consider the Company to be the only significant component. We performed audit work for all financial statement line items in the Company with balances above our materiality level.

The impact of climate risk on our audit

As part of our audit we made enquiries of management to understand the extent of the potential impact of climate risk on the Group's financial statements, and we remained alert when performing our audit procedures for any indicators of the impact of climate risk. Our procedures did not identify any material impact as a result of climate risk on the Group's and Company's financial statements.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Financial statements - Group	Financial statements - Company
Overall materiality	£2,143,000 (2022: £1,955,000).	£2,076,000 (2022: £1,883,000).
How we determined it	0.5% of Tier 1 Capital (2022: 0.5% of Tier 1 Capital)	0.5% of Tier 1 Capital (2022: 0.5% of Tier 1 Capital)
Rationale for benchmark applied	We considered Tier 1 capital an appropriate benchmark for the year ended 31 March 2023, as it is a key metric for key stakeholders including shareholders and the PRA.	We considered Tier 1 capital an appropriate benchmark for the year ended 31 March 2023, as it is a key metric for key stakeholders including shareholders and the PRA.

For each component in the scope of our Group audit, we allocated a materiality that is less than our overall Group materiality. The range of materiality allocated across components was less than £273,625. Certain components were audited to a local statutory audit materiality that was also less than our overall Group materiality.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% (2022: 75%) of overall materiality, amounting to £1,607,000 (2022: £1,466,000) for the Group financial statements and £1,557,000 (2022: £1,412,000) for the Company financial statements.

In determining the performance materiality, we considered a number of factors - the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls - and concluded that an amount in the middle of our normal range was appropriate.

We agreed with the Audit committee that we would report to them misstatements identified during our audit above £107,000 (Group audit) (2022: £98,000) and £103,000 (Company audit) (2022: £94,000) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

Our evaluation of the directors' assessment of the Group's and the Company's ability to continue to adopt the going concern basis of accounting included:

- Performing a risk assessment to identify factors that could impact the going concern basis of accounting.
- Understanding management's forecasts and stresses with a focus on capital and liquidity risk, and assessing their reasonableness based on historic performance and our testing of the key funding sources of the Group.
- Reading the latest ICAAP and ILAAP and evaluating the consistency with the going concern assessment performed by management.
- Met with the Group's lead regulator, the PRA, and understood their view of the Group and its going concern risk.
- Reading and evaluating the adequacy of the disclosures made in the financial statements in relation to going concern.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's and the Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the Group's and the Company's ability to continue as a going concern.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic report and Directors' report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic report and Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' report for the year ended 31 March 2023 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the Group and Company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors' responsibilities in respect of the financial statements, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group's and the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the Group and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of the rules of the Prudential Regulatory Authority and Financial Conduct Authority, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006 and the Corporation Tax Act 2010. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to management bias in accounting estimates. Audit procedures performed by the engagement team included:

- Enquiries of management, including with Internal Audit, Compliance and Risk, in relation to known or suspected instances of non-compliance with laws and regulation and fraud;
- Evaluation and testing of the operating effectiveness of management's controls designed to prevent and detect fraud and errors in financial reporting;
- Observing the effectiveness of key governance forums and reviewing management information presented at these meetings;
- Reading key correspondence with regulatory authorities;
- Challenging assumptions and judgements made by management in their significant accounting estimates, in particular in relation to the impairment of loans and advances including management bias;
- Identifying and testing journal entries, in particular journal entries posted by senior management, journals posted with descriptions indicating a higher level of risk and certain post close journal entries.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

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.

Other required reporting

Companies Act 2006 exception reporting

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

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

returns.We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the Audit committee, we were appointed by the directors on 19 December 2011 to audit the financial statements for the year ended 31 March 2012 and subsequent financial periods. The period of total uninterrupted engagement is 12 years, covering the years ended 31 March 2012 to 31 March 2023.

DBGL

Daniel Brydon (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
15 June 2023

Consolidated Statement of Comprehensive Income

Consolidated Statement of Comprehensive Income

For year ended 31 March	Note	Group 2023 £000	Group 2022 £000
Interest receivable		217,811	94,938
Interest payable		(40,520)	(6,681)
Net interest income	**3**	**177,291**	**88,257**
Dividend income		**11,150**	**3,587**
Other finance income	**4**	**275**	**79**
Fees and commissions receivable		16,534	15,662
Fees and commissions payable		(1,251)	(1,274)
Net fees and commissions income		**15,283**	**14,388**
Dealing profits	**5**	**16,696**	**7,542**
Other operating (expense) / income	**6**	**(10,227)**	**(5,041)**
Total income		**210,468**	**108,812**
Operating expenses			
Administrative expenses including staff costs	7	(125,030)	(79,937)
Amortisation	16	(9,483)	(9,099)
Depreciation	17	(2,053)	(1,717)
Total operating expenses		**(136,566)**	**(90,753)**
Impairment charge on loans and advances	**14**	**(6,213)**	**(1,522)**
Profit before taxation		**67,689**	**16,537**
Tax on profit	9	(17,485)	(3,794)
Profit for the financial year		**50,204**	**12,743**
Other comprehensive (expense) / income			
Remeasurement of retirement benefit obligations (loss) / gain	4	(6,247)	5,802
Deferred tax arising on pension scheme loss / (gain)	9	1,562	(1,672)
Revaluation (loss) / gain of property and heritage assets	28	(5,165)	4,895
Deferred tax expense arising on valuation loss / (gain)	9	1,291	(3,801)
Other comprehensive (expense) / income for the year, net of deferred tax		**(8,559)**	**5,224**
Total comprehensive income for the year		**41,645**	**17,967**

The Notes on pages 38 to 79 form an integral part of these Financial Statements.

Consolidated and Company Balance Sheets

Consolidated and Company Balance Sheets

As at 31 March	Note	Group 2023 £000	Group 2022 £000	Company 2023 £000	Company 2022 £000
Assets					
Cash and balances at central banks		1,452,949	1,843,378	1,452,949	1,843,378
Items in course of collection from banks		240	330	240	330
Derivative financial instruments	12	126,976	110,851	126,976	110,851
Financial assets	13	5,164,686	5,204,233	5,164,687	5,204,208
Shares in group undertakings	15	-	-	1	1
Intangible assets	16	16,765	17,821	16,765	17,821
Property and equipment	17	51,008	55,428	51,008	55,428
Heritage assets	18	15,040	14,987	15,040	14,987
Deferred tax asset	19	496	989	496	989
Other assets	20	3,849	3,672	3,863	3,815
Prepayments and accrued income	21	17,071	13,145	17,018	13,118
Post retirement benefit asset	4	3,859	9,831	3,859	9,831
Total assets		**6,852,939**	**7,274,665**	**6,852,902**	**7,274,757**
Liabilities					
Deposits by banks	22	122,958	119,572	122,958	119,572
Customer accounts	23	6,214,358	6,689,431	6,214,358	6,689,431
Deposits to subsidiary companies	23	-	-	13,693	12,915
Derivative financial instruments	12	3,158	4,629	3,158	4,629
Deferred tax liability	19	12,342	15,548	12,342	15,548
Other liabilities	24	3,072	2,485	2,799	2,337
Accruals and deferred income	25	39,719	24,557	39,658	24,557
Provision for other liabilities	26	-	2,750	-	2,750
Total liabilities		**6,395,607**	**6,858,972**	**6,408,966**	**6,871,739**
Called up share capital	27	120	120	120	120
Reserve fund		22,598	22,598	21,148	21,148
Revaluation reserves	28	32,004	35,878	32,004	35,878
Current year net income		45,513	16,867	44,792	16,025
Retained earnings brought forward		357,097	340,230	345,872	329,847
Total equity		**457,332**	**415,693**	**443,936**	**403,018**
Total liabilities and equity		**6,852,939**	**7,274,665**	**6,852,902**	**7,274,757**
Memorandum items:					
Contingent liabilities	29	15,290	22,862	15,290	22,862
Commitments	29	384,870	382,781	384,870	382,781

The Notes on pages 38 to 79 form an integral part of these Financial Statements. The Financial Statements on pages 33 to 79 were approved by the Board of Directors on 15 June 2023 and signed on its behalf by:

Alexander S. Hoare

Mr A. S. Hoare
Director
15 June 2023

V E Hoare

Mrs V. E. Hoare
Director
15 June 2023

Consolidated Statement of Changes in Equity

Consolidated Statement of Changes in Equity

Group	Note	Called up Share Capital **£000**	Reserve Fund £000	Revaluation Reserves **£000**	Retained Earnings £000	Total Equity £000
Balance as at 1 April 2021		**120**	**22,598**	**34,784**	**340,230**	**397,732**
Profit for the financial year		-	-	-	12,743	12,743
Other comprehensive (expense) / income for the year						
-Remeasurement of retirement benefit obligations		-	-	-	5,802	5,802
-Deferred tax arising on pension scheme		-	-	-	(1,672)	(1,672)
-Valuation gain of property and heritage assets	28	-	-	4,895	-	4,895
-Deferred tax arising on valuation gain	28	-	-	(3,801)	-	(3,801)
Total comprehensive income for the year		**-**	**-**	**1,094**	**16,873**	**17,967**
Dividends		-	-	-	(6)	(6)
Balance as at 31 March 2022		**120**	**22,598**	**35,878**	**357,097**	**415,693**
Profit for the financial year		-	-	-	50,204	50,204
Other comprehensive (expense) / income for the year						
-Remeasurement of retirement benefit obligations		-	-	-	(6,247)	(6,247)
-Deferred tax arising on pension scheme		-	-	-	1,562	1,562
-Valuation loss of property and heritage assets	28	-	-	(5,165)	-	(5,165)
-Deferred tax arising on valuation loss	28	-	-	1,291	-	1,291
Total comprehensive income for the year		**-**	**-**	**(3,874)**	**45,519**	**41,645**
Dividends		-	-	-	(6)	(6)
Balance as at 31 March 2023		**120**	**22,598**	**32,004**	**402,610**	**457,332**

The Notes on pages 38 to 79 form an integral part of these Financial Statements. 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 properly be applied.

Company Statement of Changes in Equity

Company Statement of Changes in Equity

Company	Note	Called up Share Capital £000	Reserve Fund £000	Revaluation Reserves £000	Retained Earnings £000	Total Equity £000
Balance as at 1 April 2021		**120**	**21,148**	**34,784**	**329,847**	**385,899**
Profit for the financial year		-	-	-	11,901	11,901
Other comprehensive (expense) / income for the year						
-Remeasurement of retirement benefit obligations		-	-	-	5,802	5,802
-Deferred tax arising on pension scheme		-	-	-	(1,672)	(1,672)
-Valuation gain of property and heritage assets	28	-	-	4,895	-	4,895
-Deferred tax arising on valuation gain	28	-	-	(3,801)	-	(3,801)
Total comprehensive income for the year		-	-	**1,094**	**16,031**	**17,125**
Dividends		-	-	-	(6)	(6)
Balance as at 31 March 2022		**120**	**21,148**	**35,878**	**345,872**	**403,018**
Profit for the financial year		-	-	-	49,483	49,483
Other comprehensive (expense) / income for the year						
-Remeasurement of retirement benefit obligations		-	-	-	(6,247)	(6,247)
-Deferred tax arising on pension scheme		-	-	-	1,562	1,562
-Valuation loss of property and heritage assets	28	-	-	(5,165)	-	(5,165)
-Deferred tax arising on valuation loss	28	-	-	1,291	-	1,291
Total comprehensive income for the year		-	-	**(3,874)**	**44,798**	**40,924**
Dividends		-	-	-	(6)	(6)
Balance as at 31 March 2023		**120**	**21,148**	**32,004**	**390,664**	**443,936**

The Notes on pages 38 to 79 form an integral part of these Financial Statements. 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 properly be applied.

Consolidated Cash Flow Statement

Consolidated Cash Flow Statement

For year ended 31 March	Note	Group 2023 £000	Group 2022 £000
Net cash (used in) / generated from operating activities	30	(418,678)	1,121,381
Taxation paid		(17,355)	(4,932)
Net cash (used in) / generated from operating activities		**(436,033)**	**1,116,449**
Cash flow from investing activities			
Purchase of investment securities		(1,562,892)	(3,121,342)
Sale and maturity of investment securities		1,640,306	2,122,564
Purchase of intangible assets		(8,427)	(10,853)
Purchase of tangible fixed assets		(4,318)	(350)
Purchase of heritage assets		(53)	-
Net cash generated from / (used in) investing activities		**64,616**	**(1,009,981)**
Cash flow from financing activities			
Dividend paid		(6)	(6)
Net cash used in financing activities		**(6)**	**(6)**
Net (decrease) / increase in cash and cash equivalents		(371,423)	106,462
Cash and cash equivalents at the beginning of the year		1,918,433	1,811,971
Cash and cash equivalents at the end of the year		**1,547,010**	**1,918,433**
Cash and cash equivalents consist of:			
Cash at bank and in hand		1,452,949	1,843,378
Short term deposits		94,061	75,055
Cash and cash equivalents		**1,547,010**	**1,918,433**

The Notes on pages 38 to 79 form an integral part of these Financial Statements.

Notes to the Financial Statements for the year

1. Summary of Significant Accounting Policies

The principal accounting polices applied in the preparation of these consolidated financial statements are set out below. These policies have been applied consistently in dealing with amounts which are considered material to the financial statements.

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 recognised at fair value through the profit or loss and derivative contracts. The financial statements have been prepared under the provisions of Part XV of the Companies Act 2006 relating to Banking Groups, SI 2008/410, and in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, “The Financial Reporting Standards applicable in the United Kingdom and the Republic of Ireland” (FRS 102). The 2023 figures represent continuing operations unless otherwise disclosed.

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires Management to exercise its judgement in the process of applying the Group and Company accounting policies. Any areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 2.

The bank has taken the exemption under Section 408 of the Companies Act 2006 from presenting its unconsolidated profit and loss account. For balance sheet notes where the Company is not presented separately, references to the Group should also be read as applying to the Company.

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

b. Going concern

The going concern of the Company and the Group is dependent on funding and maintaining adequate levels of capital. The Directors have undertaken an assessment of the Company’s and Group’s going concern status, with consideration of current and projected financial performance, including capital and funding projections of the Group and having regard to the Group’s principal risks and uncertainties as set out in the Strategic report. The Directors have given due consideration to the sustainability of the Company and Group and have concluded that the Group has adequate resources to continue in operational existence for the foreseeable future; it is therefore appropriate to continue to adopt the going concern basis in preparing its financial statements for the following reasons:

- the Group and Company have a strong financial position with high levels of capital and liquidity;
- stress testing has indicated that, even in severe but plausible circumstances, the Group and Company have sufficient capital and liquidity reserves to meet all of the Group and Company’s ongoing commitments and remain substantially above minimum levels required by regulation;
- to date of signing, there have been no indications of material deterioration in the customer loan book;
- to date of signing, customer lending and deposits have remained steady.

c. Basis of consolidation

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

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

1. Summary of Significant Accounting Policies (Continued)

d. Foreign currencies

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

e. Interest

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

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

- interest on financial assets and liabilities at amortised cost on an effective interest rate basis;
- interest on financial assets that are measured at fair value through profit or loss; and
- arrangement fees amortised using an effective interest rate basis.

The bank uses the contractual term, where available, to set the amortisation expected life for its loan arrangement fees. However, for its on-demand loan portfolio, historic data is used to determine the average life of the loan. This analysis is performed on an annual basis and for the year ended 31 March 2023, it has been determined to be four years.

f. Fees and commissions

Income from fees and commission is recognised when the services are performed. Expenses relating to fees and commissions are charged when the services are received. Where fees relate to a product that has an extended life, the fee will be amortised on a straight-line basis through the contractual life of the product.

g. Dealing profits

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

These positions are used to provide liquidity and to manage the Bank's liabilities and form part of the banking book. The bank's policy is not to engage in any proprietary trading activities.

h. Retirement benefit obligations

The Company operates a defined benefit pension scheme for certain staff, providing a pension benefit that an employee will receive on retirement dependent upon several factors including age, length of service and final salary. The assets of the scheme are administered separately from those of the Company in a Trustee-administered fund. This scheme was closed to new members with effect from 1 April 2002 and since then staff have been able to join a separate defined contribution or "money purchase" scheme. On 1 December 2007 the defined benefit scheme was closed to future accrual, a "curtailment", and all remaining members were given the option to commence plans with the defined contribution scheme.

The defined benefit scheme's assets are measured using fair values in accordance with the FRS 102 fair value hierarchy. The asset recognised in the balance sheet in respect of the defined benefit scheme is the fair value of the scheme assets at the reporting date less the present value of the defined benefit obligation.

The defined benefit obligation is calculated using the projected unit credit method. The present value is determined by discounting the estimated future payments, using market yields on high-quality corporate bonds that are denominated in sterling and that have terms approximating the estimated period of the future payments ('the discount rate'). Annually, the Group engages a qualified independent actuary to calculate the obligation with actuarial assumptions as best estimates.

1. Summary of Significant Accounting Policies (Continued)

h. Retirement benefit obligations (Continued)

Remeasurements of the defined benefit pension scheme comprise actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions, the return on assets and the effect of the asset ceiling (if any). The Company recognises remeasurements immediately in other comprehensive income. The Company determines the net interest expense/(income) on the net defined benefit liability/(asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the year to the net defined benefit liability/(asset). The net interest expense/(income) is charged to/(credited) to finance costs/(income).

In accordance with FRS 102, the surplus on the defined benefit pension scheme is recognised on the balance sheet to the extent that it is recoverable over the lifetime of the Scheme.

The Company also operates a defined contribution pension scheme, where the bank pays fixed contributions into a separate entity; there is no legal or constructive obligation to pay further contributions. The contributions are recognised as an expense when they are due. The assets of the scheme are held separately from the Group in independently administered funds.

i. Taxation

The Consolidated Statement of Comprehensive Income includes current taxation expense recognised in the period as well as associated deferred tax timing differences including unrealised capital gains. Deferred tax on the fair value movements for pensions, land and buildings and heritage assets are recognised in other comprehensive income.

i) Current tax

Current tax is the amount of income tax payable in respect of the taxable profit for the year or prior years. Tax is calculated on the basis of tax rates and laws that have been enacted or substantively enacted at the balance sheet date.

Management periodically evaluates positions taken in tax returns with respect to situations where applicable tax regulation is subject to interpretation. It establishes provisions where appropriate, based on amounts expected to be paid to the tax authorities. Annually, the Group engages independent tax specialist services to calculate current tax due to HMRC and any adjustment to the financial accounts as required.

ii) Deferred tax

Deferred tax arises from timing differences which are generated from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in financial statements.

Deferred tax is provided in respect of all timing differences that have originated, but not reversed, at the balance sheet date where transactions or events that will result in an obligation to pay more tax in the future, or a right to pay less tax in the future, have occurred at the balance sheet date.

Deferred tax assets are recognised where it is probable that future taxable profits will be available against which the temporary differences can be utilised and are reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax related to revaluation on properties, revaluation of heritage assets, retirement obligations and other amounts charged or credited directly to other comprehensive income is recognised in the balance sheet as a deferred tax asset or liability.

The Group does not net deferred tax assets against deferred tax liabilities.

j. Dividends payable

In accordance with Section 32 ‘Events after the end of the reporting period’, of FRS102, dividends payable are recognised within retained profits once approved by the shareholders.

k. Cash and cash equivalents

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

1. Summary of Significant Accounting Policies (Continued)

l. Classification of financial assets and liabilities

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

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

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

m. Financial assets and liabilities

i) Recognition

The bank initially recognises loans, advances and deposits on the date that they are originated. All other financial assets and liabilities (including assets and liabilities designated at fair value through the profit and loss account and equity investments) are initially recognised on the trade date on 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 expired.

iii) Offsetting

Financial assets and liabilities are only offset when the criteria set out in section 11 paragraph 11.38A of FRS 102 are met and the net amounts presented in the financial statements do not conflict with paragraph 8 of Schedule 1 to the Regulations.

The bank will only offset income or expenses which are settled on a net basis for the same trade, and will not offset net income and expenses settled from the same counterparty for different trades.

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 rate method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

v) Fair value measurement

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

The bank has applied the disclosure requirements of FRS 102, Section 11 in respect of financial instruments for the fair value hierarchy disclosures.

Disclosures use a three level fair value hierarchy that reflects the significance of the inputs used in measuring fair values of financial instruments. These are:

Level 1: Quoted prices (unadjusted) in active markets for identical instruments.

Level 2: Valuation techniques based on observable inputs either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued where all significant inputs are directly or indirectly observable from market data.

Level 3: Valuation techniques not based on observable market data (unobservable inputs).

These disclosures are included in Note 31 to the financial statements and are in line with Section 34 of FRS 102.

1. Summary of Significant 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 are impaired can include default or delinquency by a borrower, indications of inability to repay or evidence that a borrower or issuer is likely to 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.

n. Loans and advances to banks and customers

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

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 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, considering current interest rates and the current creditworthiness of the swap counterparties. The fair value of interest rate swaps includes any interest accrued on the derivative contract. 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 102 Section 12 other financial instruments issues, derivatives are recognised as trading and recorded at fair value, with changes in fair value recognised in the profit and loss account. Fair values are obtained from quoted market prices in active markets or from dealer price quotations.

ii) Derivative instruments and fair value hedging activities

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

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

1. Summary of Significant Accounting Policies (Continued)

o. Derivative financial instruments (Continued)

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 recorded in the profit and loss account as other operating income. The gain or loss in relation to the unhedged element is recorded in the profit and loss account.

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

The bank discontinues hedge accounting prospectively when 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; when the derivative expires or is sold, terminated or exercised; when the derivative is de-designated because it is unlikely that a forecast transaction will occur; or when Management determines that designation of the derivative as a hedging instrument is no longer appropriate.

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

iii) IBOR reform

The bank elected for early adoption of the amendment to FRS102 – Interest rate benchmark reform, which allows entities to apply specific hedge accounting requirements assuming that the interest rate benchmark relevant to the hedge accounting is not altered as a result of the interest rate benchmark reform.

Hedge relationships: The bank's transition from IBOR benchmark rates means that all new treasury transactions after December 2019 are SONIA based. Legacy hedges were converted to SONIA based instruments by December 2022 using International Swap and Derivatives Association (ISDA) protocol or the LCH rulebook amendment.

The bank does not report any cash flow hedges or balances classified as fair value in other comprehensive income and is not expected to apply any temporary relief to its current portfolio.

Financial instruments using amortised cost measurement: All IBOR based customer lending was transitioned to central bank benchmark linked products by September 2022.

p. Intangible assets

Project costs are only recognised as intangible assets when they can be directly attributed to bringing an asset into use. Such costs may include the costs of staff directly employed on a project. Administration costs, other general overhead costs or staff costs not related to the specific asset are excluded. There are minimum thresholds for capitalising expenditure; accumulated costs incurred for a project below these thresholds are expensed through profit and loss.

Amortisation begins in the month the asset is available for use.

Intangible assets are stated at cost less accumulated amortisation and accumulated impairment losses. Amortisation is calculated using straight-line method, to allocate the amortised amount of the assets to their residual values over their estimated useful lives as follows:

- IT general software £50,000 per system and over will be amortised over 4 years; and
- IT infrastructure software will be amortised over 8 years.

Amortisation is included in "administrative expenses" in the profit and loss account.

Where factors, such as technological advancement or changes in market price, indicate that residual value or useful life has changed, the residual value, useful life or amortisation rate are amended prospectively to reflect the new circumstances.

The assets are reviewed for impairment at each reporting date to evaluate if the above factors indicate that the carrying amount may be impaired.

1. Summary of Significant Accounting Policies (Continued)

p. Intangible assets (Continued)

Costs associated with maintaining computer software are recognised as an expense. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the group are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the software so that it will be available for use;
- Management intends to complete the software and use or sell it;
- there is an ability to use or sell the software;
- it can be demonstrated how the software will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development, to use or sell the software are available; and
- the expenditure attributable to the software during its development can be reliably measured.

Other development expenditures that do not meet these criteria are recognised as an expense. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

q. Property, equipment and depreciation

The bank uses the revaluation model to determine the fair value of its land and buildings, which is based on the latest professional market valuation.

Subsequent changes in the fair value of properties are recognised in other comprehensive income and accumulated in equity. Subsequent changes in the fair value of investment properties are recognised in Other operating income / (expense) and accumulated in equity. An increase shall be recognised in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss. The decrease of an asset's carrying amount as a result of a revaluation shall be recognised in other comprehensive income to the extent of any previously recognised revaluation increase accumulated in equity, in respect of that asset. If a revaluation decrease exceeds the accumulated revaluation gains accumulated in equity in respect of that asset, the excess shall be recognised in profit or loss.

Freehold land and buildings are depreciated over a period of 100 years. The bank considers that the building makes up approximately 80% of the value and applies depreciation on this component on a straight-line basis.

Property valuation reviews are performed with sufficient regularity and granularity to ensure that the recorded fair value reflects or does not appear materially different from the current market value at the end of the reporting period.

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

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

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

The bank's policy states that the individual equipment classification, thresholds and their respective economic life are as follows, where costs incurred below the thresholds are expensed to the profit and loss since they are not considered material:

- IT hardware £1,000 and over will be depreciated for three years;
- Furniture & office equipment £1,000 and over will be depreciated for four years;
- Plant and machinery £5,000 and over will be depreciated for ten years; and
- Motor vehicles will be depreciated for four years.

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

1. Summary of Significant Accounting Policies (Continued)

q. Property, equipment and depreciation (Continued)

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

r. Operating leased assets

Leases that do not transfer all the risks and rewards of ownership are classified as operating leases. Payments under operating leases are charged to the profit and loss account on a straight-line basis over the period of the lease.

s. Investment property

Investment properties are held at fair value based on the latest professional market valuation.

Changes in the fair value of investment properties are recognised in profit and loss, and whilst these are included in retained earnings, these are treated as non distributable profits.

Property valuation reviews are performed with sufficient regularity and granularity to ensure that the recorded fair value reflects or does not appear materially different from the market value at the end of the reporting period.

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

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

t. Heritage assets

The bank has a collection of artefacts regarded as heritage assets, largely comprising paintings, an extensive coin collection and the bank's own ledgers. These are recorded as heritage assets due to their historical importance. They are held because they contribute to the understanding of the history and culture of the bank.

The bank uses the revaluation model to determine the fair value of its Heritage assets at the balance sheet reporting date. Individual items in the collection are periodically valued by an external valuer, with any surplus or deficit being reported in Other Comprehensive Income net of deferred tax. The artefacts are deemed to have indeterminate lives and high residual values; hence the Directors do not consider it appropriate to charge depreciation. At each balance sheet date, the bank undertakes a review to assess if there is any indication of potential impairment resulting from damage to the items.

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

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

u. Classification of financial instruments issued by the bank

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

v. Investments in subsidiaries

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

w. Contingent liabilities and commitments

The bank will issue letters of credit, performance bonds and other transaction-related contingencies and other guarantees as part of its normal business. It also provides formal standby facilities, credit lines and other commitments to lend which will remain undrawn or uncalled at year end. The bank records these as contingent liabilities and monitors them against their approved limits.

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.

1. Summary of Significant Accounting Policies (Continued)

w. Contingent liabilities and commitments (Continued)

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.

Where the bank undertakes to make payment on behalf of its customers for guarantees issued, for which an obligation to make payment has not arisen at the reporting date, those are included in these financial statements as contingent liabilities.

Commitments are where the bank has confirmed its intention to provide funds to a customer or on behalf of a customer in the form of loans, overdrafts and future guarantees, whether cancellable or not, and where the bank has not made payment at the balance sheet date. These are included in these financial statements as commitments. See disclosures at Note 29.

x. Operating expenses

The bank's expenses, including administrative expenses, are accounted for on an accruals basis and are charged to the profit and loss account as incurred.

y. Recognition and movement of provisions

Provisions are recognised where the bank has a present legal or constructive obligation as a result of past events; it is probable that a future outflow of economic resources will be required to settle the obligation and the amount of the obligation can be estimated reliably. The corresponding expense relating to the provision is recognised directly in the profit and loss account. Movements in the provision due to a re-estimation of the obligation are also recognised directly in the profit and loss account.

z. Long term employee benefits

In accordance with section 28 of FRS 102, other long-term benefits, such as deferred bonuses, are included in liabilities at their net present value. The obligation is discounted using appropriate market yields as at the reporting date.

2. Critical Accounting Judgements and Estimation Uncertainty

The preparation of the financial statements requires Management to make judgements, estimates and assumptions in applying the accounting policies that affect the reported amounts of assets, liabilities, income and expenses. Due to the inherent uncertainty in making estimates, actual results reported in future periods may be based upon amounts which differ from those estimates. Estimates, judgements and assumptions are reviewed periodically and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

a. Critical judgements in applying the Group's accounting policies

The following areas are highlighted as they involve a higher degree of uncertainty and could have a material impact on the financial statements. Management considers them to be critical judgements in applying the group's accounting policies.

i) Loan impairment provisions

The determination of loan impairment provisions is inherently judgemental and relies on management's assessment of a variety of inputs, including the macro environment and data specific to the customer's ability and willingness to repay the loan. The assessment of the most likely customer outcome is made by staff in the respective relationship team with oversight from the risk department.

For individual loan impairment provisions there is a reliance on relationship managers in ensuring the timely identification of subjective indicators of impairment. These subjective indicators are augmented by the observation of objective triggers relating to the ongoing performance of the loan. These triggers are monitored regularly by the risk department. In determining whether an impairment has been incurred, factors such as late payments, cash flow or income deterioration, and likelihood and timing of planned capital transactions being successfully executed, are considered.

In assessing the collective loan 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. Judgement decisions on loan impairments, other than insignificant balances, are reviewed by the Credit Committee.

2. Critical Accounting Judgements and Estimation Uncertainty (Continued)

a. Critical judgements in applying the Group's accounting policies (Continued)

ii) Provisions

Judgement is involved in determining whether a present obligation exists in relation to specific transactions or activities in which the Company has been engaged. This judgement is informed by a detailed assessment of the specific circumstances surrounding the particular activity or transaction in question supported where possible with external information relating to similar situations and, in certain cases, external expert opinion.

b. Key accounting estimates and assumptions

Management makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below:

i) Impairment of Loans (note 1 (m) (vi), note 14 and note 31 (b))

The bank regularly assesses whether there is objective evidence that any loans or securities are impaired. When it has been determined that an impairment has occurred, the estimation is made of what level of impairment is likely and what amount of provision would be needed. The levels of specific provisions are determined giving consideration to the implications of the macro environment and include estimations on property values, expected sales proceeds and the time needed to liquidate collateral, should that become necessary. Consequently, property values on impaired loans have been set at conservative levels because of the lack of liquidity and market data available at the date of the balance sheet. An additional 10% reduction in property values could result in a modest increase in provisions of up to £1.5m (2022: £3.4m), whereas if an additional six-month extension to the expected assumed sale dates were implemented, it would result in an additional provision of £0.7m (2022: £0.7m).

The collective impairment allowance is subject to estimation uncertainty, as it is calculated using the bank's historical experience, the use of management overlays and the emergence period applied in calculating the provision. The customer portfolio is adequately secured with collateral (the principal part of which is property), with an average loan to value of 41% (2022: 43%), meaning that the collective provision is reasonably well insulated from material movements. A 5% increase / decrease in the bank's loan portfolio would result in a £0.3m (2022: £0.2m) addition / reduction to the collective provision.

ii) Defined benefit pension scheme (note 1 (h) and note 4)

The liabilities of the defined benefit pension scheme are measured as the present value of the estimated benefit cash flows to be paid by the scheme. The present value of the liabilities involves judgements about uncertain events including the life expectancy of the members, price inflation and discount rate used to calculate the net present value of the future pension payments. Estimates are applied for these uncertain events and our assumptions reflect historical experience and external independent advice from a qualified actuary in deriving theactuarial assumptions at the balance sheet date. On 9 July 2018 the Trustee completed the purchase of a "buy-in"bulk annuity policy covering existing pensioners and dependant members at that time, greatly reducing the overall pension risk uncertainty to the Company. Details of the pension are outlined in Note 4.

A 5% increase / decrease in assets held by the defined pension scheme assets would result in a £4.9m (2022: £6.8m) gain / loss in the value of assets held. A 5% increase / decrease in pension obligations would result in a £4.7m (2022: £6.3m) loss / gain in the bank's liabilities. However, the bank's exposure both for assets and obligations is hedged such that asset value movements would be largely offset by movements in the obligations, such that the net impact to Other comprehensive income is significantly lower.

iii) Provisions (note 1 (y) and note 26)

Provisions are liabilities of uncertain timing or amount and are recognised where there is an obligation to recognise a present legal or constructive obligation as a result of past events and can be measured reliably using assumptions which may reflect historical experience and current trends. Any difference between the final outcome and amounts provided will affect the reported results in the period when the matter is resolved.

Where disclosure of any such items may seriously prejudice the position of the bank, the Directors take advantage of prejudicial disclosures; paragraph 21.17 of FRS 102.

iv) Fair value – financial instruments (note 1(m) and 1(o))

In accordance with the above accounting policies, financial instruments and derivatives are classified as fair value through profit or loss.

2. Critical Accounting Judgements and Estimation Uncertainty (Continued)

b. Key accounting estimates and assumptions (Continued)

iv) Fair value – financial instruments (note 1(m) and 1(o)) (Continued)

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value measurement considers the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. It also uses the assumptions that market participants would use when pricing the asset or liability.

Fair value hedges and their respective hedged items are adjusted to the midpoint levels, by marking individual cash positions directly to mid reserves calculated on a portfolio basis for derivative exposures. The mid approach is based on current market spreads and relevant yield curves.

Valuation techniques applied by the bank include using net asset values for unquoted investments in funds as its proxy fair value.

A 5% increase / decrease in the net value of derivative contracts would generate a £6.2m (2022: £5.3m) gain / loss respectively to Net Hedging Income. As all derivative contracts are taken out to hedge, a gain / loss would be offset by the fair value adjustment of the hedged item such that the net impact to Profit before tax of the revaluation of derivative contracts is insignificant.

v) Heritage assets (Note 1 (t) and note 18)

Heritage assets are revalued on a regular basis. The bank engages the appropriate independent market experts in this respect. Valuation of certain assets and in particular certain works of art employ subjective assumption, relying upon assumptions of how easily such works of art can be realised. The valuation of the works of art is used to determine the insured value.

A 5% increase / decrease to the revaluation of Heritage assets would generate a £0.5m (2022: £0.5m) gain / loss respectively to Other comprehensive income.

3. Net Interest Income

Group For year ended 31 March	2023 £000	2022 £000
Interest receivable and similar income		
Debt securities	67,990	11,460
Loans and advances to customers	92,187	79,619
Loans and advances to banks	41,874	3,859
Derivatives	15,760	-
Total interest receivable and similar income	**217,811**	**94,938**
Interest payable and similar charges		
Deposits from banks and customers	(40,520)	(1,339)
Derivatives	-	(5,342)
Total interest payable and similar charges	**(40,520)**	**(6,681)**
Net interest income	**177,291**	**88,257**

Included within interest income is £419,780 (2022: £221,015) accrued in respect of impaired financial assets. Interest income on loans and advances to customers includes customer arrangement fees earned of £4,563,205 (2022: £3,567,973).

4. Retirement Benefit Obligations

The bank has both defined benefit and defined contribution retirement schemes.

Defined benefit scheme

The bank operated a defined benefit pension scheme (the "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. 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. Contributions to the defined benefit scheme for the year ended 31 March 2023 were £Nil (2022: £Nil). There was no charge (2022: £Nil) to the profit and loss account for past service costs.

The Scheme's assets are held in a separate trustee-administered fund to meet long- term liabilities to past and present staff. Hoare's Bank Pension Trustees Limited (the "Trustee Company") is required to act in the best interest of the scheme's beneficiaries. 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.

On 9 July 2018, the Trustee Company completed a pension buy in, purchasing a bulk annuity policy from Canada Life Limited which insured benefits payable under the Scheme in respect of the existing pensioners and dependant members at that time.

The Scheme liabilities are derived using actuarial assumptions for inflation, future salary increases, mortality rates and the discount rate used to calculate the net present value of future pension payments. The principal actuarial assumptions used to calculate the Scheme liabilities were:

Group & Company As at 31 March	2023 %	2022 %
Pension increases in payment	3.2	3.5
Discount rate	4.8	2.8
Retail price inflation	3.4	3.7

The actuarial assumptions allow for commutation of members' pensions for cash at retirement, where members are expected to commute 20% (2022: 20%) of their pensions at retirement. As at 31 March 2023, the valuation of Scheme assets less liabilities showed a surplus of £3,859,000 (2022: £9,831,000 surplus).

The liabilities of the 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 calculated by a qualified independent actuary at the balance sheet date and is reflected in the Scheme asset or liability as detailed below:

Group & Company	2023 £000	2022 £000
Opening net defined benefit asset as at 1 April 2022 / 2021	9,831	3,950
Pension credit in profit & loss	275	79
Actuarial gain recognized in other comprehensive income	28,388	8,439
Loss on assets less interest recognized in other comprehensive income	(34,635)	(2,637)
Closing net defined benefit asset as at 31 March	**3,859**	**9,831**

Future funding obligations

The most recent triennial actuarial valuation was carried out as at 1 April 2022. As the Scheme is closed to future accrual, no further employer contributions are required to support future service. There are no future deficit contributions due under the current schedule of contributions. The bank continues to work with the Trustee Company to explore ways to further stabilise the defined benefit obligation through an investment strategy to minimise volatility and any potential mismatch between the liabilities and assets of the Scheme. The next triennial actuarial valuation will concern the financial situation as at 1 April 2025.

4. Retirement Benefit Obligations (Continued)

Scheme assets and liabilities

The Trustee Company has appointed Lane Clark & Peacock LLP as investment advisers to the Scheme. Through them, Legal and General Assurance (Pensions Management) Limited and Mobius Life Limited manage the Scheme's investment portfolio day-to-day through unitised funds in accordance with the Statement of Investment Principles ("SIP"). The SIP ensures that investment risks are spread across several investment classes. Within each investment portfolio, investment objectives and restrictions to manage risk are implemented through the legal agreements in place with the Scheme's investment manager. The Trustee Company receives regular performance reports from the investment manager, while the investment advisers to the Scheme monitor the performance of the strategy and associated risks, and the performance of each investment manager, against the strategy's objectives and restrictions.

The fair value of the Scheme's assets, which are not intended to be realised in the short term and may be subject to significant change before they are realised, and the present value of the Scheme's liabilities, which are derived from the cash flow projections over long periods and thus inherently uncertain, were:

Group & Company As at 31 March	2023 £000	2022 £000
Global equities	-	8,146
Diversified growth funds ("DGF")	-	7,512
Liability driven investments ("LDI")	11,670	12,773
Index-linked gilts	20,390	8,825
Short duration credit	7,891	20,304
Property fund index	-	5,506
Cash and net current assets	3,103	509
Bulk annuity policy	55,535	71,656
Total fair value of assets	**98,589**	**135,231**
Present value of scheme liabilities	**(94,730)**	**(125,400)**
Pension scheme assets	**3,859**	**9,831**

In accordance with FRS 102 requirements, the deferred tax relating to the defined benefit asset above is now presented with other deferred tax liabilities.

The fair value of the Scheme's assets includes unitised pooled investment vehicles which have been valued at the latest available bid price or single price provided by the pooled investment manager.

Group & Company	2023 £000	2022 £000
Opening fair value of scheme assets as at 1 April 2022 / 2021	**135,231**	**140,125**
Interest on assets	3,704	2,752
Actual return on plan assets less interest	(34,635)	(2,637)
Benefits paid	(5,711)	(5,009)
Closing fair value of scheme assets as at 31 March	**98,589**	**135,231**
Actual return on assets	**(30,931)**	**115**

4. Retirement Benefit Obligations (Continued)

The liabilities of the 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 calculated by a qualified independent actuary at the balance sheet date and is reflected in the Pension scheme asset as detailed below:

Group & Company	2023 £000	2022 £000
Opening defined benefit obligation as at 1 April 2022 / 2021	**125,400**	**136,175**
Interest on obligation	3,429	2,673
Actuarial loss on liabilities due to experience	2,493	3,984
Actuarial gain on liabilities due to assumption changes	(30,881)	(12,423)
Benefits paid	(5,711)	(5,009)
Closing defined benefit obligation as at 31 March	**94,730**	**125,400**

The net finance income or expense recognised in profit and loss is calculated by applying the discount rate to the benefit asset recorded at the beginning of the year; this was £9,831,000 (2022: £3,950,000). The pension income recorded for this year and analysed below of £275,000 (2022: £79,000) was higher than that of the previous year due to the increased fund surplus.

Group & Company For year ended 31 March	2023 £000	2022 £000
Interest on obligation	(3,429)	(2,673)
Interest on assets	3,704	2,752
Total recognised in other finance income	**275**	**79**

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

Group & Company For year ended 31 March	2023 £000	2022 £000
Actual loss on plan assets less interest	(34,635)	(2,637)
Actuarial loss due to experience	(2,493)	(3,984)
Actuarial gain due to assumption changes	30,881	12,423
Total recognised in other comprehensive (expense) / income	**(6,247)**	**5,802**

4. Retirement Benefit Obligations (Continued)

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

The Scheme's assets are invested in a range of funds according to the SIP. This was developed in collaboration between the Trustee Company and its appointed investment advisers. The spread of investments as at 31 March was as follows:

Percentage of total scheme assets

Group & Company As at 31 March	2023 %age	2022 %age
Overseas equities	0.0	3.8
Diversified growth funds ("DGF")	0.0	5.6
Liability driven investments ("LDI")	11.8	9.4
Index-linked gilts	20.7	6.5
Short duration credit	8.0	15.0
UK property	0.0	4.1
Future world fund	0.0	2.2
Cash and net current assets	3.2	0.4
Bulk annuity policy	56.3	53.0
Total fair value of assets	**100.0%**	**100.0%**

The investment performance and liability impact are reviewed on a regular basis by the Board and the Trustee Company of the Scheme. The investment strategy aims to mitigate the impact of increases in liabilities by investing in assets that will increase in value if future inflation expectations rise. The assets held, excluding the bulk annuity policy, are well diversified to mitigate against a wide range of risks, including credit and market risk. The Trustee Company of the Scheme manages investment risks, considering the Scheme's investment objectives, strategy and the advice of its investment adviser.

Over recent years, the Scheme has reduced its interest rate and inflation risks through a significant amount of investment in Liability driven investments (LDI) and bonds, the values of which increase and decrease, in line with Scheme liabilities, from changes in interest rates and market implied inflation. The LDI strategy aims to hedge 100% of the interest rate risk and inflation risk on a technical provisions basis.

The Scheme hedges interest rate risk on a statutory and long-term funding basis using gilts whereas AA corporate bonds are implicitly used to set the FRS 102 discount rate. There is therefore some risk of mismatch to the bank, should yields on gilts and corporate bonds diverge.

Defined contribution scheme

The bank operates a defined contribution scheme which has become the main retirement scheme for all staff. During the year ended 31 March 2023, the charge to the Statement of Comprehensive Income was £6,882,000 (2022: £5,569,000), representing contributions payable by the employer in accordance with the scheme's rules. Other pension costs are recorded within the bank's administrative expenses (see note 7).

Group & Company For year ended 31 March	2023 £000	2022 £000
In respect of defined contribution scheme		
Current service cost	6,882	5,569
Included within Administrative expenses (Note 7)	**6,882**	**5,569**

5. Dealing Profits

Group For year ended 31 March	2023 £000	2022 £000
Debt securities	9,096	596
Foreign currency	7,600	6,946
Total dealing profits	**16,696**	**7,542**

Dealing profits derive from treasury positions, including those foreign currency trades carried out by the bank on behalf of customers.

6. Other Operating (Expenses) / Income

Group For year ended 31 March	2023 £000	2022 £000
Rental income	628	624
Loss on sale of fixed assets	-	(2)
Hedging result		
- Loss on hedged items attributable to loans	(63,829)	(52,898)
- Loss on hedged items attributable to debt securities	(2,798)	(46,657)
- Gain on hedged items (swaps)	66,348	100,138
Net hedging (expense) / income	(279)	583
Unrealised loss from financial assets at FVTPL	(9,939)	(7,597)
(Decrease) / increase in value of derivative contracts	-	(4)
Investment property revaluation	(1,520)	(285)
Research and development refund	883	1,640
Total other operating (expenses) / income	**(10,227)**	**(5,041)**

The above table includes unrealised profits of £656,456 (2022: £5,000 loss) arising from changes in market value on Level 3 financial assets and unrealised losses of £1,520,000 (2022: £285,000 loss) arising from revaluation of the bank's investment properties.

7. Administrative Expenses including Staff Costs

Group For year ended 31 March	2023 £000	2022 £000
Staff costs		
- Wages and salaries and benefits	58,058	41,084
- Social security costs	6,240	6,146
- Other pension costs (Note 4)	6,882	5,569
Operating lease expense	10	13
Other administrative expenses	53,840	27,125
Total administrative expenses including staff costs	**125,030**	**79,937**

Included in the above table, other administrative expenses include a charitable donation of £6.5m (2022: £1.5m) paid to the Hoare family's charitable trust.

Included within wages, salaries and benefits is £191k (2022: £Nil) that relates to bonuses whose payment is deferred in equal instalments over the period to May 2026.

7. Administrative Expenses including Staff Costs (Continued)

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

Group For year ended 31 March	2023 Number	2022 Number
Full time	427	394
Part time	40	44
Contractors and agency staff	53	26
Total average full time equivalent headcount	**520**	**464**

All persons are employed by the bank. The bank's subsidiaries do not directly employ staff.

Group For year ended 31 March	2023 £000	2022 £000
Remuneration payable to the auditors in respect of:		
- Statutory audit of the Company and consolidated financial statements	343	303
- Statutory audit of the subsidiaries' financial statements	18	17
Total auditors' remuneration	**361**	**320**

8. Directors' Emoluments

Group For year ended 31 March	2023 £000	2022 £000
Aggregate emoluments	20,113	11,710
Pension contributions	12	8
Total directors' emoluments	**20,125**	**11,718**
Highest paid director		
- Emoluments	2,894	1,887
- Pension contributions	-	4
Highest paid director total emoluments	**2,894**	**1,891**

9. Tax on Profit

The Company's profits for the financial year ended 31 March 2023 have been taxed at the UK corporation tax rate of 19% (2022: 19%).

(a) Analysis of taxation charge

Group For year ended 31 March	2023 £000	2022 £000
Current tax		
UK corporation tax on profits for the year at 19% (2022: 19%)	17,161	3,270
Adjustments in respect of previous years	184	267
Total current tax	**17,345**	**3,537**
Deferred tax		
Origination and reversal of timing differences	140	36
Adjustments in respect of previous periods	-	-
Impact of change in tax rate	-	221
Total deferred tax	**140**	**257**
Tax on profit	**17,485**	**3,794**

In his Spring budget of 2023, the UK Chancellor announced a change to the corporation tax surcharge provisions, increasing the threshold from £25m to £100m and reducing the surcharge rate from 8% to 3% with effect from 1 April 2023.

The UK Chancellor announced an increase in the rate of tax from 19% to 25% in his Spring 2021 Budget statement on 3 March 2021, with change effective from 1 April 2023.

(b) Tax (credit) / charge included in other comprehensive (expense) / income

Group For year ended 31 March	2023 £000	2022 £000
Deferred tax		
Deferred tax (credit) / charge arising on actuarial (loss) / gain in the pension scheme	(1,562)	1,672
Deferred tax (credit) / charge arising on revaluation of land & buildings	(1,291)	1,875
Deferred tax charge arising on revaluation of heritage assets	-	1,926
Deferred tax (credit) / charge included in other comprehensive (expense) / income	**(2,853)**	**5,473**

Deferred tax as at 31 March 2023 is recognised on all revaluation reserves at 25% (2022: 25%).

9. Tax on Profit (Continued)

(c) Reconciliation of taxation charge

The tax charge for the year ended 31 March 2023 of £17,485,000 (2022: £3,794,000) is higher (2022: higher) than the result of applying the standard rate of UK corporation tax of 19% (2022: 19%). The reasons for this are shown below:

Group For year ended 31 March	2023 £000	2022 £000
Profit before tax	**67,689**	**16,537**
Profit multiplied by standard rate of tax in the UK of 19% (2022: 19%)	**12,861**	**3,142**
Effects of:		
- Permanent disallowables	(156)	(274)
- Surcharge at 8% on excess profits of £45,975,000	3,678	-
- Fixed asset timing differences	712	438
- Other timing differences	206	-
- Adjustments in respect of previous years	184	267
- Impact of change in tax rate	-	221
Total tax charge for the year	**17,485**	**3,794**
Effective tax rate	**25.8%**	**22.9%**

10. Company Profit dealt with in the Consolidated Financial Statements of C. Hoare & Co.

£49,483,000 (2022: £11,901,000) of the Group profit attributable to shareholders relates to the Company; this includes dividends of £Nil (2022: £Nil) from subsidiary companies. As permitted by Section 408 of the Companies Act 2006, the profit and loss account of the Company has not been presented separately.

Company For year ended 31 March	2023 £000	2022 £000
Company profit	49,483	11,901
Final closing balance	**49,483**	**11,901**

11. Dividends

The aggregate of dividends comprises:

Company For year ended 31 March	2023 £ per share	2022 £ per share	2023 £000	2022 £000
Ordinary shares (declared)	**50**	**50**	**6**	**6**

12. Derivative Financial Instruments

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

Group & Company As at 31 March	Notional amount 2023 £000	Fair value 2023 £000	Notional amount 2022 £000	Fair value 2022 £000
Derivative assets				
Exchange rate contracts				
Forward foreign exchange contracts	15,134	160	10,530	2
Interest rate contracts				
Interest rate swaps – hedging instruments	1,157,435	126,816	1,505,029	110,849
Total derivative assets	**1,172,569**	**126,976**	**1,515,559**	**110,851**
Derivative liabilities				
Exchange rate contracts				
Forward foreign exchange contracts	7,122	22	5,418	4
Interest rate contracts				
Interest rate swaps – hedging instruments	146,181	3,136	87,234	4,625
Total derivative liabilities	**153,303**	**3,158**	**92,652**	**4,629**

Interest rate swaps are used to hedge the interest rate risk arising on the bank's fixed interest rate assets. The notional amounts decreased during the year principally as a result of the liquidation of certain swap positions used to hedge securities that were disposed of during the year.

Interest rate swap notional amounts are analysed below:

Group & Company As at 31 March	2023 £000	2022 £000
Loans and advances to customers		
- Drawn	1,199,440	1,102,146
- Undrawn	9,300	40,241
Debt securities	94,876	449,876
Total interest rate swap notional amounts	**1,303,616**	**1,592,263**

13. Financial Assets

As at 31 March	Group 2023 £000	Group 2022 £000	Company 2023 £000	Company 2022 £000
Financial assets at fair value through profit or loss				
Investments	352,586	652,752	352,577	652,727
Total financial assets at fair value through profit or loss	**352,586**	**652,752**	**352,577**	**652,727**
Financial assets at cost less impairment				
Investment in equity shares	2,529	1,528	2,529	1,528
Total financial assets at cost less impairment	**2,529**	**1,528**	**2,529**	**1,528**
Financial assets measured at amortised cost				
Loans and advances to banks (Note 13(a))	248,662	275,813	248,662	275,813
Loans and advances to customers (Note 13(b))	1,989,288	2,024,798	1,989,298	2,024,798
Less specific and collective allowances for impairment	(22,316)	(29,978)	(22,316)	(29,978)
Bank and building society certificates of deposits	460,996	220,405	460,996	220,405
Debt securities*	2,132,941	2,058,915	2,132,941	2,058,915
Total financial assets measured at amortised cost	**4,809,571**	**4,549,953**	**4,809,581**	**4,549,953**
Total financial assets	**5,164,686**	**5,204,233**	**5,164,687**	**5,204,208**

At the end of the year, the bank had invested $150m (£121.3m) (2022: $550m (£409.8m)) into BlackRock Institutional Cash Series US Treasury Premier Fund. The investment provides a source of USD liquidity for US dollar denominated deposits and is classified as a financial asset at fair value through profit or loss.

The bank has invested in Residential Mortgage Backed Securities ("RMBS"). The portfolio consists of standard interests in senior RMBS positions, which have been assessed under FRS 102, including by referencing the sole payments of principals and interest ("SPPI") criteria set out in IFRS 9. As a result, the bank has classified these investments as basic instruments and records them at amortised cost. Included within debt securities is £390m (2022: £368m) in respect of RMBS.

* Debt securities includes unamortised premium amounting to £4.6m (2022: £11.0m).

a. Loans and advances to banks

Group & Company As at 31 March	2023 £000	2022 £000
Repayable on demand	94,061	75,055
Other loans and advances:		
Remaining maturity		
- 3 months or less	114,167	151,976
- over 5 years	40,434	48,782
Total loans and advances to banks	**248,662**	**275,813**

13. Financial Assets (Continued)

b. Loans and advances to customers

Group & Company As at 31 March	2023 £000	2022 £000
Remaining maturity		
- 3 months or less	722,304	504,922
- 1 year or less but over 3 months	139,078	212,220
- 5 years or less but over 1 year	840,388	1,047,426
- over 5 years	287,518	260,230
Total loans and advances to customers	**1,989,288**	**2,024,798**
Allowance for impairment losses (Note 14)	(22,316)	(29,978)
Net loans and advances to customers	**1,966,972**	**1,994,820**
Of which repayable on demand or short notice	**323,692**	**355,507**

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 drawn and undrawn customer lending hedged at 31 March 2023 was £1,208.7m (2022: £1,142.4m).

14. Allowance for Impairment Losses

Loans and advances to customers

Group & Company	2023 £000	2022 £000
Specific allowance for impairment		
Balance as at 1 April 2022 / 2021	**25,575**	**24,724**
Impairment loss for the year		
- Charge for the year	6,126	3,777
- Recoveries for the year	(823)	(2,335)
Net charge on specific provision	**5,303**	**1,442**
- Release of discount	155	1,289
- Write-offs	(14,030)	(1,880)
Balance as at 31 March	**17,003**	**25,575**
Collective allowance for impairment		
Balance as at 1 April 2022 / 2021	**4,403**	**4,323**
Impairment loss for the year		
- Charge for the year	910	80
Net charge on collective provision	**910**	**80**
Balance as at 31 March	**5,313**	**4,403**
Total specific and collective impairment allowances	**22,316**	**29,978**

15. Shares in Group Undertakings

The Company has the following investments in subsidiaries:

Shares at cost	Company Number	Shares held	Principal Activity	2023 £	2022 £
Messrs Hoare Trustees	05687009	20 shares of no par value	Trustee Company	-	-
Hoare's Bank Pension Trustees Limited	00271162	1 ordinary share of £1	Pension scheme trustee	1	1
Hoares Bank Nominees Limited	07694093	72 ordinary shares of £1	Dormant	72	72
C. Hoare & Co. EIG Management Limited	00240822	1 ordinary share of £1	Dormant	1	1
Mitre Court Property Holding Company	ZC000159	10,000 ordinary shares of £1 partly paid	Dormant	1,000	1,000
Total investment in subsidiaries				**1,074**	**1,074**

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

16. Intangible Assets

Group & Company	Software £000
As at 1 April 2022	
Cost	48,444
Accumulated amortisation and impairment	(30,623)
Opening net book value	**17,821**
Year ended 31 March 2023	
Opening net book value	17,821
- Additions	8,427
- Disposal - cost	(350)
- Amortisation	(9,483)
- Disposal - amortisation	350
Closing net book value	**16,765**
As at 31 March 2023	
Cost	56,521
Accumulated amortisation and impairment	(39,756)
Closing net book value	**16,765**

Group & Company As at 31 March	2023 £000	2022 £000
Future capital expenditure		
Contracted but not provided in the financial statements	**9,130**	**8,510**

16. Intangible Assets (Continued)

Group & Company	Carrying Value		Remaining amortisation	
	2023	2022	2023	2022
	£000	£000	Years	Years
Software				
Digital & Mobile Online	5,089	2,660	2.7	2.4
Cloud	2,253	2,349	2.7	1.6
PSD2 RTS	2,844	1,899	2.9	2.2
Real Time Payments	684	1,026	2.0	3.0
Cards Platform	229	622	0.6	1.6
Oracle / SQL	870	-	7.3	-
Client Relationship Manager	812	-	3.0	-
HALO Lending	1,150	-	2.8	-
Operational Portal	1,376	-	2.4	-
Business Intelligence	1,458	-	1.9	-

The bank has delivered a broad range of enhancements, including a new look and feel for the customer-facing online platform, combining an upgrade in the technology, along with additional features including direct debit functionality, biometric login and the ability for customers to freeze, unfreeze and report lost or stolen cards. Fees have been aligned for cross-border transactions, thereby satisfying regulatory requirements. Information security was enhanced by deploying software that enables the bank to take informed action in the event of advanced and targeted cyber-attacks. The bank’s Client Relationship Management (“CRM”) solution was consolidated into two core code bases and introducing several optimisations to the platform. A new lending workflow application (HALO) was developed to process variable and fixed rate mortgages. This replaces the current FLOW system.

17. Property and Equipment

Group & Company	Land and Buildings	Investment Properties	Equipment	Total
	£000	£000	£000	£000
As at 1 April 2022				
Cost	9,590	4,359	19,007	32,956
Revaluation	33,195	4,356	-	37,551
Accumulated depreciation and impairment	-	-	(15,079)	(15,079)
Opening net book value	**42,785**	**8,715**	**3,928**	**55,428**
Year ended 31 March 2023				
Opening net book value	42,785	8,715	3,928	55,428
- Additions	-	-	4,318	4,318
- Disposals - cost	-	-	(1,778)	(1,778)
- Revaluation movement	(5,165)	(1,520)	-	(6,685)
- Depreciation	(310)	-	(1,743)	(2,053)
- Disposals - depreciation	-	-	1,778	1,778
Closing net book value	**37,310**	**7,195**	**6,503**	**51,008**
As at 31 March 2023				
Cost	9,590	4,359	21,547	35,496
Revaluation	28,030	2,836	-	30,866
Accumulated depreciation and impairment	(310)	-	(15,044)	(15,354)
Closing net book value	**37,310**	**7,195**	**6,503**	**51,008**

17. Property and Equipment (Continued)

Group & Company As at 31 March	2023 £000	2022 £000
Land and buildings occupied for own activities		
Net book amount	**31,205**	**35,076**
At cost		
- Land and buildings occupied for own use	6,789	7,981
- Land and buildings not occupied for own use	2,801	1,609
- Investment properties not occupied for own use	4,359	4,359
Total land and buildings occupied for own use cost	**13,949**	**13,949**

The bank's land, buildings and investment properties were valued as at 31 March 2023 by AGL Chartered Surveyors. The bank's Royal Albert Hall Box was last valued as at 31 March 2022 by Harrods Estates Luxury Property Agents. Based on these valuations, a revaluation loss of 13.6% (Loss 1.2%: 2022) for land, buildings and investment properties and no revaluation (Loss 12.6%: 2022) of the Royal Albert Hall Box has been posted.

Group & Company As at 31 March	2023 £000	2022 £000
Future capital expenditure		
Contracted but not provided in the financial statements	**400**	**809**

The bank had the following future minimum lease payments on operating leases for each of the following periods:

Group & Company As at 31 March	2023 £000	2022 £000
Payment due:		
- Not later than one year	4	13
- Later than one year and not later than five years	1	5
Total lease payments on operating leases	**5**	**18**

18. Heritage Assets

Group & Company		**2023**			2022	
	Paintings £000	**Artefacts £000**	**Total £000**	Paintings £000	Artefacts £000	Total £000
Valuation as at 1 April 2022 / 2021	**11,204**	**3,783**	**14,987**	**6,868**	**2,609**	**9,477**
Movements - additions	10	43	53	-	-	-
Movements - valuation	-	-	-	4,336	1,174	5,510
Valuation as at 31 March	**11,214**	**3,826**	**15,040**	**11,204**	**3,783**	**14,987**

18. Heritage Assets (Continued)

The bank has accumulated a collection of artefacts largely in the form of paintings, an extensive coin collection and the bank's own ledgers reflecting the bank's history of 350 years. These are regarded as heritage assets due to their relevance to the knowledge and culture of the bank's history. Most of these are housed at the bank's registered office at 37 Fleet Street London, including collections on display at the bank's museum at the same address. At any time, approximately 50% of the collection is on display. The remaining items are held in storage that is not open to the public, although access is permitted to historians and others providing valuable research into the bank's history.

The bank's museum maintains a register for its collection of heritage assets, which records the nature, provenance and current location of each asset. The bank may add to its collection of heritage assets by purchase or donation, with the objective to retain items that are relevant to the history of the bank for future generations. The bank aims to preserve and maintain the condition of the collection in a steady state of repair.

The bank commissioned external valuers (Classical Numismatic Group – Coin Valuers) to undertake a full valuation of coins, medals and banknotes on 28 February 2022 for the period ending 31 March 2022. The bank also commissioned external valuer Tim Ritchies & Associates Ltd to value all other artifacts, including the paintings as at 31 March 2022. Valuations were based on commercial market prices, including recent transaction information from auctions where similar paintings to those held by the bank had been sold. The bank did not commission a revaluation during 2023 except for an updated value assessment for significant assets. The bank concluded that the values adopted as of 31 March 2022 were also appropriate as of 31 March 2023.

19. Deferred Tax

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

Group & Company	2023 £000	2022 £000
Deferred tax asset		
Fixed assets timing differences	496	989
Timing differences on loan fees	-	-
Deferred tax asset as at 31 March	**496**	**989**
Deferred tax liability		
Timing differences on valuations		
- Land and buildings	7,007	8,298
- Investment properties	709	1,089
- Heritage assets	3,661	3,661
Short term timing differences	-	42
Defined benefit pensions scheme	965	2,458
Deferred tax liability as at 31 March	**12,342**	**15,548**

The UK Chancellor announced an increase in the tax rate from 19% to 25% on 3 March 2021, with changes effective from 1 April 2023. The impact of the rate increase as at 31 March 2021 was to increase net deferred tax liability by £2.8m for the year ended 31 March 2022. There was no impact of tax rate change in the year ended 31 March 2023.

19. Deferred Tax (Continued)

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

Group & Company	2023 £000	2022 £000
Deferred tax asset		
Balance as at 1 April 2022 / 2021	**989**	**1,677**
Fixed assets timing differences	(493)	(688)
Timing differences on loan fees	-	-
Deferred tax asset as at 31 March	**496**	**989**
Deferred tax liability		
Balance as at 1 April 2022 / 2021	**15,548**	**10,725**
Timing differences on valuations		
- Land and buildings	(1,291)	1,874
- Investment properties	(380)	207
- Heritage assets	-	1,926
- Capital gains	-	(887)
Short term timing differences	(42)	(5)
Defined benefit pensions scheme:		
- Actual (loss) / gain	(1,562)	1,673
- Other Pension movements	69	35
Deferred tax liability as at 31 March	**12,342**	**15,548**

20. Other Assets

As at 31 March	Group 2023 £000	Group 2022 £000	Company 2023 £000	Company 2022 £000
Corporation tax	3,698	3,561	3,698	3,665
Settlement balances	151	111	93	110
Amounts owed by group undertakings	-	-	72	40
Total other assets	**3,849**	**3,672**	**3,863**	**3,815**

Settlement balances relate to unsettled transactions at the year end.

21. Prepayments and Accrued Income

As at 31 March	Group 2023 £000	Group 2022 £000	Company 2023 £000	Company 2022 £000
Interest receivable	1,475	79	1,475	79
Other debtors and prepayments	15,596	13,066	15,543	13,039
Total prepayments and accrued income	**17,071**	**13,145**	**17,018**	**13,118**

Prepayments include Work In Progress on IT Software projects amounting to £9.2m (2022: £9.3m).

22. Deposits by Banks

Group & Company As at 31 March	2023 £000	2022 £000
Repayable on demand	122,958	119,572
Total bank deposits	**122,958**	**119,572**

23. Customer Accounts

Group & Company As at 31 March	2023 £000	2022 £000
Repayable on demand	3,968,305	6,179,163
With agreed maturity date or notice period, by remaining maturity:		
- 3 months or less but not repayable on demand	1,356,445	273,783
- 1 year or less but over 3 months	829,620	180,643
- 2 years or less but over 1 year	59,988	55,729
- 2 years or more	-	113
Total customer deposits	**6,214,358**	**6,689,431**
Amount due to Subsidiary Companies	**13,693**	**12,915**

24. Other Liabilities

	Group		Company	
As at 31 March	2023 £000	2022 £000	2023 £000	2022 £000
Settlement balances	2,587	2,093	2,587	2,093
Other Liabilities	348	392	212	244
Corporation Tax	137	-	-	-
Amounts owed to group undertakings	-	-	-	-
Total other liabilities	**3,072**	**2,485**	**2,799**	**2,337**

Settlement balances relate to unsettled transactions at the year end.

25. Accruals and Deferred Income

	Group		Company	
As at 31 March	2023 £000	2022 £000	2023 £000	2022 £000
Other creditors and accruals	39,719	24,557	39,658	24,557
Total accruals & deferred income	**39,719**	**24,557**	**39,658**	**24,557**

26. Provision for Other Liabilities

From time to time, in the ordinary course of business, the bank may be subject to actual or potential legal claims whereby provisions and disclosures are required in accordance with the bank's accounting policies. However, where disclosure of any such items may seriously prejudice the position of the bank, the Directors take advantage of paragraph 21.17 of FRS 102. The bank recorded an opening balance of £2.8m, (2022: £4.8m) in respect of legal and other provisions; total provision decreased by £2,750,000 during the year (2022: decrease £2,063,000) resulting in the bank carrying a closing provision of £Nil at 31 March 2023 (2022: £2.8m).

27. Called up Share Capital

Group & Company As at 31 March	2023 £000	2022 £000
Authorised, allotted and fully paid:		
120 (2022: 120) Ordinary shares of £1,000	120	120
Total share capital	**120**	**120**

28. Revaluation Reserves

Group & Company	Property £000	Heritage Assets £000	Total £000
Balance as at 1 April 2021	**27,386**	**7,398**	**34,784**
Revaluation of property and heritage assets	(615)	5,510	4,895
Deferred tax charge on property and heritage assets	(1,875)	(1,926)	(3,801)
Balance as at 31 March 2022	**24,896**	**10,982**	**35,878**
Revaluation of property and heritage assets	(5,165)	-	(5,165)
Deferred tax credit on property and heritage assets	1,291	-	1,291
Balance as at 31 March 2023	**21,022**	**10,982**	**32,004**

Deferred tax is recognised on all revaluation movements at 25% (2022: 25%) and is recorded in revaluation reserves.

29. Contingent Liabilities & Commitments

The table below discloses the nominal principal amounts of contingent liabilities and commitments undertaken for customers as at 31 March 2023.

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

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

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

29. Contingent Liabilities and Commitments (Continued)

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

Group & Company As at 31 March	2023 £000	2022 £000
Contingent liabilities:		
- Performance bonds and other transaction-related contingencies	279	354
- Letters of credit	71	71
- Guarantees	14,940	22,437
Total contingent liabilities	**15,290**	**22,862**
Commitments:		
Undrawn formal standby facilities, credit lines and other commitments to lend		
- Commitments to lend	378,448	374,729
- Commitments on equity investments	6,422	8,052
Total commitments	**384,870**	**382,781**

30. Notes to the Statement of Cash Flows

Group For year ended 31 March	2023 £000	2022 £000
Profit for the financial year	50,204	12,743
Tax on profit on ordinary activities	17,485	3,794
Profit before tax	**67,689**	**16,537**
Impairment charge	6,213	1,522
Loans and advances written off	(14,030)	1,880
Unwinding of discount on customer loans	155	1,289
Amortisation of intangible assets	9,483	9,099
Depreciation of tangible fixed assets	2,053	1,717
Release of legal provision	(2,750)	-
Net income in respect of defined benefit scheme	(275)	(64)
Operating lease	10	13
Loss / (profit) on disposal of tangible asset	-	2
Loss on revaluation of investment property	1,520	285
Fair value movements on financial assets	(93,811)	(57,866)
Working capital movements:		
- Decrease / (increase) in loans and advances	81,928	(118,519)
- (Increase) / decrease in debtors	(20,788)	190
- (Decrease) / increase in payables	(456,075)	1,265,296
Cash flow (used in) / generated from operating activities	**(418,678)**	**1,121,381**

31. Financial Risk Management

a. Overview

The Board has ultimate responsibility for the management of risk within the bank. The RCo, which reports to the Board, provides oversight and monitors the effectiveness of internal control and risk management processes. Further details of the bank's risk management and governance structure are given in the Strategic Report on pages 14 to 22.

The principal risks affecting the bank are explained in the Strategic Report on pages 18 to 22. A fuller description of the bank's principal risks can be found in the bank's Pillar 3 disclosures, which is unaudited, and is available on the bank's website: www.hoaresbank.co.uk.

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

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

b. Credit Risk

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

The bank seeks to limit loan losses by maintaining a conservative credit portfolio managed via a robust credit risk framework. As part of the framework, the bank has established risk appetite metrics, aligned to its lending policy, credit risk monitoring process and stress tests, conducted to ensure that the bank remains within risk appetite. The bank's credit risk exposures and performance against appetite are monitored and reported to the Credit Committee, MT, RCo and the Board.

Management of credit risk

The bank seeks to mitigate credit risk by focusing on sectors where the bank has specialist expertise. The bank's general policy is to lend to customers with security provided as collateral and generally entail a charge over residential or commercial property. Unsecured lending is only entered into where the customer's specific circumstances make it prudent to do so. Large exposure limits are in place on lending to any one customer group in accordance with both internal and regulatory guidelines as set out in the large exposure policy. Lending is monitored closely against individual credit limits. All significant exposures are subject to regular review.

The bank seeks to build strong relationships with customers and endeavours to assist those customers in financial difficulty.

The bank undertakes a rigorous affordability assessment in order to establish the customer's ability to service debt. The unique nature of the bank's customer base and their financial affairs can occasionally result in irregular or late payments which do not necessarily indicate increased credit risk. The bank manages these situations through regular communication with customers and by obtaining strong levels of high-quality security cover on the majority of its lending facilities.

Credit risk arising from Treasury investments is managed through lending to a restricted selection of financial institutions, where the selection criteria is regularly reviewed and approved by ALCo. The bank has policies in place and sets exposure limits for approved counterparties, taking into consideration the large exposure requirements and, where appropriate, the use of external credit assessments supplemented with the bank's internal assessment of credit risk.

31. Financial Risk Management (Continued)

b. Credit Risk (continued)

Maximum credit exposure

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

Group As at 31 March	2023 £000	2022 £000
Balance Sheet items		
Cash and balances at central banks	1,452,949	1,843,378
Derivative financial instruments (Note 12)	126,976	110,851
Loans and advances to banks (Note 13(a))	248,662	275,813
Loans and advances to customers (Note 13(b))	1,966,972	1,994,820
Bank and building society certificates of deposits (Note 13)	460,996	220,405
Debt securities (Note 13)	2,132,941	2,058,915
Equity securities (Note 13)	355,115	654,280
Maximum credit exposure from Balance Sheet items	**6,744,611**	**7,158,462**
Off balance sheet items		
Contingent liabilities (Note 29)	15,290	22,862
Commitments (Note 29)	384,870	382,781
Maximum credit exposure from off Balance Sheet items	**400,160**	**405,643**
Maximum credit exposure	**7,144,771**	**7,564,105**

Credit quality of assets

The credit risk framework was strengthened last year and has supported the enhancement of credit risk management information.

A loan is considered to be non-performing if any payment relating to the loan is outstanding beyond its contractually due date. Past due amounts will arise through the borrower failing to make a payment when contractually due. For the purposes of reporting, 'past due but not impaired' relates to loans that are in arrears but do not meet the criteria of an impaired asset as the expected recoverable amounts exceed the carrying amounts and interest is charged on any amounts past due.

31. Financial Risk Management (Continued)

b. Credit Risk (Continued)

Credit quality of assets (Continued)

The credit quality of assets is shown below.

Group As at 31 March	2023 £000	2022 £000
Performing		
Neither past due nor impaired	**1,852,491**	**1,910,047**
Non-performing		
Past due but not impaired		
Past due up to 3 months	86,806	39,487
Past due 3 to 6 months	5,288	35
Past due 6 to 12 months	281	2,107
Past due over 12 months	5,032	13,967
Impaired	39,390	59,155
Total non-performing loans	**136,797**	**114,751**
Total loans and advances to customers prior to impairment	**1,989,288**	**2,024,798**
Impairment		
Specific allowances for impairment	17,003	25,575
Collective allowance for impairment	5,313	4,403
Total impairment (Note 14)	**22,316**	**29,978**
Total loans and advances to customers (Note 13(b))	**1,966,972**	**1,994,820**
Fair value adjustment	**113,135**	**49,730**
Total loans and advances to customers adjusted fair value (Note 31(d))	**2,080,107**	**2,044,550**
Non-performing loans to gross loans and advances	6.9%	5.7%
Specific impairment to gross loans and advances	0.9%	1.3%
Collective impairment to gross loans and advances	0.3%	0.2%
Specific impairment to non-performing loans	12.4%	22.3%
Collateral		
Against loans past due but not impaired	333,355	95,011
Against impaired loans	15,191	36,632
Total collateral against non-performing loans	**348,546**	**131,643**

At 31 March 2023, impaired loans of £16.5m (2022: £15.1m) had forbearance considerations, and specific provisions of £6.4m (2022: £2.7m). The estimated value of collateral against these loans is £11.4m (2022: £13.6m).

31. Financial Risk Management (Continued)

b. Credit Risk (Continued)

Concentration risk

Additional credit risk can result from high exposure to certain customers, treasury counterparties, regions or industry sectors.

The bank's activities have been concentrated on serving high net worth individuals within the UK primarily in the South of England, where a significant proportion of the bank's lending activities relate to residential properties. Whilst UK high net worth individuals are a somewhat concentrated group, the bank's experience, particularly with respect to lending, is that exposures to this group are lower risk than to the average UK population. Since January 2023 there has been a clear focus on diversifying our customer base and balance sheet through regional expansion across the UK.

The bank's treasury department also invests in a range of high-quality assets issued by governments, top rated institutional counterparties, funds which invest mainly in investment grade bonds and securitisations backed by large and diverse portfolios of UK prime owner-occupied mortgages. Treasury counterparty concentration risk is limited in accordance with Bank limits to large exposures as established by the PRAs Capital Requirements Regulation and is actively monitored daily with oversight by the ALCo.

At 31 March 2023 the bank's exposure to UK customers and counterparties was 85% (2022: 88%) of total asset exposures.

Collateral held as security

The bank holds collateral against loans and advances to customers in the form of charges over residential and commercial property, investment securities, other assets and guarantees. Estimates of fair value are based upon the value of collateral assessed at the time of borrowing and are assessed at regular intervals in the lending life cycle. At 31 March 2023, the value of property collateral recorded against customer facilities was £5,407m (2022: £5,075m). The estimated value of collateral against the impaired customer loans and advances was £15.2m (2022: £36.6m).

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

Individually impaired loans and securities

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

The estimate of the impact on future cash flows, and therefore the level of provision required, is principally based on the estimated amount recoverable when collateral is liquidated to repay a loan. The bank's collateral largely consists of residential and commercial property. Therefore, the critical accounting estimate includes management's view on property values. Any increase or decrease in property values will change the level of provision. The current provision applies primarily to loans where the property held as security is in a niche segment of the market where reliable external reference data may not be readily available. Consequently, provision levels are set, monitored and stress tested using internal reference data with no dependency, currently, on external generic indicators.

Allowance for impairment losses

The bank establishes an allowance for impairment losses estimated within the loan portfolio. The main components of this allowance are specific losses relating to identified exposures. A collective assessment for losses that have been incurred but not yet identified is also made as at the reporting date. Given the bank's general policy to lend to customers with sufficient collateral, the loss due to impairment is typically low.

Write-off policy

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

31. Financial Risk Management (Continued)

b. Credit Risk (Continued)

Forbearance

The bank's aim in offering forbearance and other assistance to customers who are experiencing financial difficulties is to benefit both the customer and the bank by acting in the customer's best interests with the intent, wherever possible, of bringing their facilities back into a sustainable position.

Forbearance measures consist of concessions to a customer who is about to experience or is experiencing difficulty in meeting their financial commitments. This can include modifications, which would not generally be available on the market under the previous terms and conditions of a contract and would not have been required had the customer not been experiencing financial difficulties.

The provision and review of supporting customers with forbearance measures is considered and approved by the Credit Committee.

Analysis of loans and advances to banks and debt and equity securities:

Group As at 31 March	2023 £000	2022 £000
Loans and advances to banks, by rating:		
- Aaa to Aa3	143,055	114,248
- A1 to A3	105,607	161,565
Total unimpaired loans and advances to banks	**248,662**	**275,813**
Debt and equity security financial assets, by rating:		
- Aaa to Aa3	2,582,006	2,503,090
- A1 to A3	341,588	270,384
- Baa1 to Baa3	-	123,863
- Ba1 to Ba3	-	17,239
- Not rated	25,458	19,024
Total debt and equity securities	**2,949,052**	**2,933,600**

c. Liquidity Risk

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

Management of liquidity risk

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

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

The bank's treasury department has responsibility for the day-to-day liquidity management and continuously monitors deposit activity in order to predict expected maturity flows. The ALCo oversees the management of the bank's liquidity within the Board-approved policies.

The bank assesses the adequacy of its liquidity through the annual update of the ILAAP, and more frequently in the event of a material change in liquidity. The ILAAP is the bank's own assessment of its liquidity needs and is based on stress testing, including reverse stress testing, and scenario analysis of the impact of material risks affecting the bank. Reverse stress testing is undertaken to identify the scenario or combination of scenarios that would result in liquidity resources being exhausted causing the bank to become unviable or insolvent. The ILAAP is presented at least annually to ALCo, MT and RCo for review and to the Board for review and approval.

31. Financial Risk Management (Continued)

c. Liquidity Risk (Continued)

Exposure to liquidity risk

The bank's exposure to liquidity risk is summarised in the following tables, which show the contractual maturity of obligations to repay monies to other banks and customers. For those products that have a fixed cashflow schedule, discounted cash flows are shown, including interest cash flows. For all other products the balance sheet amounts are shown.

Group As at 31 March 2023	Total £000	Next day £000	Less than 1 month £000	1 to 3 months £000	3 months to 1 year £000	1-5 years £000	Over 5 years £000
Balance sheet:							
Deposits from banks	122,958	122,958	-	-	-	-	-
Repurchase agreements	-	-	-	-	-	-	-
Deposits from customers	6,214,358	3,968,305	342,306	1,014,139	829,620	59,988	-
Derivative liabilities	3,158	2	20	-	453	1,778	905
Off balance sheet:							
Guarantees, letters of credit and performance bonds	15,290	15,290	-	-	-	-	-
Undrawn customer facilities	384,870	253,997	13,690	263	1,658	52,082	63,180
Total liabilities	**6,740,634**	**4,360,552**	**356,016**	**1,014,402**	**831,731**	**113,848**	**64,085**

Group As at 31 March 2022	Total £000	Next day £000	Less than 1 month £000	1 to 3 months £000	3 months to 1 year £000	1 to 5 years £000	Over 5 years £000
Balance sheet:							
Deposits from banks	109,572	109,572	-	-	-	-	-
Repurchase agreements	10,000	10,000	-	-	-	-	-
Deposits from customers	6,689,431	6,179,510	163,513	109,923	180,643	55,842	-
Derivative liabilities	4,629	3	1	5	159	4,461	-
Off balance sheet:							
Guarantees, letters of credit and performance bonds	22,862	22,862	-	-	-	-	-
Undrawn customer facilities	382,781	331,034	9,665	-	7,697	29,036	5,349
Total liabilities	**7,219,275**	**6,652,981**	**173,179**	**109,928**	**188,499**	**89,339**	**5,349**

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

The bank is a member of the Bank of England's Sterling Monetary Framework (SMF). This enables the bank to swap funds invested in High Quality Liquid Assets (HQLA) into the most liquid asset in the economy; central bank reserves thereby increase its level of available liquidity.

31. Financial Risk Management (Continued)

d. Market Risk

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

Market risk is principally a concern in the banking book, since the bank does not operate a significant trading book, generally holds assets until maturity (consistent with the articles of the Capital Requirements Regulation) and makes investments for the long term. Only a small component of the banking book is recorded at fair value and the majority of fixed rate loans are hedged such that their main exposure is interest rate risk, both basis and yield curve risk.

The bank also holds an investment portfolio, primarily as a source of income diversity to complement core banking activities. The portfolio is subject, in part, to equity market price movements. All investments depend on Board approval and are subject to limits and controls monitored by ALCo.

Management of interest rate risk

Basis risk arises where assets and liabilities re-price with reference to differing short term interest rate benchmarks. ALCo has set limits to manage basis risk. Basis risk is calculated monthly and reported to ALCo. At certain interest rate levels, basis risk can have a greater impact e.g. a negative interest rate environment. Management decisions to move managed rates in line with the movement of benchmark rates could be influenced to a greater degree by the actions of peers in the market. Frequent stress testing of such scenarios is conducted and reviewed regularly with the ALCo and included in the bank's ICAAP.

Interest rate swaps that individually hedge fixed-rate loans of equal size and duration thereby protect the net interest margin against adverse changes in money market rates. The bank accrues the net interest on interest rate swaps on a monthly basis and adjusts the estimated fair value of the remaining cash flows accordingly.

Yield curve risk is managed by the bank's treasury department, principally through monitoring interest rate gaps between assets and liabilities and ensuring that this remains within our risk appetite limits. The bank uses interest rate swaps to hedge exposures to interest rate risk, as part of its risk management process.

The following table summarises the repricing profile for the bank's financial assets and liabilities, stated at their carrying amounts, allocated by the earlier of contractual repricing or maturity date.

Group	Total	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Over 5 years
As at 31 March 2023	£000	£000	£000	£000	£000	£000
Assets						
Loans and advances to banks and central banks	1,701,851	1,661,417	-	-	-	40,434
Loans and advances to customers	2,080,107	813,123	36,679	102,399	840,388	287,518
Debt security financial assets	2,593,937	2,178,729	136,100	235,583	43,525	-
Total assets	**6,375,895**	**4,653,269**	**172,779**	**337,982**	**883,913**	**327,952**
Liabilities						
Deposits by banks	122,958	122,958	-	-	-	-
Repurchase agreements	-	-	-	-	-	-
Customer accounts	6,214,358	5,324,750	617,770	211,850	59,988	-
Total liabilities	**6,337,316**	**5,447,708**	**617,770**	**211,850**	**59,988**	**-**
Net derivatives	**-**	**1,279,576**	**(21,986)**	**(97,843)**	**(856,234)**	**(303,513)**
Interest rate gap	**38,579**	**485,137**	**(466,977)**	**28,289**	**(32,309)**	**24,439**

31. Financial Risk Management (Continued)

d. Market Risk (Continued)

Management of interest rate risk (Continued)

Group As at 31 March 2022	Total £000	Up to 3 months £000	3 to 6 months £000	6 to 12 months £000	1 to 5 years £000	Over 5 years £000
Assets						
Loans and advances to banks and central banks	2,119,521	2,070,739	-	-	-	48,782
Loans and advances to customers	2,044,550	474,946	87,979	124,786	1,073,943	282,896
Debt security financial assets	2,336,416	1,741,538	-	145,000	42,376	407,502
Total assets	**6,500,487**	**4,287,223**	**87,979**	**269,786**	**1,116,319**	**739,180**
Liabilities						
Deposits by banks	109,572	109,572	-	-	-	-
Repurchase agreements	10,000	10,000	-	-	-	-
Customer accounts	6,689,431	6,452,946	109,352	71,291	55,842	-
Total liabilities	**6,809,003**	**6,572,518**	**109,352**	**71,291**	**55,842**	**-**
Net derivatives	**-**	**1,549,654**	**(43,088)**	**(81,696)**	**(737,426)**	**(687,444)**
Interest rate gap	**(308,516)**	**(735,641)**	**(64,461)**	**116,799**	**323,051**	**51,736**

Market movements in interest rates affect the net interest income of the bank.

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

The bank's interest rate gap sensitivity, resulting from a potential +/- 200bps parallel shift in the yield curve measured in accordance with the PRA's requirements to incorporate all assets and liabilities on the balance sheet, was £2.6m and -£2.8m respectively (2022: £0.4m and -£0.3m respectively). The bank monitors its exposure to yield curve risk weekly and is reported to ALCo monthly against a Board approved policy limit.

The reported interest rate sensitivity as at 31 March 2023 is shown in the table below.

Effect of a change of 2.00% in sterling market rates

Group As at 31 March	2023 £000	2022 £000
Net present value sensitivity to:		
- Positive shift	2,630	404
- Negative shift	(2,757)	(325)

Interest rate sensitivity set out above is illustrative only and based upon simplified scenarios in which all managed rates are assumed to move in tandem with changes in the benchmark rates. The figures above represent the effect on net interest income, primarily relating to the small number of unhedged fixed rate loans, arising from a parallel fall or rise in the yield curve. The bank aims to minimise interest rate risk and uses interest rate swaps to hedge exposures on fixed rate loans and investments. Given the bank's approach to managing interest rate risk, as outlined in the Strategic report section 8.2 (f), the net exposure to this risk after hedging is minimal and arises primarily during the period from offering a facility to a customer to the date of acceptance, at which point a hedge is put in place.

31. Financial Risk Management (Continued)

d. Market Risk (Continued)

Management of interest rate risk (Continued)

The bank also assesses the broader impact of basis risk and interest rate changes on future earnings, which is caused by potential time delays in moving managed rates to mirror changes in benchmark rates, creating an imperfect correlation between the bank's lending and deposit rates. As at 31 March 2023 the aggregate value difference between assets and liabilities priced on, or linked to, different benchmark interest rates were equivalent to 146.0% (2022: 156.4%) of the bank's assets. The delay in adjusting managed rates to align with a 25bps shift in benchmark rates would affect future earnings by £0.0m over a 12 month period (2022: £0.7m). This assumes interest paid and received on unhedged assets and liabilities moves in line with benchmark rates. The bank monitors benchmark rates closely in order to take pre-emptive action where possible.

Management of currency risk

Foreign currency balances are driven by requirements of the bank's customers and do not form a significant part of the balance sheet. In order to limit the bank's exposure to exchange rate risk, threshold limits are placed on intraday and end of day positions. The bank's treasury department is responsible for managing currency risk within the agreed limits.

The foreign exchange dealers have authority to deal in forward foreign exchange contracts within specified limits to meet our customers' requirements. Any resulting positions are monitored and are reported monthly on a currency-by-currency basis to ALCo.

Exposure to market risk: currency risk

The table below summarises the net exposure of the bank's monetary assets and liabilities held in individual foreign currencies, expressed in sterling, and the effect of a reasonably possible weakening of sterling against the US dollar, euro and other currencies by 10%. The analysis assumes all other variables, in particular interest rates, remain constant.

Net currency exposure sensitivity analysis

Group As at 31 March 2023	£000 Net Exposure	% of net assets	£000 Sensitivity
US dollar	(2,706)	(0.59)	(271)
Euro	3,419	0.75	342
Other	588	0.13	59
Total	**1,301**	**0.29**	**131**

Net currency exposure sensitivity analysis

Group As at 31 March 2022	£000 Net Exposure	% of net assets	£000 Sensitivity
US dollar	(3,200)	(0.45)	(320)
Euro	438	0.06	44
Other	94	0.01	9
Total	**(2,668)**	**(0.38)**	**(267)**

A strengthening of sterling against the above currencies would have resulted in an equal but opposite effect to the amounts shown above.

e. Fair Values of Financial Assets and Liabilities

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

31. Financial Risk Management (Continued)

e. Fair Values of Financial Assets and Liabilities (Continued)

The fair values of financial instruments are based on market prices where available and, in the case of 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-priced frequently, their fair value approximates to the carrying value.

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

- Cash and balances at central banks: the carrying value;
- Treasury bills and other eligible bills: determined using market prices;
- Derivatives: the carrying value. For interest rate swaps, market valuations are used. For forward exchange contracts, the fair value is estimated by discounting the contractual forward price and deducting the current spot rate;
- Loans and advances to banks: the fair value of floating rate placements and overnight deposits is the carrying value;
- Loans and advances to customers: for variable rate loans which re-price in response to changes in market rates, the fair value has been estimated as the carrying value. For fixed rate loans, the fair value approximates to the carrying value adjusted for hedging and any required allowance for credit risk;
- Residential mortgage-backed securities (RMBS): the carrying value determined using SONIA rates;
- Debt and equity securities: the carrying value is a proxy for the fair value of listed investment securities and is based upon quoted market prices where available. Unlisted investment securities are based upon net asset valuations provided by the fund managers;
- Investments in equity shares: the carrying value for the listed investments is based upon quoted market prices where available; however, where no market value is readily available, the cost is the carrying value which is also a proxy for the fair value;
- Deposits from banks and customers: deposits with no stated maturity, which includes non-interest bearing deposits, is the amount repayable on demand and equates approximately to the fair value; and
- The recognition and measurement provisions of FRS 102 Section 11 and the disclosure requirements of FRS 102 Section 34 have been adopted in respect of financial instruments for the fair value hierarchy disclosures.

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

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

The table below categorises the bank's financial instruments held at fair value according to the method used to establish the fair value at the balance sheet date.

Valuation heirarchy

Group As at 31 March 2023	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Equity securities	346,610	-	5,976	352,586
Derivative financial assets	-	126,976	-	126,976
Financial assets at fair value	**346,610**	**126,976**	**5,976**	**479,562**
Derivative financial liabilities	-	3,158	-	3,158
Financial liabilities at fair value	**-**	**3,158**	**-**	**3,158**

31. Financial Risk Management (Continued)

e. Fair Values of Financial Assets and Liabilities (Continued)

Valuation heirarchy

Group As at 31 March 2022	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Equity securities	649,743	-	3,009	652,752
Derivative financial assets	-	110,851	-	110,851
Financial assets at fair value	**649,743**	**110,851**	**3,009**	**763,603**
Derivative financial liabilities	-	4,629	-	4,629
Financial liabilities at fair value	-	**4,629**	-	**4,629**

The tables above include derivative assets and liabilities as reported in Note 12 and financial assets at fair value as reported in Note 13.

The bank has invested in level 3 investments with a market value of £5,975,562 as at 31 March 2023 (2022: £3,008,507).

During the year the bank made the following material investment decisions:

- Vontobel Fund – TwentyFour Sustainable Short Term Bonds Fund position remained at £50,000,000, which had a market value of £46,535,249 at 31 March 2023 (£48,411,262 at 31 March 2022).
- Vontobel Fund – TwentyFour Absolute Return Credit Fund position remained at £175,000,000, which had a market value of £161,298,789 at 31 March 2023 (£169,007,173 at 31 March 2022); and
- The bank reduced it holding of $550,000,000 in the BlackRock Institutional Cash Series US Treasury fund to $150,000,000, which had a market value of £121,310,150 at 31 March 2023 (31 March 2022: $550,000,000 market value £417,837,878).

During the year the bank recorded a loss of £1,585,734 (2022: £1,119,915 loss) on its Baillie Gifford Long Term Global Growth Investment.

By the end of the year, the aggregate value of the investment portfolio at fair value reported in the above table amounted to £352,586,000 (2022: £652,752,000). These investments are measured at the market share price as at 31 March 2023.

f. Capital management

The bank's capital management for regulatory purposes (unaudited) is detailed in sections 3 and 4 of the Directors' Report.

32. Segmental Information

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

33. Related Party Transactions

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

The bank’s related parties consist of key management personnel with authority and responsibility for planning, directing, and controlling the financial and operating activities of C. Hoare & Co., directly or indirectly. The Board of Directors of the bank along with one other partner, who is not a Director, and two members of the Management Team (the CFO and the Chief Risk and Compliance Officer) are considered to be key Management personnel with significant influence for the purposes of FRS 102.

Group As at 31 March	2023 £000	2022 £000
Loans and advances	14,128	10,356
Customer deposits	12,622	10,067
Expenses	2	-
Income	109	90

Key management personnel compensation

Group For year ended 31 March	2023 £000	2022 £000
Aggregate emoluments	1,985	2,568
Pension contributions	14	53
Total key management compensation	1,999	2,621

The bank included related party transactions with key Management personnel as at 31 March 2023 for loans and advances of £14.1m (2022: £10.4m) and deposits of £12.6m (2022: £10.1m).

The bank provides banking services to the bank’s charitable trust, The Golden Bottle Trust, and made a charitable donation to the trust of £6.5m (2022: £1.5m) during the year.

During the year the bank received fee income from related parties of £109k (2022: £90k). The bank’s fee income derives from trustee services to key Management personnel and their close family members of £Nil (2022: £12k) and rental income of £109k (2022: £78k) from related parties, where the lease was subject to formal contract terms and conditions.

34. Ultimate Controlling Party

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

35. Charged Assets

As at 31 March 2023 £50,000 (2022: £500,000) of assets were charged in favour of Hoare’s Bank Pension Trustees Limited, for the benefit of the Hoare’s Bank Pension Scheme. These assets would become available to the Pension Scheme in the event of C. Hoare & Co.’s insolvency. Under the arrangement, C. Hoare & Co. is entitled to any income earned on these assets.

C. Hoare & Co.

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