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# C. Hoare & Co.

**Annual Report and  
Consolidated Financial Statements  
Year Ended 31 March 2016**



**Company Number: 240822**

**C. HOARE & Co.**  
**ANNUAL REPORT AND CONSOLIDATED FINANCIAL STATEMENTS**  
**YEAR ENDED 31 MARCH 2016**

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**CHAIRMAN'S FOREWORD**

I am pleased to report another good year, characterised by strong financial performance and a continued determination to do our best for our customers. I gratefully acknowledge the loyalty and dedication of our staff who are central to the bank's success.

In 2015-16 the bank experienced tremendous growth in its deposits and lending and solid growth in investments under discretionary management. This was despite the market turmoil of early 2016 and the persistence of low interest rates for far longer than anyone dreamt likely a few years ago.

Once again, this growth led to record levels of income. At the same time, as last year, costs also increased rapidly, driven in large part by the need to adapt to new regulations and our commitment to investing in technologies that improve our services. We are now testing out our new mobile platform and "app" which will soon be available to customers. We are also making good progress with the modernisation of our online banking services. Our performance on bad debts was once again strong, with a net reduction in provisions. Details are in the strategic report.

The bank's regulatory capital base increased by £36.6m to £273.9m and the bank remains liquid with less than 50 per cent of customers' deposits lent. The bank's Common Equity Tier 1 capital ratio increased to 19.42%, reflecting the increase in size of the balance sheet and gains from the revaluation of the Bank's properties.

We continue to build our capital resources by retaining most of the profits we make from the business and we remain comfortably ahead of regulatory requirements. The bank has had no need to seek external capital and the Board intends this to continue.

The Partners remain sole shareholders and continue to carry unlimited liability for the bank. They are still, as ever, closely involved in its strategy and risk management, as well as playing key roles in its day-to-day running.

I would like to pay a warm tribute to Sir David Hoare who stood down from the Board in March after contributing to its discussions for more than 50 years. Sir David continues to be involved in the bank as a Partner; so we still have access to his knowledge and wisdom. The balance sheet stood at £8m when he joined! His seat on the Board is filled by Alex RQ Hoare who became a Partner two years ago.

I am grateful for the continued high commitment of the Board and for their hard work in support of the bank. Andrew McIntyre, a partner at EY, joined the Board in July 2015 as a non-executive director, bringing with him extensive experience of financial services and wealth management. We have strength in depth from our non-executives.

Sadly Jeremy Marshall made the decision to resign from the Board and his role as CEO due to ill health in March. The Board extends its warm thanks to him for his contribution over the last seven years as CEO and wishes him a prompt and full recovery. David Green was appointed as the new CEO after serving as acting CEO since last summer. The Board welcomes David into his new role and is confident that his long experience and strong leadership will serve us well. We are lucky to have him. David Green has been replaced as Company Secretary by Katie White.

My tenure as Chairman of the Board comes to an end in September, after 10 years in the role. I have hugely enjoyed it and found it a fascinating experience. I am struck by the amount of change the bank has absorbed since 2006 and by its ability to weather tumultuous times and emerge stronger from them. This reflects well on everyone who works in the bank but above all on the strong values of the Partners and their philosophy of treating customers and employees as they would want to be treated themselves. Their long-sighted vision, coupled with a keen business awareness and a warm regard for customers, is rare and to be prized. I am proud to have played a part in helping to steer their bank over the last decade.

Lord Wilson of Dinton  
Chairman

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## **STRATEGIC REPORT**

The directors present their Strategic Report on the C. Hoare & Co. group for the year ended 31 March 2016.

### **1. Review of Business: Market context**

The outcome of the UK referendum on membership in the European Union has created additional uncertainty to the UK economic and political outlook, particularly with respect to interest rates, taxes, property values and the markets in general.

The low interest rate environment that continued through the year looks set to continue for some time to come. With the Bank of England base rate remaining at 0.5% and money market rates similarly low, and little certainty about when rates may begin to rise borrowers continue to benefit from some of the lowest interest rates ever seen.

UK house prices continued to rise throughout the year, although the growth in London appears to have slowed in recent months and is turning negative in some parts of the capital. The Brexit vote may dampen demand further as overseas investors in particular wait to see how the separation terms play out.

Outside the UK negative interest rates seem to be having limited impact on the stagnant economies where they have been introduced.

The post-crisis regulatory change agenda continues: the UK Senior Managers Regime and the European Mortgage Credit Directive were both implemented in March 2016, just two examples of the ongoing changes affecting the industry, requiring management focus and investment in staff and systems. The European Markets in Financial Instruments Directive 2 (“Mifid2”) has been further postponed to 2018. The UK regulators are also beginning to tighten lending against investment and development properties.

“Challenger” banks continue to grow at the expense of larger commercial banks. In the meantime, further regulatory change in the payments markets (Payments Services Directive 2) heralds the prospect of technology companies taking a significant share of transactional banking volume and associated revenue.

Given the new direction chosen by the UK, the regulatory framework by which we will be governed in the future is completely unknown at the time of writing and will be a major consideration for some years.

### **2. Review of Business: the bank**

This is the first year that the bank has presented its results under Financial Reporting Standard 102 (FRS 102), the new UK accounting standard. The results for the prior year ended 31 March 2015 have been restated upon transition to FRS102. The areas of change are related to financial instruments, accruing for untaken holidays, defined benefit pension scheme and deferred tax on property and heritage assets.

As a result of the significant growth in fixed term lending, the Bank has, in conjunction with the transition to FRS 102, changed its policy to amortise loan fees over the expected term of the loans. Details for the transition to FRS 102 are set out in Note 33 to the accounts.

Customer deposits, lending and discretionary funds under management all increased during the year, to £3.8bn, £1.4bn and £2.1bn respectively.

Income increased to £109.7m, while costs also grew to £81.9m. Most of this cost increase was driven by significant investment in people and systems during the year, much of this directed towards our move to electronic customer files and the launch of a C. Hoare banking “app”, which is planned for summer 2016.

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**STRATEGIC REPORT (CONTINUED)**

We also benefitted, along with many other banks, from the takeover of Visa Europe by Visa Inc., which generated a profit in the year of £3.7m

As a consequence of the foregoing, profits before tax increased by a net £0.4m to £28.0m.

Customer deposit balances grew by 27% to £3,841m. We recognise deposit levels may be somewhat above the level implied by the longer term trend, and are conscious of the risk that some deposits may leave us in search of higher yields, should confidence return. Our stated policy remains, as always, not to compete on price: we aim to pay a fair rate to our depositors, consistent with the low risk nature of the bank's balance sheet and our focus on customer service.

Customer lending grew by 18% to £1,375m and equated to 36% of deposits at year-end, which is well within the Board's risk appetite. In response to a possible downturn in prime London property prices we tightened our lending criteria towards the end of the year. Nonetheless we continue to see a good pipeline of new loans, with otherwise consistent credit criteria and pricing, and remain willing lenders to the right customers.

The bank's money market book increased by 32% to £2,757m. At the year end, the bank held the equivalent of 12% of customers' deposits at the Bank of England, £140m in gilts and a further £317m of assets capable of repo with the Bank of England. When placing funds with other banks we continue to prefer lower risk over higher return: accepting that low market rates and a shortage of appropriate counterparties will lower the yield from the money market book.

The average net interest margin for the year was 2.08%, down 0.07% from the previous year. The main reasons for this reduction were lower money market yields and the money market book being a much higher proportion of the bank's assets, which reduced the average yield from the bank's assets. Net interest income rose by 11.1% to £70.1m.

The wealth management business continued to grow albeit at a slower rate this year than in the past. We attribute this to uncertainty in the markets. This business remains a strategic growth area for the bank: funds under management increased by 5.4% to £2,118m, of which £181m was net new funds from new or existing customers. Fees from this business grew by 8% and now account for 16% of overall income. We are pleased to welcome more customers to the bank who have been attracted by the range of services we offer.

The aggregate income from the bank's fee generating businesses (wealth management, foreign exchange, cash administration and the advisory business) grew by 5.4% to £23.6m.

Overall, income (excluding investment income and gains and pension financing income) grew by 11% to £109.5m, while costs (excluding bad debts) grew by 14% to £81.9m.

Cost growth during the year was principally due to: increasing headcount and project expenditure, much of which is in response to the new systems referred to above, reflecting the need for investment in technology to improve efficiency and service to the customer as well as increasing headcount to match business growth. These trends are consistent with industry peers and we are expecting further cost increases, albeit at a lower rate of growth, for these reasons in future.

Excluding performance-related pay, underlying operating expenses increased by 9% over the prior year. Staff costs comprise 61% of the bank's cost base and, excluding bonus payments, these increased by 14%.

Excluding the impact of bad debts, investments and pension financing income, the bank's cost to income ratio increased from 72.6% to 74.8%.

The bank's bad debt experience was excellent: barring write-offs of previously provided items, new specific provisions were extremely low at £0.8m, including accruing interest on provided for loans, and recoveries of £1.0m were made on previously provided items. The overall result was a net credit of £0.2m to the profit and loss account during the year. No material loans were impaired during the year.

The legacy investment portfolio continues to wind down and was valued at £0.7m, a reduction of £0.3m from the previous year. The bank recognised £0.1m of income from these assets.

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**STRATEGIC REPORT (CONTINUED)**

At the year end the bank's defined benefit pension scheme ("the Scheme") moved from a deficit of £0.3m to a surplus of £7.4m as a result of improved market conditions in relation to the discount rate and market implied inflationary increases, offset to an extent by lower than expected asset returns.

This surplus has been recognised as an asset on the balance sheet. The next triennial review (as at 1 April 2016) of the Scheme is in progress and is expected to be completed during the summer of 2016.

Total shareholders' funds increased by £42.7m (18%) during the year, primarily as a result of retained profits and gains from the revaluation of the bank's properties.

The bank was again grateful to receive a number of awards during the year including Wealthbriefing European Awards 2015 – Leading Individual (bankers), Overall UK Private Bank; Citywealth - Private Banker/IM of the Year, Career Achievement Award, Private Bank of the Year; Private Banker International Awards 2015 – Outstanding Customer Relationship Service and Engagement; PAM Insight Wealth Management Award – The UK's 50 Most Influential Private Asset Managers; Citywealth Power Women Awards 2016 – Woman of the Year Business Growth, Rising Star.

The Board maintains a strong philanthropic culture within the bank. One of the bank's key non-financial performance indicators is the proportion of staff who share the bank's values and donate to charity through the bank's "Give as You Earn" scheme. Under this scheme, the bank's charitable trust ("The Golden Bottle Trust") double matches staff donations, thereby tripling their value. As at 31 March 2016, 54% of staff chose to give in this way (2015: 55%). The bank also encourages staff to give up some of their own time to charitable causes by matching the time taken with paid leave, up to a maximum of two days each year. We also offer the Master Charitable Trust for philanthropic customers who wish to make charitable donations for investment; this continued to attract new monies during the year and now has around £26.6m in funds set aside for charitable purposes.

**3. Performance**

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

**4. Future Developments**

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

In the UK, the outcome of the referendum on EU membership has yet to be fully reflected in the long term outlook for the economy and interest rates, however, continued low inflation, mainly due to the fall in commodity prices is anticipated; the economic outlook for Europe is now far less clear as other member states may be persuaded to follow the UK; ongoing unrest in various parts of the world and the economic slowdown in China, all add additional uncertainty to the economic outlook.

The pipeline of regulatory change remains high, as politicians and regulators continue to implement changes. We expect further change from the UK government and regulators, particularly as they look to establish a regulatory framework on our exit from the EU. To date the impact of these has mainly led to an increase in the bank's cost base, we now expect to see increased competition for some banking services as so called FinTech companies enter the market.

As new payment technologies come on stream we expect these to take an increasing share of transaction activity over the coming years. We plan to launch our own mobile banking "app" shortly.

## **STRATEGIC REPORT (CONTINUED)**

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

### **5. Principal Risks and Uncertainties**

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

#### **a) Credit Risk**

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

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

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

#### **b) Liquidity Risk**

Liquidity risk is managed each day by the bank's Treasury department under the supervision of the ALCO. The bank has well established liquidity management criteria which include, for example, limits on the percentage of customer deposits which may be lent or which may be held in other asset classes. The bank is supervised by the Prudential Regulatory Authority ("PRA") on the same basis as other major UK financial institutions. The PRA's approach to liquidity management takes account of the underlying characteristics of the deposit base and establishes bank specific liquidity requirements along similar lines to those used to set capital requirements.

#### **c) Interest Rate Risk**

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

#### **d) Operational Risk**

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

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

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

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

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**STRATEGIC REPORT (CONTINUED)**

**5. Principal Risks and Uncertainties (Continued)**

e) Foreign Currency Risk

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

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

f) Derivatives

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

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

g) Dealing Profits

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

h) Reputational risk

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

Detailed disclosures on credit risk, liquidity risk, interest rate risk, foreign exchange risk and operational risk and the use of derivatives are set out in Notes 11 and 28 in accordance with FRS 102 'Financial Instruments: Disclosures'.

By Order of the Board

29 June 2016



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

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## **DIRECTORS' REPORT**

The Directors of C. Hoare & Co. ("the Company" or "the Bank") present their Annual Report and audited Consolidated Financial Statements of the Company and its subsidiaries, Messrs Hoare Trustees, Mitre Court Property Holding Company, Hoares Bank Nominees Limited, Hoare's Bank Pension Trustees Limited and C. Hoare & Co. EIG Management Limited ("the Group"), for the year ended 31 March 2016.

The financial statements were approved by the Board on 23 June 2016.

### **1. Principal Activities**

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

### **2. Results and Dividends**

The financial results for the year are set out in the Statement of comprehensive income on page 17.

Retained profits for the year of £22.3m (2015: £21.4m restated) will be used to strengthen reserves and support future growth.

The Board recommends an ordinary share dividend for the year of £50 per share (2015: £50), resulting in a total of £6,000 payable on 21 July 2016.

### **3. Risk Management and Governance Structure**

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

The Bank's approach to risk management is to maintain a balance between risk and potential reward that achieves its strategic objectives without exposing the Bank to unacceptably high residual risks.

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

#### **3.1 Risk Appetite Framework**

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

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

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**DIRECTORS' REPORT (CONTINUED)**

**3.2 Risk Management Objectives and Policies**

The main risk management objectives are:

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

**3.3 Risk Appetite and Guiding principles**

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

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

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

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

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

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

**3.4 Governance Structure**

The Bank's risk governance structures assign roles and responsibilities to a number of committees and individuals focused on managing the principal risks faced by the Bank. The primary structures from 1 April 2015 are shown below:

**TABLE 1: GOVERNANCE STRUCTURE**

|   |                                    |   |  |
|---|------------------------------------|---|--|
| <b>Board of Directors</b>                       |                                    |   |  |
| <b>Remuneration &amp; Nominations Committee</b> | <b>Audit Committee</b>             | <b>Risk &amp; Compliance Committee</b>    |  |
| <b>Executive Group</b>                          |                                    |   |  |
| <b>Banking Committee</b>                        | <b>Wealth Management Committee</b> | <b>Assets &amp; Liabilities Committee</b> | <b>Controls &amp; Operations Committee</b> |

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**DIRECTORS' REPORT (CONTINUED)**

**Board of Directors**

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

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

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

- Remuneration & Nominations Committee (RemCo)
- Audit Committee
- Risk & Compliance Committee (RiCoCo)

The Board has delegated day-to-day executive management of the Bank to the Chief Executive Officer (the CEO) and has established an Executive Group (EG) to assist in the management of the business and delivery against the strategy in an effective and controlled way. The EG has in turn established four sub-committees:

- Banking Committee (BC)
- Wealth Management Committee (WMC)
- Asset and Liability Committee (ALCO)
- Controls & Operations Committee (Co-Op)

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

**Group subsidiary companies and boards**

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

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

**Remuneration & Nominations Committee (RemCo)**

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

**Audit Committee**

The purpose of the Audit Committee is to review the effectiveness and provide independent oversight of the Bank's systems of internal controls and financial reporting process, which is achieved through the ongoing review of the quality, independence and effectiveness of the control functions. Specific duties include: overseeing the integrity of the financial statements of the Company, including the content of the annual report and accounts; overseeing the adequacy and effectiveness of the Company's internal audit programme and function; reviewing the adequacy and security of the Company's arrangements for employees and contractors, including the effectiveness of the whistleblowing function; and overseeing the external audit programme.

**C. HOARE & CO.**  
**ANNUAL REPORT AND CONSOLIDATED FINANCIAL STATEMENTS**  
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**DIRECTORS' REPORT (CONTINUED)**

**Risk & Compliance Committee (RiCoCo)**

The purpose of the RiCoCo is to provide the EG and the Board with appropriate oversight and challenge on risk management, to embed a culture of risk awareness and control consciousness within the bank, and to ensure the Bank's compliance with the legal and regulatory framework governing the activities of the Bank and its associated businesses. Specific duties include: overseeing the effectiveness of all aspects of the risk management framework, including reviewing and recommending or approving the risk appetite framework, statements and metrics, risk and compliance policies, ICAAP, ILAAP and associated stress testing and scenario analysis; ensuring the effective operation of the risk framework including reviewing and challenging the findings of management's risk and control self-assessments; and overseeing the compliance programme, the work of the MLRO, the Data Protection Officer, the Information Security Officer, the Client Asset Oversight Officer.

**Executive Group (EG)**

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

The EG is comprised of:

- Chief Executive Officer
- Head of Banking
- Head of Wealth Management
- Chief Operating Officer
- Chief Financial Officer
- Chief Risk Officer
- Head of Human Resources

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

**Banking Committee (BC)**

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

**Wealth Management Committee (WMC)**

The purpose of the WMC is to oversee the activities of the Wealth Management business. Specifically, it has responsibility for ratifying the parameters used to determine investment strategy (to enable day-to-day fund selection/research), overseeing and approving the products and providers used in the Bank's Wealth Management offering, reviewing the commercial performance and ratifying the change agenda. The Portfolio Construction Group is a sub-committee of the WMC.

**Asset and Liability Committee (ALCO)**

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

**Controls & Operations Committee (Co-Op)**

The purpose of the Co-Op is to oversee day-to-day activities of bank-wide policies and procedures from a risk management perspective to ensure such activities are controlled and operating within the Bank's risk appetite. In many cases, the Committee will leverage the undertakings of other formal and informal sub-committees, working groups, teams, etc., which have been formed to focus on these thematic issues such as: Fraud, Information Security, Business Continuity, Health & Safety and Security.

## **DIRECTORS' REPORT (CONTINUED)**

### **Risk Appetite: Responsibilities**

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

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

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

#### **Second line of defence – Risk oversight, policies and methodology**

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

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

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

#### **Third line of defence – Independent assurance**

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

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

## **4. Capital Management**

The Bank is regulated by the PRA and the FCA and regularly reports its capital adequacy position to both regulators. The Bank follows the Standardised Approaches to Credit Risk and Operational Risk under the Capital Requirements Regulation and Directive (together "CRD IV"). CRD IV implemented the provisions of Basel III within Europe; it was issued in 2013 and took effect from 1 January 2014.

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

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

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

Various limits are applied to elements of the Bank's regulatory capital. Currently, the Bank is not constrained by any of these limits.

For purposes of its credit risk capital requirements, risk-weighted assets are determined according to criteria established under the Standardised Approach within CRD IV, which reflects varying levels of risk attached to assets and off-balance sheet exposures.

In accordance with the PRA's requirements, the Bank's available capital resources (i.e. regulatory capital) are measured against its capital resources requirement, as defined under Pillar 1 of CRD IV, and an Individual Capital Guidance requirement ("ICG"), set periodically by the PRA. The ICG incorporates the requirements of Pillar 2 of CRD IV and was last set in November 2015.

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

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**DIRECTORS' REPORT (CONTINUED)**

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

Various additional capital requirements, principally additional buffers, will be introduced gradually by CRD IV over the coming years, with full implementation in 2019. The Bank expects to have sufficient capital to meet these additional requirements.

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

|  | <b>2016</b>      | <i>2015</i><br><i>(Restated)</i> |
|--|------------------|----------------------------------|
|  | <b>£000</b>      | <i>£000</i>                      |
| <b>Core Equity Tier 1 capital</b>  |                  |                                  |
| Ordinary share capital   | 120              | 120                              |
| Reserve Fund   | 22,598           | 22,598                           |
| Profit and loss account  | 214,407          | 187,543                          |
| Property revaluation reserve   | 34,303           | 18,478                           |
| Heritage assets revaluation reserve  | 7,872            | 7,872                            |
| Defined benefit pension fund assets  | (6,089)          | -                                |
| <b>Total Core Equity Tier 1 capital and Total Tier 1 capital</b>           | <b>273,211</b>   | <i>236,611</i>                   |
| <b>Tier 2 capital</b>  |                  |                                  |
| Collective Impairment Allowance  | 642              | 616                              |
| <b>Total Tier 2 capital</b>  | <b>642</b>       | <i>616</i>                       |
| <b>Total regulatory capital</b>  | <b>273,853</b>   | <i>237,227</i>                   |
| <b>Risk-weighted assets (unaudited)</b>                                    | <b>1,407,118</b> | <i>1,307,306</i>                 |
| <b>Capital ratios (unaudited)</b>  |                  |                                  |
| Total regulatory capital expressed as a percentage of risk weighted assets | <b>19.46%</b>    | <i>18.15%</i>                    |
| Core Equity Tier 1 capital expressed as percentage of risk weighted assets | <b>19.42%</b>    | <i>18.10%</i>                    |

The Bank's regulatory total capital ratio increased year on year from 18.15% (restated) to 19.46%, while the Common Equity Tier 1 ratio increased from 18.10% (restated) to 19.42%. These ratios are well above regulatory minimums. The main reason for the increase in the ratio during the year was the revaluation gains on the Bank's properties.

Full details of the Bank's regulatory capital framework are disclosed in the Bank's Pillar 3 disclosures and are available on the Bank's website: [www.hoaresbank.co.uk](http://www.hoaresbank.co.uk).

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**DIRECTORS' REPORT (CONTINUED)**

**5. The Board of Directors**

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

Sir David Hoare Bt (resigned 1 March 2016)  
Mr R. Q. Hoare OBE \*  
Mr A. S. Hoare \*  
Miss V. E. Hoare \*  
Mr S. M. Hoare \*  
Miss A. S. Hoare \*  
Mr A R Q Hoare \* (appointed 1 March 2016)  
Lord Wilson of Dinton (Chairman)  
Mr J. S. J. Marshall (Chief Executive Officer) (resigned 20 April 2016)  
Mr I. R. Peacock  
Mrs L. C. Powers-Freeling  
Mr A. C. Fisher  
Mr A. J. McIntyre (appointed 6 July 2015)  
Mr D. Green (Chief Executive Officer) (appointed 19 May 2016)

The Board of Directors includes six Directors (those marked with an asterisk in the list above) who are all descendants of the Bank's founder. They, and two other Hoare family members, are the Bank's only shareholders and each has unlimited liability. They are known as Partners and all work in the business to ensure the continuation of the Bank's long-held culture, values and approach to business. Sir David Hoare Bt resigned from the Board effective 1 March 2016 and remains a shareholder.

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

Mr D. Green resigned as Company Secretary on 24 May 2016. Ms K. White was appointed as the new Company Secretary on 24 May 2016.

**6. Employees**

The Bank had 465 employees on a full time equivalent basis as at 31 March 2016 (2015: 431). The Bank is an equal opportunities employer and recruits the most suitable applicant for any given vacancy regardless of race, sex, age or ethnicity. The Bank recognises its obligation to give disabled persons full and fair consideration for all vacancies and to ensure that such persons are not discriminated against on the grounds of their disability. Employees who become disabled during their working life will be retained in employment wherever possible and given help with rehabilitation and training.

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

**7. Charitable Donations**

During the year the Bank made charitable donations of £2,570,000 (2015: £1,480,000) to the Bank's charitable trust, The Golden Bottle Trust, whose objective is the continuation of the philanthropic commitments and ideals of the Hoare family.

**8. Environmental Policy Statement**

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

**C. HOARE & CO.**  
**ANNUAL REPORT AND CONSOLIDATED FINANCIAL STATEMENTS**  
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**DIRECTORS' REPORT (CONTINUED)**

Climate change is an increasingly important issue for us and future generations. We are committed to running the Bank with minimum adverse impact on the environment, including using external experts to help achieve this goal, for example by reducing the Bank's carbon footprint.

As a responsible business, we aim to make better use of resources, including managing our energy, waste, and water more efficiently and effectively. In 2010 we set out to reduce our carbon output by 35% over 5 years. We are proud that that we have now made this reduction and that this achievement has been confirmed by our consultant.

**9. Disclosure of Information to Auditors**

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

**10. Statement of Directors' Responsibilities**

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

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

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

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

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

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

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

By Order of the Board

29 June 2016



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

**C. HOARE & CO.**  
**ANNUAL REPORT AND CONSOLIDATED FINANCIAL STATEMENTS**  
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**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF C.HOARE & CO.**

**Report on the financial statements**

**Our opinion**

In our opinion, C. Hoare & Co.'s Group financial statements and the Company's 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 2016 and of the group's profit and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

**What we have audited**

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

- the Consolidated Statement of Comprehensive Income for the year then ended;
- the Consolidated and Company Balance Sheet as at 31 March 2016;
- The Consolidated and Company Statement of Changes in Equity for the year then ended;
- the Consolidated Cash Flow Statement for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

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

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

**Opinion on other matters prescribed by the Companies Act 2006**

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

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

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

**Other matters on which we are required to report by exception**

**Adequacy of accounting records and information and explanations received**

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

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

We have no exceptions to report arising from this responsibility.

**Directors' remuneration**

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

**C. HOARE & CO.**  
**ANNUAL REPORT AND CONSOLIDATED FINANCIAL STATEMENTS**  
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**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF C.HOARE & CO. (CONTINUED)**

**Responsibilities for the financial statements and the audit**

**Our responsibilities and those of the directors**

As explained more fully in the Statement of Directors' Responsibilities set out on page 14, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

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

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

**What an audit of financial statements involves**

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

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

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

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

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



Jeremy Jensen (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
London  
29 June 2016

**C. HOARE & CO.**  
**ANNUAL REPORT AND CONSOLIDATED FINANCIAL STATEMENTS**  
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**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

For the year ended 31 March 2016

|  | 2016       | 2015               |
|--|------------|--------------------|
|  | £000       | (Restated)<br>£000 |
| Note   |            |                    |
| Interest receivable  | 81,038     | 72,356             |
| Interest payable   | (10,967)   | (9,272)            |
| <b>Net interest income</b>                                 | 2 70,071   | 63,084             |
| <b>Dividend income</b>                                     | 160        | 108                |
| <b>Other finance income</b>                                | 3 55       | (195)              |
| Fees and commissions receivable                            | 31,923     | 30,002             |
| Fees and commissions payable                               | (1,423)    | (1,229)            |
| <b>Net fees and commissions income</b>                     | 30,500     | 28,773             |
| <b>Dealing profits</b>                                     | 4 5,015    | 5,719              |
| <b>Other operating income</b>                              | 5 3,860    | 1,450              |
| <b>Total income</b>  | 109,661    | 98,939             |
| <b>Operating expenses</b>                                  |            |                    |
| Administrative expenses                                    | 6 (76,414) | (67,320)           |
| Depreciation   | (5,457)    | (4,712)            |
| <b>Total operating expenses</b>                            | (81,871)   | (72,032)           |
| Impairment recovery on loans and advances                  | 227        | 672                |
| <b>Profit on ordinary activities before taxation</b>       | 28,017     | 27,579             |
| Tax on profit on ordinary activities                       | 8 (5,685)  | (6,146)            |
| <b>Profit for the financial year</b>                       | 22,332     | 21,433             |
| <b>Other comprehensive income:</b>                         |            |                    |
| Remeasurements of net defined benefit obligation           | 3 5,542    | 4,553              |
| Deferred tax arising on pension scheme                     | (1,004)    | (860)              |
| Revaluation of property                                    | 19,300     | -                  |
| Deferred tax arising on valuation gains                    | (3,475)    | -                  |
| <b>Other comprehensive income for the year, net of tax</b> | 20,363     | 3,693              |
| <b>Total comprehensive income for the year</b>             | 42,695     | 25,126             |
| <b>Total comprehensive income distribution:</b>            |            |                    |
| Attributable profits                                       | 38,120     | 25,126             |
| Undistributable profits                                    | 5 4,575    | -                  |
|  | 42,695     | 25,126             |

All amounts shown in the Consolidated Statement of Comprehensive Income relate to continuing operations.

The Notes on pages 23 to 68 form an integral part of these Financial Statements.

**C. HOARE & CO.**  
**ANNUAL REPORT AND CONSOLIDATED FINANCIAL STATEMENTS**  
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**CONSOLIDATED BALANCE SHEET**

**As at 31 March 2016**

|  | Note | Group<br>2016<br>£000 | Group<br>2015<br>(Restated)<br>£000 |
|--|------|-----------------------|-------------------------------------|
| <b>Assets</b>                                    |      |                       |                                     |
| Cash and balances at central banks               |      | 1,191,373             | 495,179                             |
| Items in course of collection from banks         |      | 2,750                 | 2,940                               |
| Derivative financial instruments                 | 11   | 185                   | 1,566                               |
| Financial assets                                 | 12   | 2,940,520             | 2,748,859                           |
| Property and Equipment                           | 15   | 82,073                | 54,014                              |
| Heritage assets                                  | 16   | 9,632                 | 9,619                               |
| Deferred tax asset                               | 17   | 64                    | 405                                 |
| Other assets                                     | 18   | 658                   | 540                                 |
| Prepayments and accrued income                   | 19   | 23,159                | 15,176                              |
| Post retirement benefit asset                    | 3    | 6,089                 | -                                   |
| <b>Total assets</b>                              |      | <b>4,256,503</b>      | <b>3,328,298</b>                    |
| <b>Liabilities</b>                               |      |                       |                                     |
| Deposits by banks                                | 20   | 303                   | 67                                  |
| Customer accounts                                | 21   | 3,841,334             | 3,014,306                           |
| Derivative financial instruments                 | 11   | 85,162                | 41,848                              |
| Deferred tax liability                           | 17   | 9,409                 | 5,797                               |
| Other liabilities                                | 22   | 5,204                 | 3,539                               |
| Accruals and deferred income                     | 23   | 35,791                | 25,860                              |
| Post retirement benefit liability                | 3    | -                     | 270                                 |
| <b>Total liabilities</b>                         |      | <b>3,977,203</b>      | <b>3,091,687</b>                    |
| <b>Equity shareholder's funds</b>                |      |                       |                                     |
| Called-up share capital                          | 24   | 120                   | 120                                 |
| Reserve fund                                     |      | 22,598                | 22,598                              |
| Revaluation reserves                             | 25   | 42,175                | 26,350                              |
| Retained earnings                                |      | 214,407               | 187,543                             |
| <b>Equity shareholder's funds</b>                |      | <b>279,300</b>        | <b>236,611</b>                      |
| <b>Total liabilities and shareholder's funds</b> |      | <b>4,256,503</b>      | <b>3,328,298</b>                    |
| <b>Memorandum items:</b>                         |      |                       |                                     |
| Contingent liabilities (guarantees)              | 26   | 26,769                | 26,437                              |
| Commitments                                      | 26   | 389,508               | 346,394                             |

The Financial Statements on pages 17 to 68 were approved by the Board of Directors on 23 June 2016 and signed on its behalf by:

  
Mr A. S. Hoare  
Director  
29 June 2016

  
Miss V.E. Hoare  
Director  
29 June 2016

**The Notes on pages 23 to 68 form an integral part of these Financial Statements.**

**C. HOARE & CO.**  
**ANNUAL REPORT AND CONSOLIDATED FINANCIAL STATEMENTS**  
**YEAR ENDED 31 MARCH 2016**

**COMPANY BALANCE SHEET**

As at 31 March 2016

|  | Note | Company<br>2016<br>£000 | Company<br>2015<br>(Restated)<br>£000 |
|--|------|-------------------------|---------------------------------------|
| <b>Assets</b>                                    |      |                         |                                       |
| Cash and balances at central banks               |      | 1,191,373               | 495,179                               |
| Items in course of collection from banks         |      | 2,750                   | 2,940                                 |
| Derivative financial instruments                 | 11   | 185                     | 1,566                                 |
| Financial assets                                 | 12   | 2,939,796               | 2,747,843                             |
| Shares in group undertakings                     | 14   | 1                       | 1                                     |
| Property and Equipment                           | 15   | 82,073                  | 54,014                                |
| Heritage assets                                  | 16   | 9,632                   | 9,619                                 |
| Deferred tax asset                               | 17   | 64                      | 405                                   |
| Other assets                                     | 18   | 638                     | 540                                   |
| Prepayments and accrued income                   | 19   | 23,078                  | 15,176                                |
| Post retirement benefit asset                    | 3    | 6,089                   | -                                     |
| <b>Total assets</b>                              |      | <b>4,255,679</b>        | <b>3,327,283</b>                      |
| <b>Liabilities</b>                               |      |                         |                                       |
| Deposits by banks                                | 20   | 303                     | 67                                    |
| Customer accounts                                | 21   | 3,841,334               | 3,014,306                             |
| Deposits to subsidiary companies                 |      | 8,537                   | 7,893                                 |
| Derivative financial instruments                 | 11   | 85,162                  | 41,848                                |
| Deferred tax liability                           | 17   | 9,409                   | 5,784                                 |
| Other liabilities                                | 22   | 4,987                   | 3,371                                 |
| Accruals and deferred income                     | 23   | 35,791                  | 25,860                                |
| Post retirement benefit liability                | 3    | -                       | 270                                   |
| <b>Total liabilities</b>                         |      | <b>3,985,523</b>        | <b>3,099,399</b>                      |
| Called-up share capital                          | 24   | 120                     | 120                                   |
| Reserve fund                                     |      | 21,148                  | 21,148                                |
| Revaluation reserves                             | 25   | 42,175                  | 26,350                                |
| Retained earnings                                |      | 206,713                 | 180,266                               |
| <b>Equity shareholder's funds</b>                |      | <b>270,156</b>          | <b>227,884</b>                        |
| <b>Total liabilities and shareholder's funds</b> |      | <b>4,255,679</b>        | <b>3,327,283</b>                      |
| <b>Memorandum items:</b>                         |      |                         |                                       |
| Contingent liabilities (guarantees)              | 26   | 26,769                  | 26,437                                |
| Commitments                                      | 26   | 389,508                 | 346,394                               |

The Financial Statements on pages 17 to 68 were approved by the Board of Directors on 23 June 2016 and signed on its behalf by:



Mr A.S. Hoare  
 Director  
 29 June 2016



Miss V.E. Hoare  
 Director  
 29 June 2016

The Notes on pages 23 to 68 form an integral part of these Financial Statements.

**C. HOARE & CO.**  
**ANNUAL REPORT AND CONSOLIDATED FINANCIAL STATEMENTS**  
**YEAR ENDED 31 MARCH 2016**

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

For the year ended 31 March 2016

|   | Note   | Called-up<br>share<br>capital<br>£000 | Reserve<br>Fund<br>£000 | Revaluation<br>Reserve<br>£000 | Retained<br>Earnings<br>£000 | Total<br>equity<br>£000 |
|---|--------|---------------------------------------|-------------------------|--------------------------------|------------------------------|-------------------------|
| <b>Balance as at 1 April 2014</b>                     |        | <b>120</b>                            | <b>22,598</b>           | <b>21,255</b>                  | <b>162,423</b>               | <b>206,396</b>          |
| Profit for the year                                   |        | -                                     | -                       | -                              | 21,433                       | 21,433                  |
| Other comprehensive income for the year               |        |                                       |                         |                                |                              |                         |
| Remeasurement gains on defined benefit pension scheme |        | -                                     | -                       | -                              | 4,553                        | 4,553                   |
| Deferred tax arising on pension scheme                |        | -                                     | -                       | -                              | (860)                        | (860)                   |
| <b>Total comprehensive income for the year</b>        |        | <b>-</b>                              | <b>-</b>                | <b>-</b>                       | <b>25,126</b>                | <b>25,126</b>           |
| Revaluation of available-for-sale financial assets    | 25     | -                                     | -                       | 2,990                          | -                            | 2,990                   |
| Transfer of revaluation to Profit and Loss            | 25     | -                                     | -                       | 1,049                          | -                            | 1,049                   |
| Dividends   |        | -                                     | -                       | -                              | (6)                          | (6)                     |
| Transition to FRS 102                                 | 25, 33 | -                                     | -                       | 1,056                          | -                            | 1,056                   |
| <b>Balance as at 31 March 2015</b>                    |        | <b>120</b>                            | <b>22,598</b>           | <b>26,350</b>                  | <b>187,543</b>               | <b>236,611</b>          |
| Profit for the year                                   |        | -                                     | -                       | -                              | 22,332                       | 22,332                  |
| Other comprehensive income for the year               |        |                                       |                         |                                |                              |                         |
| Remeasurement gains on defined benefit pension scheme |        | -                                     | -                       | -                              | 5,542                        | 5,542                   |
| Deferred tax arising on pension scheme                |        | -                                     | -                       | -                              | (1,004)                      | (1,004)                 |
| Unrealised valuation gains on properties              | 25     | -                                     | -                       | 19,300                         | -                            | 19,300                  |
| Deferred tax arising on valuation gains               | 25     | -                                     | -                       | (3,475)                        | -                            | (3,475)                 |
| <b>Total comprehensive income for the year</b>        |        | <b>-</b>                              | <b>-</b>                | <b>15,825</b>                  | <b>26,870</b>                | <b>42,695</b>           |
| Dividends   |        | -                                     | -                       | -                              | (6)                          | (6)                     |
| <b>Balance as at 31 March 2016</b>                    |        | <b>120</b>                            | <b>22,598</b>           | <b>42,175</b>                  | <b>214,407</b>               | <b>279,300</b>          |

The Notes on pages 23 to 68 form an integral part of these Financial Statements.

**C. HOARE & CO.**  
**ANNUAL REPORT AND CONSOLIDATED FINANCIAL STATEMENTS**  
**YEAR ENDED 31 MARCH 2016**

**COMPANY STATEMENT OF CHANGES IN EQUITY**

For the year ended 31 March 2016

|   | Note   | Called-up<br>share<br>capital<br>£000 | Reserve<br>Fund<br>£000 | Revaluation<br>Reserve<br>£000 | Retained<br>Earnings<br>£000 | Total<br>equity<br>£000 |
|---|--------|---------------------------------------|-------------------------|--------------------------------|------------------------------|-------------------------|
| <b>Balance as at 1 April 2014 (as restated)</b>       |        | 120                                   | 21,148                  | 21,255                         | 155,347                      | 197,870                 |
| Profit for the year                                   |        | -                                     | -                       | -                              | 21,232                       | 21,232                  |
| Other comprehensive income for the year               |        |                                       |                         |                                |                              |                         |
| Remeasurement gains on defined benefit pension scheme |        | -                                     | -                       | -                              | 4,553                        | 4,553                   |
| Deferred tax arising on pension scheme                |        | -                                     | -                       | -                              | (860)                        | (860)                   |
| <b>Total comprehensive income for the year</b>        |        | -                                     | -                       | -                              | 24,925                       | 24,925                  |
| Revaluation of available-for-sale financial assets    | 25     | -                                     | -                       | 2,998                          | -                            | 2,998                   |
| Transfer of revaluation to Profit and Loss            | 25     | -                                     | -                       | 1,062                          | -                            | 1,062                   |
| Dividends   |        | -                                     | -                       | -                              | (6)                          | (6)                     |
| Transition to FRS 102                                 | 25, 33 | -                                     | -                       | 1,035                          | -                            | 1,035                   |
| <b>Balance as at 31 March 2015 (Restated)</b>         |        | 120                                   | 21,148                  | 26,350                         | 180,266                      | 227,884                 |
| Profit for the year                                   |        | -                                     | -                       | -                              | 21,915                       | 21,915                  |
| Other comprehensive income for the year               |        |                                       |                         |                                |                              |                         |
| Remeasurement gains on defined benefit pension scheme |        | -                                     | -                       | -                              | 5,542                        | 5,542                   |
| Deferred tax arising on pension scheme                |        | -                                     | -                       | -                              | (1,004)                      | (1,004)                 |
| Unrealised valuations gains on properties             | 25     | -                                     | -                       | 19,300                         | -                            | 19,300                  |
| Deferred tax arising on valuation gains               | 25     | -                                     | -                       | (3,475)                        | -                            | (3,475)                 |
| <b>Total comprehensive income for the year</b>        |        | -                                     | -                       | 15,825                         | 26,453                       | 42,278                  |
| Dividends   |        | -                                     | -                       | -                              | (6)                          | (6)                     |
| <b>Balance as at 31 March 2016</b>                    |        | 120                                   | 21,148                  | 42,175                         | 206,713                      | 270,156                 |

The Notes on pages 23 to 68 form an integral part of these Financial Statements.

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**CONSOLIDATED CASH FLOW STATEMENT**

|   | Note | 2016<br>£000     | 2015<br>(Restated)<br>£000 |
|---|------|------------------|----------------------------|
| <b>Net cash from operating activities</b>                     | 28   | 549,979          | 385,187                    |
| Taxation paid   |      | (4,529)          | (6,078)                    |
| <b>Net cash generated from operating activities</b>           |      | <u>545,450</u>   | <u>379,109</u>             |
| <b>Cash flow from investing activities</b>                    |      |                  |                            |
| Purchase of investment securities                             |      | (2,047,336)      | (2,003,231)                |
| Sale and maturity of investment securities                    |      | 2,206,816        | 1,646,119                  |
| Purchase of tangible fixed assets                             |      | (13,354)         | (8,403)                    |
| <b>Net cash used in investing activities</b>                  |      | <u>146,126</u>   | <u>(365,515)</u>           |
| <b>Cash flow from financing activities</b>                    |      |                  |                            |
| Dividend paid   |      | (6)              | (6)                        |
| <b>Net cash used in financing activities</b>                  |      | <u>(6)</u>       | <u>(6)</u>                 |
| <b>Net increase in cash and cash equivalents</b>              |      | 691,570          | 13,588                     |
| <b>Cash and cash equivalents at the beginning of the year</b> |      | <u>607,801</u>   | <u>594,213</u>             |
| <b>Cash and cash equivalents at the end of the year</b>       |      | <u>1,299,371</u> | <u>607,801</u>             |
| <b>Cash and cash equivalents consists of:</b>                 |      |                  |                            |
| Cash at bank and in hand                                      |      | 1,191,373        | 495,179                    |
| Short term deposits   |      | 107,998          | 112,622                    |
| <b>Cash and cash equivalents</b>                              |      | <u>1,299,371</u> | <u>607,801</u>             |

The Notes on pages 23 to 68 form an integral part of these Financial Statements.

**C. HOARE & CO.**  
**ANNUAL REPORT AND CONSOLIDATED FINANCIAL STATEMENTS**  
**YEAR ENDED 31 MARCH 2016**

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**NOTES TO THE FINANCIAL STATEMENTS**

**1. Accounting Policies**

Accounting policies have been applied consistently in dealing with amounts which are considered material to the financial statements. This is the first year that the Company has presented its results under new UK GAAP, FRS102. The last financial statements under the previous UK GAAP were for the year ended 31 March 2015. The date of transition to FRS102 was 1 April 2014.

The prior year financial statements were restated following the adoption of FRS 102 in the current year. Details of the transition to FRS 102 are disclosed in Note 33.

**(a) Basis of preparation**

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

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

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

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

**(b) Basis of consolidation**

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

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

**(c) Foreign currencies**

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

**(d) Interest**

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

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

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

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**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**1. Accounting Policies (Continued)**

**(e) Fees and commissions**

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

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

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

**(f) Dealing profits**

Dealing profits comprise gains less losses related to trading assets and liabilities, and includes all realised and unrealised fair value changes, interest, dividends and foreign exchange differences.

**(g) Dividend income**

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

**(h) Pension costs**

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

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

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

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

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

**(i) Taxation**

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

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

Deferred tax arises from timing differences that are differences between taxable profits and total comprehensive income as stated in the financial statements. These timing differences arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in financial statements.

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

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**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**1. Accounting Policies (Continued)**

**(i) Taxation (Continued)**

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

Current and deferred tax relating to items recognised in other comprehensive income and directly in equity are similarly recognised in other comprehensive income and directly in equity respectively. Deferred tax related to revaluation on properties, pensions and other post retirement obligations and other amounts charged or credited directly to other comprehensive income is recognised in the balance sheet as a deferred tax asset or liability.

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

**(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.

**(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 instrument, such as cash, loans and receivables and complex financial instruments, such as equity securities and derivatives.

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

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

**(m) Financial assets and liabilities**

**(i) Recognition**

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

**(ii) Derecognition**

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

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

**(iii) Offsetting**

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

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

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**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**1. Accounting Policies (Continued)**

**(m) Financial assets and liabilities (continued)**

(iv) Amortised cost measurement

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

(v) Fair value measurement

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

The Bank has chosen to early adopt FRED 62 and apply the recognition and measurement provisions of IAS 39 (as adopted for use in the EU) and the disclosure requirements of FRS 102 in respect of financial instruments for the fair value hierarchy disclosures.

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

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

These disclosures are included in Note 28 to the financial statements.

(vi) Identification and measurement of impairment

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

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

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

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

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

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**1. Accounting Policies (Continued)**

**(m) Financial assets and liabilities (continued)**

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

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

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

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

In accordance with FRS 102 Section 12 other financial instruments issues, derivatives are recognised as trading and recorded at fair value, with changes in fair value recognised in the profit and loss account. Fair values are obtained from quoted market prices in active markets or from dealer price quotations.

**(ii) Derivative instruments and hedging activities**

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

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

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

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**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**1. Accounting Policies (Continued)**

**(o) Derivative financial instruments (Continued)**

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

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

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

**(p) Tangible fixed assets and depreciation**

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

Subsequent changes in the fair value of properties are recognised in other comprehensive income net of deferred tax. Changes in the fair value of investment properties are to be recognised in profit and loss, and whilst these are included in retained earnings, these are treated as non distributable profits.

There is no requirement for five year reviews under FRS 102; however reviews should be done with sufficient regularity and granularity to ensure that the recorded fair value reflects or does not appear materially different from the determined fair value at the end of the reporting period.

The Bank will continue to undertake an annual review of property valuations. Full external valuations are performed every 5 years with an interim external valuation in year 3. Updates in the intervening years are made if the directors consider there to have been a material change in market value.

In accordance with FRS 102 Section 16 'Investment Property', depreciation is not provided on investment properties that are held as freeholds or on leases having more than 20 years unexpired. This is a departure from the Companies Act 2006 which requires all tangible assets to be depreciated. In the opinion of the Directors, this departure is necessary for the financial statements to give a true and fair view and comply with applicable accounting standards which require properties to be included in the financial statements at market value. The effect of depreciation is implicitly reflected in the valuation of investment properties, and the amount attributable to this factor cannot reasonably be separately identified or quantified by the valuer. Had the provisions of the Act been followed, net assets would not have been affected but revenue profits would have been reduced for this and earlier years and revaluation surpluses/deficits would have correspondingly increased/decreased.

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

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

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

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**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**1. Accounting Policies (Continued)**

**(q) Investment property**

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

**(r) Project costs**

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

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

**(s) Heritage assets**

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

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

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

**(t) 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.

**(u) 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.

**(v) Financial guarantees**

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

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**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**1. Accounting Policies (Continued)**

**(w) 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.

**(x) Recognition and movement of provisions**

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

**(y) Accounting judgements, estimates and provisions**

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

- Impairment of financial assets, pages 27, 41 and 42
- Land, buildings and investment properties valuation, pages 28, 29, 43 and 44
- Heritage assets, pages 29 and 44
- Defined benefit pension scheme, pages 24 and 31 to 35
- Provisions; pages 30, 49 and 50

**2. Net Interest Income**

|                                   | <b>Group<br/>2016</b> | <i>Group<br/>2015<br/>(Restated)</i> |
|-----------------------------------|-----------------------|--------------------------------------|
|                                   | <b>£000</b>           | <i>£000</i>                          |
| <b>Interest income</b>            |                       |                                      |
| Interest on debt securities       | 11,855                | 10,150                               |
| Loans and advances to customers   | 64,701                | 58,918                               |
| Loans and advances to banks       | 4,482                 | 3,288                                |
|                                   | <b>81,038</b>         | <i>72,356</i>                        |
| <b>Interest expense</b>           |                       |                                      |
| Deposits from banks and customers | (8,230)               | (7,029)                              |
| Derivative liabilities            | (2,737)               | (2,243)                              |
|                                   | <b>(10,967)</b>       | <i>(9,272)</i>                       |
| <b>Net interest income</b>        | <b>70,071</b>         | <i>63,084</i>                        |

Included within interest income is £502,000 (2015: £515,000) accrued in respect of impaired financial assets.

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**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**3. Pension and Other Post-Retirement Benefits**

The Bank operated a defined benefit pension scheme until 1 December 2007 when it was closed to further accrual and all staff that were members at that date were made deferred members; all benefits accrued to that date were enhanced and then preserved. Contributions to the defined benefit scheme for the year ended 31 March 2016 were £2,165,000 (2015: £2,165,000). There was no charge (2015: Nil) to the profit and loss account for past service costs. The Bank now operates a defined contribution scheme which has become the main retirement scheme for all employees, the cost of that scheme for the year was £4,507,000 (2015: £4,070,000). There were no outstanding or prepaid contributions to the defined benefit scheme or defined contribution scheme at either the beginning or end of the financial year.

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

In preparing these financial statements, the Bank has applied the recognition and measurement requirements of Section 28 of FRS 102 'Employment benefits'.

The principal actuarial assumptions at the balance sheet date were:

|   | <b>2016</b> | <b>2015</b> |
|---|-------------|-------------|
|   | %           | %           |
| Rate of increase in salaries                                  | n/a         | n/a         |
| Rate of increase in pensions in payment and deferred pensions | <b>2.80</b> | <b>2.90</b> |
| Discount rate at 31 March                                     | <b>3.50</b> | <b>3.30</b> |
| Inflation assumption  | <b>2.90</b> | <b>3.00</b> |

**Scheme assets and liabilities**

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

The liabilities of the defined benefit scheme are measured by discounting the best estimate of future cash flows to be paid out by the scheme using the projected unit method. This amount is reflected in the scheme surplus or deficit as detailed below. As at 31 March 2016, the valuations of scheme assets less liabilities showed a surplus of £7,425,000 (2015: £337,000 deficit). This surplus has been recognised as an asset on the balance sheet on the basis that the pension surplus will be recoverable over the lifetime of the Scheme.

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**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

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

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

|  | <b>Group<br/>2016<br/>£000</b> | <i>Group<br/>2015<br/>£000</i> | <i>Group<br/>2014<br/>£000</i> | <i>Group<br/>2013<br/>£000</i> | <i>Group<br/>2012<br/>£000</i>                |
|--|--------------------------------|--------------------------------|--------------------------------|--------------------------------|---|
| Equities   | 78,911                         | 75,595                         | 80,258                         | 72,586                         | 29,471  |
| Liability Driven Investments ("LDI")                           | 33,431                         | 40,152                         | 14,763                         | 23,173                         | 57,614  |
| Property   | 17,643                         | 16,756                         | 15,198                         | 8,518                          | 2,019   |
| Other and cash   | 560                            | 359                            | 1,177                          | 320                            | 518   |
| <b>Total market value of assets</b>                            | <b>130,545</b>                 | <i>132,862</i>                 | <i>111,396</i>                 | <i>104,597</i>                 | <i>89,622</i>                                 |
| <b>Present value of scheme liabilities</b>                     | <b>(123,120)</b>               | <i>(133,199)</i>               | <i>(118,256)</i>               | <i>(124,214)</i>               | <i>(109,543)</i>                              |
| <b>Surplus/(Deficit) in scheme</b>                             | <b>7,425</b>                   | <i>(337)</i>                   | <i>(6,860)</i>                 | <i>(19,617)</i>                | <i>(19,921)</i>                               |
| <b>Related deferred tax (liability)/asset</b>                  | <b>(1,336)</b>                 | 67                             | 1,372                          | 4,512                          | 4,781   |
| <b>Net pension scheme asset/(liability)</b>                    | <b>6,089</b>                   | <i>(270)</i>                   | <i>(5,488)</i>                 | <i>(15,105)</i>                | <i>(15,140)</i>                               |
| <b>Changes in the fair value of the scheme assets</b>          |                                |                                |                                | <b>Group<br/>2016<br/>£000</b> | <i>Group<br/>2015<br/>(Restated)<br/>£000</i> |
| <b>Opening fair value of scheme assets at 1 April</b>          |                                |                                |                                | <b>132,862</b>                 | <i>111,396</i>                                |
| Expected return on assets                                      |                                |                                |                                | 4,378                          | 4,788   |
| Actual less expected return on assets                          |                                |                                |                                | (4,657)                        | 19,293  |
| Contributions from employer                                    |                                |                                |                                | 2,165                          | 2,165   |
| Benefits paid  |                                |                                |                                | (4,203)                        | (4,780)                                       |
| <b>Closing fair value of scheme assets at 31 March</b>         |                                |                                |                                | <b>130,545</b>                 | <i>132,862</i>                                |
| Actual return on assets  |                                |                                |                                | (279)                          | 24,081  |
| <b>Changes in the present value of the pension obligation</b>  |                                |                                |                                | <b>Group<br/>2016<br/>£000</b> | <i>Group<br/>2015<br/>£000</i>                |
| <b>Opening pension obligation at 1 April</b>                   |                                |                                |                                | <b>133,199</b>                 | <i>118,256</i>                                |
| Interest cost  |                                |                                |                                | 4,323                          | 4,983   |
| Actuarial gain on liabilities due to experience                |                                |                                |                                | (1,013)                        | (1,421)                                       |
| Actuarial (gain)/loss on liabilities due to assumption changes |                                |                                |                                | (9,186)                        | 16,161  |
| Benefits paid  |                                |                                |                                | (4,203)                        | (4,780)                                       |
| <b>Closing pension obligation at 31 March</b>                  |                                |                                |                                | <b>123,120</b>                 | <i>133,199</i>                                |

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**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

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

| <b>Movement in surplus/deficit during the year</b> | <b>Group<br/>2016<br/>£000</b> | <i>Group<br/>2015<br/>(Restated)<br/>£000</i> | <i>Group<br/>2014<br/>£000</i> |
|--|--------------------------------|---|--------------------------------|
| Deficit as at 1 April                              | (337)                          | (6,860)                                       | (19,617)                       |
| Employer contributions                             | 2,165                          | 2,165   | 8,000                          |
| Other finance income/(costs)                       | 55                             | (195)   | 1,509                          |
| Actuarial gains                                    | 5,542                          | 4,553   | 3,248                          |
| Surplus/(deficit) as at 31 March                   | <u>7,425</u>                   | <u>(337)</u>                                  | <u>(6,860)</u>                 |

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

| <b>Analysis of other pension costs included within the Profit and Loss Account under Administrative expenses</b> | <b>Group<br/>2016<br/>£000</b> | <i>Group<br/>2015<br/>(Restated)<br/>£000</i> |
|--|--------------------------------|---|
| In respect of defined contribution scheme  |                                |   |
| - Current service cost   | 4,507                          | 4,070   |
| Included within Administrative expenses (Note 6)   | <u>4,507</u>                   | <u>4,070</u>                                  |
| <br>   |                                |   |
| <b>Analysis of other pension costs included within the Profit and Loss Account under Other finance income</b>    | <b>Group<br/>2016<br/>£000</b> | <i>Group<br/>2015<br/>(Restated)<br/>£000</i> |
| Interest on liabilities  | 4,323                          | 4,983   |
| Expected return on assets  | (4,378)                        | (4,788)                                       |
| <b>Other finance (income)/cost</b>   | <u>(55)</u>                    | <u>195</u>                                    |

Under previous UK GAAP, the interest on the expected return on plan assets was calculated using an expected asset rate. FRS102 still requires the net interest to be charged to the profit and loss but will be calculated by applying the discount rate assumption to the net balance sheet pension asset or liability at the beginning of the period.

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**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

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

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

| <b>Analysis of amounts recognised in</b>  | <b>Group<br/>2016</b> | <i>Group<br/>2015<br/>(Restated)</i> | <i>Group<br/>2014</i> | <i>Group<br/>2013</i> | <i>Group<br/>2012</i> |
|---|-----------------------|--------------------------------------|-----------------------|-----------------------|-----------------------|
|   | <b>£000</b>           | <i>£000</i>                          | <i>£000</i>           | <i>£000</i>           | <i>£000</i>           |
| Actual return less expected return on assets  | <b>(4,657)</b>        | <i>19,293</i>                        | <i>(3,054)</i>        | <i>10,778</i>         | <i>3,072</i>          |
| Experience gains and losses arising on liabilities  | <b>1,013</b>          | <i>1,421</i>                         | <i>(2,087)</i>        | <i>22</i>             | <i>(664)</i>          |
| Changes in assumptions  | <b>9,186</b>          | <i>(16,161)</i>                      | <i>8,389</i>          | <i>(14,183)</i>       | <i>(9,428)</i>        |
| Actuarial gain/(loss)   | <b>5,542</b>          | <i>4,553</i>                         | <i>3,248</i>          | <i>(3,383)</i>        | <i>(7,020)</i>        |
| Adjustment to reversal/ (recognition) of balance sheet asset  | -                     | -                                    | -                     | -                     | -                     |
| <b>Actuarial gain/(loss) recognised in comprehensive income</b>   | <b>5,542</b>          | <i>4,553</i>                         | <i>3,248</i>          | <i>(3,383)</i>        | <i>(7,020)</i>        |
| Actual return less expected return on assets as a percentage of scheme assets                                 | <b>-3.57%</b>         | <i>14.52%</i>                        | <i>-2.74%</i>         | <i>10.30%</i>         | <i>3.43%</i>          |
| Experience gains and losses arising on liabilities as a percentage of the present value of scheme liabilities | <b>0.82%</b>          | <i>1.07%</i>                         | <i>-1.76%</i>         | <i>0.02%</i>          | <i>-0.61%</i>         |
| Actuarial gain/(loss) as a percentage of the present value of scheme liabilities                              | <b>4.50%</b>          | <i>3.42%</i>                         | <i>2.75%</i>          | <i>-2.72%</i>         | <i>-6.41%</i>         |

**Future funding obligations**

The most recent triennial actuarial valuation was carried out as at 1 April 2013. As the scheme is closed to future accrual there are no further employer contributions required to support future service. As at 1 April 2013, the actuarial valuation showed a £24m deficit in respect of past service funding and the Bank agreed to a recovery plan to reduce this deficit by making annual contributions of £2.165m over nine years. Consequently £2.165m was paid in the financial year. The Bank continues to work with the Trustees to explore ways to stabilise the scheme surplus through an investment strategy to minimise the mismatch between the liabilities and assets of the scheme.

Work on the next triennial actuarial valuation (as at 1 April 2016) has begun and is expected to be completed during the summer of 2016.

During the year, the Bank established a charge over certain assets in favour of the Pension Fund Trustee, for the benefit of the Scheme. The value of these assets is set at least annually by reference to the accounting deficit, as a minimum £500,000 of assets were charged at 31 March 2016 (2015: £10,000,000).

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**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

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

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

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

| % of total scheme assets   | <b>Group<br/>2016</b> | <i>Group<br/>2015<br/>(Restated)</i> |
|----------------------------|-----------------------|--------------------------------------|
| UK equities                | <b>8.5%</b>           | <i>9.6%</i>                          |
| Overseas equities (hedged) | <b>17.1%</b>          | <i>20.2%</i>                         |
| UK property                | <b>13.6%</b>          | <i>12.6%</i>                         |
| LDI                        | <b>34.8%</b>          | <i>30.2%</i>                         |
| Diversified growth         | <b>25.6%</b>          | <i>27.1%</i>                         |
| With profit funds          | <b>0.0%</b>           | <i>0.0%</i>                          |
| Other                      | <b>0.4%</b>           | <i>0.3%</i>                          |
| <b>Total</b>               | <b>100.0%</b>         | <b>100.0%</b>                        |

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

**4. Dealing Profits**

|                 | <b>Group<br/>£000</b> | <i>Group<br/>£000</i> |
|-----------------|-----------------------|-----------------------|
| Dealing profits | <b>5,015</b>          | <i>5,719</i>          |

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.

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**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**5. Other Operating Income**

|   | <b>Group<br/>2016<br/>£000</b> | <i>Group<br/>2015<br/>£000<br/><br/>(Restated)</i> |
|---|--------------------------------|--|
| Rental income   | 502                            | 558  |
| Gain/(loss) on sale of financial assets                   | 12                             | (13)   |
| Hedging result  |                                |  |
| - Gain/(Loss) on hedged items attributable to hedged risk | 5,456                          | (4,199)  |
| - (Loss)/Gain on hedging instruments (swaps)              | (5,346)                        | 4,199  |
| Net hedging result  | 110                            | -  |
| Unrealised (losses)/gains from financial assets at FVTPL  | (1,316)                        | 860  |
| (Decrease)/increase in value of derivative contracts      | (23)                           | 45   |
| Investment property revaluation                           | 875                            | -  |
| Other investment Income                                   | 3,700                          | -  |
|   | 3,860                          | 1,450  |

**6. Employee Information and Administrative Expenses**

|  | <b>Group<br/>2016<br/>£000</b> | <i>Group<br/>2015<br/>£000<br/><br/>(Restated)</i> |
|--|--------------------------------|--|
| Staff costs  |                                |  |
| - Wages and salaries and other short term benefits | 40,129                         | 35,064   |
| - Social security costs                            | 5,334                          | 4,614  |
| - Other pension costs (Note 3)                     | 4,507                          | 4,070  |
| Other administrative expenses                      | 26,444                         | 23,572   |
| <b>Total administrative expenses</b>               | <b>76,414</b>                  | <b>67,320</b>                                      |

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

|   | <b>Group<br/>2016<br/>FTE<br/>Number</b> | <i>Group<br/>2015<br/>FTE<br/>Number</i> |
|---|--|--|
| Full time   | 364.3                                    | 342.9                                    |
| Part time   | 25.9                                     | 27.9                                     |
| Contractors and agency staff                        | 64.9                                     | 48.4                                     |
| <b>Total average full time equivalent headcount</b> | <b>455.1</b>                             | <b>419.2</b>                             |

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

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**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**6. Employee Information and Administrative Expenses (Continued)**

| <b>Auditors' Remuneration</b>  | <b>Group<br/>2016<br/>£000</b> | <i>Group<br/>2015<br/>£000</i> |
|--|--------------------------------|--------------------------------|
| Remuneration payable to the auditors in respect of:                    |                                |                                |
| - Statutory audit of the company and consolidated financial statements | 114                            | 110                            |
| - Statutory audit of the subsidiaries' financial statements            | 12                             | 11                             |
| - All other assurance services   | 28                             | 17                             |
| - All other non-audit services   | 11                             | 70                             |
| - All other taxation advisory services                                 | 20                             | 14                             |
|  | <hr/> <b>185</b> <hr/>         | <hr/> <i>222</i> <hr/>         |

**7. Emoluments of Directors**

|   | <b>Group<br/>2016<br/>£000</b> | <i>Group<br/>2015<br/>£000</i> |
|---|--------------------------------|--------------------------------|
| Aggregate emoluments                                    | 11,183                         | 8,716                          |
| Pension contributions                                   | 42                             | 29                             |
| Supplementary pensions paid to former Directors' widows | 93                             | 93                             |
|   | <hr/> <b>11,318</b> <hr/>      | <hr/> <i>8,838</i> <hr/>       |
| Highest paid Director                                   |                                |                                |
| - Emoluments  | 1,873                          | 1,513                          |
| - Pension contributions                                 | 30                             | 29                             |
|   | <hr/> <b>1,903</b> <hr/>       | <hr/> <i>1,542</i> <hr/>       |

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**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**8. Tax on profit on ordinary activities**

The standard rate of corporation tax in the UK changed from 21% to 20% with effect from 1 April 2015. Accordingly, the Company's profits for this accounting period are taxed at an effective rate of 20%.

**8(a) Analysis of taxation charge on ordinary activities**

|  | <b>Group<br/>2016</b> | <i>Group<br/>2015<br/>(Restated)</i> |
|--|-----------------------|--------------------------------------|
|  | <b>£000</b>           | <i>£000</i>                          |
| <b>Current tax</b>                             |                       |                                      |
| UK Corporation tax on profits for the year     | <b>5,115</b>          | <i>5,437</i>                         |
| Adjustments in respect of previous years       | <b>-</b>              | <i>292</i>                           |
|  | <hr/>                 | <hr/>                                |
| Total current tax (Note 8(c))                  | <b>5,115</b>          | <i>5,729</i>                         |
| <b>Deferred tax</b>                            |                       |                                      |
| Origination and reversal of timing differences | <b>539</b>            | <i>429</i>                           |
| Adjustments in respect of previous years       | <b>11</b>             | <i>(12)</i>                          |
| Impact of change in tax rate                   | <b>20</b>             | <i>-</i>                             |
|  | <hr/>                 | <hr/>                                |
| Total deferred tax                             | <b>570</b>            | <i>417</i>                           |
|  | <hr/>                 | <hr/>                                |
| Tax on profit on ordinary activities           | <b>5,685</b>          | <i>6,146</i>                         |
|  | <hr/>                 | <hr/>                                |

The Finance (No.2) Act (the Act) was substantively enacted on 26 October 2015. The Act reduced the main rate of corporation tax to 19% from 1 April 2017 and 18% from 1 April 2020. Accordingly, the deferred tax rate has been applied at 18%.

**8(b) Taxation expense included in other comprehensive income**

|  | <b>Group<br/>2016</b> | <i>Group<br/>2015<br/>(Restated)</i> |
|--|-----------------------|--------------------------------------|
|  | <b>£000</b>           | <i>£000</i>                          |
| <b>Deferred tax</b>  |                       |                                      |
| Origination and reversal of timing difference                            | <b>997</b>            | <i>860</i>                           |
| Impact of change in tax rate   | <b>7</b>              | <i>-</i>                             |
|  | <hr/>                 | <hr/>                                |
| <b>Total tax expense/(income) included in other comprehensive income</b> | <b>1,004</b>          | <i>860</i>                           |
|  | <hr/>                 | <hr/>                                |

In addition to the tax charge detailed above, £1,004,000 has been debited (2015: £860,000 debit) to the Statement of Comprehensive Income in respect of actuarial gains (2015: gains) in the pension scheme.

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

**8(c) Reconciliation of taxation charge**

The tax assessed for the year of £5,115,000 (2015: £5,729,000 restated) is lower (2015: lower) than the result of applying the standard rate of corporation tax in the UK of 20% (2015: 21%) to the accounting profit before tax. The reasons for this are shown below:

|  | <b>Group<br/>2016</b> | <i>Group<br/>2015<br/>(Restated)</i> |
|--|-----------------------|--------------------------------------|
|  | <b>£000</b>           | <i>£000</i>                          |
| <b>Profit on ordinary activities before tax</b>              | <b>28,017</b>         | <i>27,579</i>                        |
| Profit on ordinary activities multiplied by standard rate of | <b>5,603</b>          | <i>5,792</i>                         |
| Effects of:  |                       |                                      |
| - Permanent disallowables                                    | <b>72</b>             | <i>45</i>                            |
| - Fixed asset timing differences                             | <b>(140)</b>          | <i>12</i>                            |
| - Other short term timing differences                        | <b>2</b>              | <i>2</i>                             |
| - Defined benefit scheme timing differences                  | <b>(402)</b>          | <i>(490)</i>                         |
| - Re-measurement of deferred tax - change in tax rate        | <b>(20)</b>           | <i>76</i>                            |
| - Adjustments in respect of previous years                   | <b>-</b>              | <i>292</i>                           |
| <b>Tax charge for the year</b>                               | <b>5,115</b>          | <i>5,729</i>                         |

The reduction in UK corporation tax rate from 1 April 2015 (from 21% to 20%) is expected to reduce the Group's charge for corporation tax in future years. The deferred tax calculations anticipate the reductions in all enacted rates of corporation tax.

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

£17,340,000 (2015: £21,232,000 restated) of the Group profit attributable to shareholders relates to the Company, this includes dividends of £Nil (2015: Nil) from subsidiary companies. As permitted by Section 408 of the Companies Act 2006, the profit and loss account of the Company has not been presented separately.

**10. Dividends**

The aggregate of dividends comprises:

|                            | 2016<br>per share | 2015<br>per share | 2016<br>£000 | 2015<br>£000 |
|----------------------------|-------------------|-------------------|--------------|--------------|
| Ordinary shares (declared) | <b>£50</b>        | <b>£50</b>        | <b>6</b>     | <b>6</b>     |

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**11. Derivative Financial Instruments**

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

|   | 2016   | 2016                                       | 2015   | 2015                                       |
|---|--|--|--|--|
|   | Notional<br>amount<br>Group and<br>Company<br>£000 | Fair value<br>Group and<br>Company<br>£000 | Notional<br>amount<br>Group and<br>Company<br>£000 | Fair value<br>Group and<br>Company<br>£000 |
| <b>Derivative assets</b>                  |  |  |  |  |
| <b>Exchange rate contracts</b>            |  |  |  |  |
| Forward foreign exchange contracts        | 36,854   | 81   | 51,720   | 231  |
| <b>Interest rate contracts</b>            |  |  |  |  |
| Interest rate swaps – Hedging instruments | 34,300   | 104  | 20,687   | 1,335                                      |
| <b>Total derivative assets</b>            | <b>71,154</b>                                      | <b>185</b>                                 | <b>72,407</b>                                      | <b>1,566</b>                               |
| <b>Derivative liabilities</b>             |  |  |  |  |
| <b>Exchange rate contracts</b>            |  |  |  |  |
| Forward foreign exchange contracts        | 17,842   | 57   | 37,718   | 184  |
| <b>Interest rate contracts</b>            |  |  |  |  |
| Interest rate swaps – Hedging instruments | 1,261,593  | 85,105                                     | 1,028,686  | 41,664                                     |
| <b>Total derivative liabilities</b>       | <b>1,279,435</b>                                   | <b>85,162</b>                              | <b>1,066,404</b>                                   | <b>41,848</b>                              |

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

|                                 | Group<br>2016<br>£000 | Company<br>2016<br>£000 | Group<br>2015<br>£000 | Company<br>2015<br>£000 |
|---------------------------------|-----------------------|-------------------------|-----------------------|-------------------------|
| Loans and advances to customers | 443,557               | 443,557                 | 206,883               | 206,883                 |
| Debt securities                 | 852,336               | 852,336                 | 842,490               | 842,490                 |
|                                 | <b>1,295,893</b>      | <b>1,295,893</b>        | <b>1,049,373</b>      | <b>1,049,373</b>        |

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**12. Financial Assets**

|   | <b>Group<br/>2016<br/>£000</b> | <b>Company<br/>2016<br/>£000</b> | <b>Group<br/>2015<br/>£000</b> | <b>Company<br/>2015<br/>£000</b> |
|---|--------------------------------|----------------------------------|--------------------------------|----------------------------------|
| <b>Financial assets at fair value through profit or loss</b>  |                                |                                  |                                |                                  |
| Equity securities (unlisted)                                  | 899                            | 1                                | 1,190                          | 1                                |
| Variable yield securities                                     | -                              | -                                | 26,043                         | 26,043                           |
|   | <b>899</b>                     | <b>1</b>                         | <b>27,233</b>                  | <b>26,044</b>                    |
| <b>Financial assets at amortised cost</b>                     |                                |                                  |                                |                                  |
| Loans and advances to banks (Note 12(a))                      | 337,310                        | 337,310                          | 235,867                        | 235,867                          |
| Loans and advances to customers (Note 12(b))                  | 1,379,787                      | 1,379,787                        | 1,167,634                      | 1,167,634                        |
| <i>Less specific and collective allowances for impairment</i> | <i>(5,270)</i>                 | <i>(5,270)</i>                   | <i>(5,637)</i>                 | <i>(5,637)</i>                   |
| Bank and building society certificates of deposits            | 611,334                        | 611,334                          | 664,777                        | 664,777                          |
| Debt securities   | 621,373                        | 621,373                          | 663,898                        | 663,898                          |
| <i>Less specific allowances for impairment</i>                | <i>(4,913)</i>                 | <i>(4,739)</i>                   | <i>(4,913)</i>                 | <i>(4,740)</i>                   |
|   | <b>2,939,621</b>               | <b>2,939,795</b>                 | <b>2,721,626</b>               | <b>2,721,799</b>                 |
| <b>Total financial assets</b>                                 | <b>2,940,520</b>               | <b>2,939,796</b>                 | <b>2,748,859</b>               | <b>2,747,843</b>                 |

Included in the above are fixed rate securities with a nominal value of £852.3m (2015: £842.5m) and fixed rate loans with a nominal value of £443.5m (2015: £206.9m) which have been hedged against interest rate risk using interest rate swaps or, where the asset is denominated in a foreign currency, using currency swaps to hedge the interest rate and foreign currency risk.

The Bank continues to hold £5,048,000 (nominal value) of securities issued by Washington Mutual Bank Inc. which entered administration in 2008 and the position was fully impaired in the financial year 2008/9 as a result. The Bank continues to hold this position in anticipation of future recoveries, but given the high level of uncertainty over the value and timing of any potential future recoveries, the position remains fully impaired.

**12(a) Loans and advances to banks**

|                                     | <b>Group<br/>2016<br/>£000</b> | <b>Company<br/>2016<br/>£000</b> | <b>Group<br/>2015<br/>£000</b> | <b>Company<br/>2015<br/>£000</b> |
|-------------------------------------|--------------------------------|----------------------------------|--------------------------------|----------------------------------|
| Repayable on demand                 | 107,998                        | 107,998                          | 112,622                        | 112,622                          |
| <b>Other loans and advances:</b>    |                                |                                  |                                |                                  |
| Remaining maturity                  |                                |                                  |                                |                                  |
| - over 5 years                      | 123,257                        | 123,257                          | 78,153                         | 78,153                           |
| - over 1 year but less than 5 years | -                              | -                                | -                              | -                                |
| - 1 year or less but over 3 months  | 613                            | 613                              | -                              | -                                |
| - 3 months or less                  | 105,442                        | 105,442                          | 45,092                         | 45,092                           |
|                                     | <b>337,310</b>                 | <b>337,310</b>                   | <b>235,867</b>                 | <b>235,867</b>                   |

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**12(b) Loans and advances to customers**

|  | <b>Group<br/>2016<br/>£000</b> | <b>Company<br/>2016<br/>£000</b> | <b>Group<br/>2015<br/>£000</b> | <b>Company<br/>2015<br/>£000</b> |
|--|--------------------------------|----------------------------------|--------------------------------|----------------------------------|
| Remaining maturity                           |                                |                                  |                                |                                  |
| - over 5 years                               | 89,236                         | 89,236                           | 63,884                         | 63,884                           |
| - 5 years or less but over 1 year            | 309,861                        | 309,861                          | 107,211                        | 107,211                          |
| - 1 year or less but over 3 months           | 26,695                         | 26,695                           | 30,651                         | 30,651                           |
| - 3 months or less                           | 953,995                        | 953,995                          | 965,888                        | 965,888                          |
| Allowance for impairment losses (Note 13)    | (5,270)                        | (5,270)                          | (5,637)                        | (5,637)                          |
| <b>Total loans and advances to customers</b> | <b>1,374,517</b>               | <b>1,374,517</b>                 | <b>1,161,997</b>               | <b>1,161,997</b>                 |
| <b>Of which repayable on demand or short</b> | <b>944,862</b>                 | <b>944,862</b>                   | <b>960,251</b>                 | <b>960,251</b>                   |

Included in the above loans and advances to customers are fixed rate loans which have been hedged against interest rate risk using interest rate swaps. The value of lending hedged at 31 March 2016 was £443.5m (2015: £206.9m).

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

|  | <b>Group<br/>2016<br/>£000</b> | <b>Group<br/>2015<br/>£000</b> |
|--|--------------------------------|--------------------------------|
| <b>Specific allowances for impairment</b>                  |                                |                                |
| Balance at 1 April   | 5,021                          | 6,104                          |
| Impairment loss for the year                               |                                |                                |
| - Charge for the year                                      | 790                            | 776                            |
| - Recoveries for the year                                  | (1,043)                        | (1,001)                        |
| Net recovery   | (253)                          | (225)                          |
| Write-offs   | (140)                          | (858)                          |
| Balance at 31 March  | 4,628                          | 5,021                          |
| <b>Collective allowance for impairment</b>                 |                                |                                |
| Balance at 1 April   | 616                            | 1,062                          |
| Impairment loss for the year                               |                                |                                |
| Charge/(recovery) for the year                             | 26                             | (446)                          |
| Balance at 31 March  | 642                            | 616                            |
| <b>Total specific and collective impairment allowances</b> | <b>5,270</b>                   | <b>5,637</b>                   |

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**14. Investments in Subsidiaries**

The Company has the following investments in subsidiaries:

| Shares at cost                           | Principal Activity        | %                      | 2016         | 2015         |
|--|---------------------------|------------------------|--------------|--------------|
|  |                           | Owned                  | £            | £            |
| Messrs Hoare Trustees                    | 20 shares of no par value | Trustee company        | 100          | -            |
| Hoare's Bank Pension Trustees Limited    | 1 Ordinary £1 share       | Pension scheme trustee | 100          | 1            |
| Hoares Bank Nominees Limited             | 72 Ordinary £1 shares     | Nominee company        | 100          | 72           |
| C. Hoare & Co. EIG Management Limited    | 1 Ordinary £1 share       | Holding company        | 100          | 1            |
| Mitre Court Property Holding Company     | 1,000 Ordinary £1 shares  | Dormant                | 100          | 1,000        |
| <b>Total Investments in Subsidiaries</b> |                           |                        | <b>1,074</b> | <b>1,074</b> |

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

**15. Tangible Fixed Assets (Group and Company)**

|   | Land and<br>Buildings<br>£000 | Investment<br>Properties<br>£000 | Equipment<br>£000 | Total<br>£000  |
|---|-------------------------------|----------------------------------|-------------------|----------------|
| Cost or valuation                                     |                               |                                  |                   |                |
| 01 April 2015   | 33,306                        | 1,600                            | 41,345            | 76,251         |
| Additions   | 1,450                         | -                                | 11,891            | 13,341         |
| Disposals   | -                             | -                                | (440)             | (440)          |
| Revaluation   | 19,300                        | 875                              | -                 | 20,175         |
| <b>31 March 2016</b>                                  | <b>54,056</b>                 | <b>2,475</b>                     | <b>52,796</b>     | <b>109,327</b> |
| Accumulated depreciation                              |                               |                                  |                   |                |
| 01 April 2015   | -                             | -                                | 22,237            | 22,237         |
| Charge for year                                       | -                             | -                                | 5,457             | 5,457          |
| Disposals   | -                             | -                                | (440)             | (440)          |
| <b>31 March 2016</b>                                  | <b>-</b>                      | <b>-</b>                         | <b>27,254</b>     | <b>27,254</b>  |
| <b>Net book value 31 March 2016</b>                   | <b>54,056</b>                 | <b>2,475</b>                     | <b>25,542</b>     | <b>82,073</b>  |
| <i>Net book value 31 March 2015</i>                   | <i>33,306</i>                 | <i>1,600</i>                     | <i>19,108</i>     | <i>54,014</i>  |
|   | <b>Group</b>                  | <b>Company</b>                   | <b>Group</b>      | <b>Company</b> |
|   | <b>2016</b>                   | <b>2016</b>                      | <b>2015</b>       | <b>2015</b>    |
|   | <b>£000</b>                   | <b>£000</b>                      | <b>£000</b>       | <b>£000</b>    |
| <b>Land and buildings occupied for own activities</b> |                               |                                  |                   |                |
| - Net book value                                      | 42,485                        | 42,485                           | 24,440            | 24,440         |
| At cost   |                               |                                  |                   |                |
| - Land and buildings                                  | 10,772                        | 10,772                           | 10,772            | 10,772         |
| - Investment properties                               | 1,728                         | 1,728                            | 1,728             | 1,728          |
|   | <b>12,500</b>                 | <b>12,500</b>                    | <b>12,500</b>     | <b>12,500</b>  |

The Bank's land, buildings and investment properties were valued as at 31 March 2016 by BNP Paribas Real Estate, Chartered Surveyors.

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**15. Tangible Fixed Assets (Group and Company) (Continued)**

|  | <b>Group<br/>2016<br/>£000</b> | <b>Company<br/>2016<br/>£000</b> | <b>Group<br/>2015<br/>£000</b> | <b>Company<br/>2015<br/>£000</b> |
|--|--------------------------------|----------------------------------|--------------------------------|----------------------------------|
| Future capital expenditure<br>Contracted but not provided in the Financial<br>Statements | 721                            | 721                              | 472                            | 472                              |

**16. Heritage Assets (Group and Company)**

|                           | <b>2016<br/>Paintings<br/>£000</b> | <b>2016<br/>Artefacts<br/>£000</b> | <b>2016<br/>Total<br/>£000</b> | <i>2015<br/>Paintings<br/>(Restated)<br/>£000</i> | <i>2015<br/>Artefacts<br/>(Restated)<br/>£000</i> | <i>2015<br/>Total<br/>(Restated)<br/>£000</i> |
|---------------------------|------------------------------------|------------------------------------|--------------------------------|---|---|---|
| Valuation 1 April         | 8,288                              | 1,331                              | 9,619                          | 8,308   | 1,311   | 9,619   |
| Movements - Additions     | 4                                  | 9                                  | 13                             | -   | -   | -   |
| Classification transfer   | -                                  | -                                  | -                              | (20)  | 20  | -   |
| <b>Valuation 31 March</b> | <b>8,292</b>                       | <b>1,340</b>                       | <b>9,632</b>                   | <b>8,288</b>                                      | <b>1,331</b>                                      | <b>9,619</b>                                  |

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

The Board commissioned an external valuer (Messrs Christie's, auctioneers and valuers) to undertake a full valuation of the collection as at 31 March 2010. The Directors are not aware of any material change in value since that date and therefore the valuations are unchanged. It has not been practicable to estimate the cost of acquisition of the heritage assets; they were not recognised in the financial statements prior to that date. Additional heritage assets were acquired during the year ended 31 March 2016 at a cost of £13,130 (2015: Nil).

The 2010 valuations were based on commercial markets, including recent transaction information from auctions where similar types of paintings held by the Bank had been sold; the figure included in the financial statements is based on the lower end of the range indicated by these various sources.

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

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**17. Deferred Tax**

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

|                                     | <b>Group<br/>2016</b> | <b>Company<br/>2016</b> | <i>Group<br/>2015<br/>(Restated)</i> | <i>Company<br/>2015<br/>(Restated)</i> |
|-------------------------------------|-----------------------|-------------------------|--------------------------------------|--|
|                                     | <b>£000</b>           | <b>£000</b>             | <b>£000</b>                          | <b>£000</b>                            |
| <b>Deferred tax asset</b>           |                       |                         |                                      |  |
| Fixed assets timing differences     | 25                    | 25                      | 193                                  | 193                                    |
| Short term timing differences       | -                     | -                       | 17                                   | 17                                     |
| Provisions on valuations            | -                     | -                       | 24                                   | 24                                     |
| Provisions on loan fees             | 39                    | 39                      | 171                                  | 171                                    |
| <b>Total deferred tax asset</b>     | <b>64</b>             | <b>64</b>               | <b>405</b>                           | <b>405</b>                             |
| <b>Deferred tax liability</b>       |                       |                         |                                      |  |
| Timing differences on valuations    | 9,258                 | 9,258                   | 5,784                                | 5,784                                  |
| Short term timing differences       | -                     | -                       | 13                                   | -                                      |
| Provisions on valuations            | 151                   | 151                     | -                                    | -                                      |
| <b>Total deferred tax liability</b> | <b>9,409</b>          | <b>9,409</b>            | <b>5,797</b>                         | <b>5,784</b>                           |

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

|   | <b>Group<br/>2016</b> | <b>Company<br/>2016</b> | <i>Group<br/>2015<br/>(Restated)</i> | <i>Company<br/>2015<br/>(Restated)</i> |
|---|-----------------------|-------------------------|--------------------------------------|--|
|   | <b>£000</b>           | <b>£000</b>             | <b>£000</b>                          | <b>£000</b>                            |
| <b>Deferred tax asset</b>                   |                       |                         |                                      |  |
| Balance at 1 April                          | 405                   | 405                     | 676                                  | 676                                    |
| Capital allowances on fixed asset additions | (143)                 | (143)                   | 14                                   | 14                                     |
| 10 year amortisation of FRS 26 balance      | (11)                  | (11)                    | (11)                                 | (11)                                   |
| Change in tax rate                          | (20)                  | (20)                    | -                                    | -                                      |
| Prior year adjustment                       | (11)                  | (11)                    | 12                                   | 12                                     |
| Timing differences on valuations            | (24)                  | (24)                    | -                                    | -                                      |
| Timing differences on loan fees             | (132)                 | (132)                   | (286)                                | (286)                                  |
| <b>Balance at 31 March</b>                  | <b>64</b>             | <b>64</b>               | <b>405</b>                           | <b>405</b>                             |
| <b>Deferred tax liability</b>               |                       |                         |                                      |  |
| Balance at 1 April                          | 5,797                 | 5,784                   | 5,810                                | 5,784                                  |
| 10 year amortisation of FRS 26 balance      | (13)                  | -                       | (13)                                 | -                                      |
| Timing differences on valuations            | 3,625                 | 3,625                   | -                                    | -                                      |
| <b>Balance at 31 March</b>                  | <b>9,409</b>          | <b>9,409</b>            | <b>5,797</b>                         | <b>5,784</b>                           |

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**17. Deferred Tax (Continued)**

The deferred tax asset and liability balances at 31 March 2016 do not include any amounts in respect of the Bank's defined benefit pension scheme asset, which is shown on the balance sheet after deduction of a deferred tax liability of £1,336,000 (2015: £67,000 asset) – see Note 3. The movement in this balance is shown below:

|   | <b>Group<br/>2016</b> | <b>Company<br/>2016</b> | <i>Group<br/>2015<br/>(Restated)</i> | <i>Company<br/>2015<br/>(Restated)</i> |
|---|-----------------------|-------------------------|--------------------------------------|--|
|   | <b>£000</b>           | <b>£000</b>             | <i>£000</i>                          | <i>£000</i>                            |
| <b>Defined benefit pension scheme liability</b> |                       |                         |                                      |  |
| Balance at 1 April                              | 67                    | 67                      | 1,372                                | 1,372                                  |
| Movement relating to:                           |                       |                         |                                      |  |
| - Past service cost                             |                       |                         |                                      |  |
| - Employer contributions                        | (389)                 | (389)                   | (433)                                | (433)                                  |
| - Other finance income                          | (10)                  | (10)                    | (12)                                 | (12)                                   |
| - Actuarial gains                               | (997)                 | (997)                   | (860)                                | (860)                                  |
| - Change in tax rate                            | (7)                   | (7)                     | -                                    | -                                      |
| <b>Balance at 31 March</b>                      | <b>(1,336)</b>        | <b>(1,336)</b>          | <i>67</i>                            | <i>67</i>                              |

**18. Other Assets**

|                     | <b>Group<br/>2016</b> | <b>Company<br/>2016</b> | <i>Group<br/>2015</i> | <i>Company<br/>2015</i> |
|---------------------|-----------------------|-------------------------|-----------------------|-------------------------|
|                     | <b>£000</b>           | <b>£000</b>             | <i>£000</i>           | <i>£000</i>             |
| Settlement balances | 658                   | 638                     | 539                   | 539                     |
| Other assets        | -                     | -                       | 1                     | 1                       |
|                     | <b>658</b>            | <b>638</b>              | <i>540</i>            | <i>540</i>              |

Settlement balances relate to unsettled transactions at the year end.

**19. Prepayments and Accrued Income**

|                               | <b>Group<br/>2016</b> | <b>Company<br/>2016</b> | <i>Group<br/>2015</i> | <i>Company<br/>2015</i> |
|-------------------------------|-----------------------|-------------------------|-----------------------|-------------------------|
|                               | <b>£000</b>           | <b>£000</b>             | <i>£000</i>           | <i>£000</i>             |
| Interest receivable           | 11,303                | 11,303                  | 8,644                 | 8,644                   |
| Other debtors and prepayments | 11,856                | 11,775                  | 6,532                 | 6,532                   |
|                               | <b>23,159</b>         | <b>23,078</b>           | <i>15,176</i>         | <i>15,176</i>           |

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**20. Deposits by Banks**

|                     | <b>Group<br/>2016<br/>£000</b> | <b>Company<br/>2016<br/>£000</b> | <i>Group<br/>2015<br/>£000</i> | <i>Company<br/>2015<br/>£000</i> |
|---------------------|--------------------------------|----------------------------------|--------------------------------|----------------------------------|
| Repayable on demand | 303                            | 303                              | 67                             | 67                               |

**21. Customer Accounts**

|  | <b>Group<br/>2016<br/>£000</b> | <b>Company<br/>2016<br/>£000</b> | <i>Group<br/>2015<br/>£000</i> | <i>Company<br/>2015<br/>£000</i> |
|--|--------------------------------|----------------------------------|--------------------------------|----------------------------------|
| With agreed maturity date or notice period, by remaining maturity: |                                |                                  |                                |                                  |
| - 2 years or less but over 1 year                                  | 19,946                         | 19,946                           | 17,199                         | 17,199                           |
| - 1 year or less but over 3 months                                 | 290,584                        | 290,584                          | 215,861                        | 215,861                          |
| - 3 months or less but not repayable on demand                     | 713,949                        | 713,949                          | 580,232                        | 580,232                          |
|  | <b>1,024,479</b>               | <b>1,024,479</b>                 | <i>813,292</i>                 | <i>813,292</i>                   |
| Repayable on demand  | 2,816,855                      | 2,816,855                        | 2,201,014                      | 2,201,014                        |
|  | <b>3,841,334</b>               | <b>3,841,334</b>                 | <i>3,014,306</i>               | <i>3,014,306</i>                 |
| Amount due to the Pension Scheme                                   | -                              | -                                | 359                            | 359                              |
| Amount due to Subsidiary Companies                                 |                                | 8,537                            |                                | 7,893                            |

**22. Other Liabilities**

|                     | <b>Group<br/>2016<br/>£000</b> | <b>Company<br/>2016<br/>£000</b> | <i>Group<br/>2015<br/>(Restated)<br/>£000</i> | <i>Company<br/>2015<br/>(Restated)<br/>£000</i> |
|---------------------|--------------------------------|----------------------------------|---|---|
| Corporation tax     | 2,105                          | 1,974                            | 1,824   | 1,711   |
| Settlement balances | 2,823                          | 2,823                            | 1,600   | 1,600   |
| Other liabilities   | 276                            | 190                              | 115   | 60  |
|                     | <b>5,204</b>                   | <b>4,987</b>                     | <i>3,539</i>                                  | <i>3,371</i>                                    |

Settlement balances relate to unsettled transactions at the year end.

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**23. Accruals and Deferred Income**

|                              | <b>Group<br/>2016</b> | <b>Company<br/>2016</b> | <i>Group<br/>2015<br/>(Restated)</i> | <i>Company<br/>2015<br/>(Restated)</i> |
|------------------------------|-----------------------|-------------------------|--------------------------------------|--|
|                              | <b>£000</b>           | <b>£000</b>             | <i>£000</i>                          | <i>£000</i>                            |
| Interest payable             | 8,931                 | 8,931                   | 6,270                                | 6,270                                  |
| Other creditors and accruals | 26,860                | 26,860                  | 19,590                               | 19,590                                 |
|                              | <b>35,791</b>         | <b>35,791</b>           | <i>25,860</i>                        | <i>25,860</i>                          |

Other creditors and accruals relate to accrued expenses at the year end and include £758,000 (2015: £739,000) in respect of the FSCS Levy (Note 26).

**24. Called up Share Capital**

|  | <b>Group<br/>2016</b> | <b>Company<br/>2016</b> | <i>Group<br/>2015</i> | <i>Company<br/>2015</i> |
|--|-----------------------|-------------------------|-----------------------|-------------------------|
|  | <b>£000</b>           | <b>£000</b>             | <i>£000</i>           | <i>£000</i>             |
| Authorised, allotted and fully paid:<br>120 Ordinary shares of £1,000<br>as at 31 March 2016 | 120                   | 120                     | 120                   | 120                     |

**25. Revaluation reserves**

| <b>Group</b>                                       | <b>Property</b> | <b>Heritage<br/>Assets</b> | <b>Available-<br/>for-sale</b> | <b>Total</b>  |
|--|-----------------|----------------------------|--------------------------------|---------------|
| <b>Balance as at 1 April 2014</b>                  | <b>18,478</b>   | <b>7,872</b>               | <b>(5,095)</b>                 | <b>21,255</b> |
| Revaluation of available-for-sale financial assets | -               | -                          | 2,990                          | 2,990         |
| Transfer of revaluation to Profit and Loss         | -               | -                          | 1,049                          | 1,049         |
| Transition to FRS 102                              | -               | -                          | 1,056                          | 1,056         |
| <b>Balance as at 31 March 2015 (Restated)</b>      | <b>18,478</b>   | <b>7,872</b>               | <b>-</b>                       | <b>26,350</b> |
| Revaluation of properties                          | 19,300          | -                          | -                              | 19,300        |
| Deferred tax charge on properties                  | (3,475)         | -                          | -                              | (3,475)       |
| <b>Balance as at 31 March 2016</b>                 | <b>34,303</b>   | <b>7,872</b>               | <b>-</b>                       | <b>42,175</b> |

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

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**25. Revaluation reserves (Continued)**

| Company  | Property      | Heritage<br>Assets | Available-<br>for-sale | Total         |
|--|---------------|--------------------|------------------------|---------------|
| <b>Balance as at 1 April 2014</b>                  | <b>18,478</b> | <b>7,872</b>       | <b>(5,095)</b>         | <b>21,255</b> |
| Revaluation of available-for-sale financial assets | -             | -                  | 2,998                  | 2,998         |
| Transfer of revaluation to Profit and Loss         | -             | -                  | 1,062                  | 1,062         |
| Transition to FRS 102                              | -             | -                  | 1,035                  | 1,035         |
| <b>Balance as at 31 March 2015 (Restated)</b>      | <b>18,478</b> | <b>7,872</b>       | <b>-</b>               | <b>26,350</b> |
| Revaluation of property                            | 19,300        | -                  | -                      | 19,300        |
| Deferred tax charge on property                    | (3,475)       | -                  | -                      | (3,475)       |
| <b>Balance as at 31 March 2016</b>                 | <b>34,303</b> | <b>7,872</b>       | <b>-</b>               | <b>42,175</b> |

**26. Contingent Liabilities, Commitments and Provisions**

The table below discloses the nominal principal amounts of contingent liabilities and commitments undertaken for customers as at 31 March 2016.

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

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

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

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

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

|   | Group<br>2016<br>£000 | Company<br>2016<br>£000 | Group<br>2015<br>£000 | Company<br>2015<br>£000 |
|---|-----------------------|-------------------------|-----------------------|-------------------------|
| Contingent liabilities:   |                       |                         |                       |                         |
| - Letters of credit   | 358                   | 358                     | 427                   | 427                     |
| - Performance bonds and other transaction-related contingencies   | 773                   | 773                     | 1,609                 | 1,609                   |
| - Other guarantees  | 25,638                | 25,638                  | 24,401                | 24,401                  |
| <b>Total contingent liabilities</b>   | <b>26,769</b>         | <b>26,769</b>           | <b>26,437</b>         | <b>26,437</b>           |
| Commitments:  |                       |                         |                       |                         |
| - Undrawn formal standby facilities, credit lines and other commitments to lend (Less than 1 year maturity) | 389,508               | 389,508                 | 346,394               | 346,394                 |
| <b>Total commitments</b>  | <b>389,508</b>        | <b>389,508</b>          | <b>346,394</b>        | <b>346,394</b>          |

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**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**26. Contingent Liabilities, Commitments and Provisions (Continued)**

**FSCS Levy**

The Financial Services Compensation Scheme ("FSCS") has provided compensation to consumers following the collapse of a number of deposit takers, such as Bradford & Bingley plc. The compensation paid out to consumers under the FSCS was funded by £20 billion of loans to the FSCS from the Bank of England and HM Treasury. Under the FSCS Levy rules, all deposit takers, including C. Hoare & Co., will be required to pay a proportion of any irrecoverable principal amounts on the loans. Deposit takers are also obligated to share the interest costs of the loans and the management expenses of the FSCS. The proportion of the total Levy charged to each bank is determined by the Bank's market share of deposits protected through the FSCS.

The Bank accrued £758,000 at 31 March 2016 (2015: £739,000) in respect of its estimated share of the management expenses and interest costs for the 2015/16 and 2016/17 levy years and of its estimated share of the expected irrecoverable principal amounts on the outstanding loans. The accrual is based on the Bank's estimated share of total market protected deposits at 31 December 2015 and 2016. The charge to the profit and loss account for the year was £400,116 (2015: £400,529).

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

**Legal and related costs**

From time to time, in the ordinary course of business, the Bank may be subject to actual or potential legal claims whereby provisions and disclosures are required in accordance with the Bank's accounting policies. However where disclosure of any such items may seriously prejudice the position of the Bank, the directors take advantage of paragraph 21.17 of FRS 102. The Bank recorded an opening balance of £1.84m, (2015: Nil) in respect of legal provision and related costs and subsequently increased the provision by £1.14m (2015: £1.84m) during the year resulting with the Bank carrying a closing provision of £2.98m at 31 March 2016 (2015: £1.84m).

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**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**27. Notes to the statement of cash flows**

|   | <b>Group<br/>2016<br/>£000</b> | <i>Group<br/>2015<br/>(Restated)<br/>£000</i> |
|---|--------------------------------|---|
| <b>Profit for the financial year</b>                      |                                |   |
| Profit for financial year                                 | 22,332                         | 21,433  |
| Tax on profit on ordinary activities                      | 5,685                          | 6,146   |
|   | <b>28,017</b>                  | <i>27,579</i>                                 |
| <b>Operating profit</b>                                   |                                |   |
| Impairment charge   | 816                            | 330   |
| Loans and advances written off                            | 140                            | 858   |
| Depreciation of tangible fixed assets                     | 5,457                          | 4,712   |
| Net charge in respect of defined benefit scheme           | (55)                           | 195   |
| Contributions paid to defined benefit scheme              | (2,165)                        | (2,165)                                       |
| Exchange translation differences on investment securities | 410                            | (5,187)                                       |
| Loss / (profit) on sale of investment securities          | (12)                           | 13  |
| Gain on revaluation of investment property                | (875)                          | -   |
| Gain on investment income                                 | (3,700)                        | -   |
| Fair value on financial instruments                       | 7,121                          | (4,810)                                       |
| <b>Working capital movements:</b>                         |                                |   |
| - (Increase)/decrease in inventories                      | (319,353)                      | (105,196)                                     |
| - (Increase)/decrease in debtors                          | (4,401)                        | (1,964)                                       |
| - (Decrease)/increase in payables                         | 838,579                        | 470,822                                       |
|   | <b>549,979</b>                 | <i>385,187</i>                                |
| <b>Cash flow from operating activities</b>                |                                |   |

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**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**28. Financial Risk Management**

**(a) Overview**

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

- Credit risk
- Liquidity risk
- Market risk

The principal risks affecting the Bank are explained in the Strategic Report on pages 2 to 6.

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

**(b) Credit risk**

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations. It arises principally from the Bank's loans and advances to customers and other banks and from investment securities.

Management of credit risk

Responsibility for credit risk on customer loans and advances resides with the Lending department, monitored by the Banking Committee. Responsibility for credit risk relating to bank counterparties lies with the Treasury department and that relating to investments lies with the Investment Management department; in both cases overseen by the ALCO.

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

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

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

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

Exposure to credit risk

The table on the following page analyses the lending assets and investment securities.

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**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**28. Financial Risk Management (Continued)**

**(b) Credit risk (continued)**

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

| Group and Company<br>£'000                              | Loans and advances to<br>customers |                  | Loans and advances to<br>banks |                | Debt and Equity<br>securities |                           |
|---|------------------------------------|------------------|--------------------------------|----------------|-------------------------------|---------------------------|
|   | 2016                               | 2015             | 2016                           | 2015           | 2016                          | 2015<br><i>(Restated)</i> |
| <b>Balance sheet:</b>                                   |                                    |                  |                                |                |                               |                           |
| Carrying amount   | 1,374,517                          | 1,161,997        | 337,310                        | 235,867        | 1,228,693                     | 1,350,995                 |
| Individually Impaired<br>Allowance for impairment       | 6,008<br>(4,628)                   | 7,511<br>(5,021) | -<br>-                         | -<br>-         | 5,041<br>(4,913)              | 5,031<br>(4,913)          |
|   | 1,380                              | 2,490            | -                              | -              | 128                           | 118                       |
| Assets not subject to<br>impairment or on<br>watch list |                                    |                  |                                |                |                               |                           |
|   | 1,300,795                          | 1,085,964        | 337,310                        | 235,867        | 1,228,565                     | 1,350,877                 |
| <b>Watch list loans</b>                                 |                                    |                  |                                |                |                               |                           |
| · High risk   | 12,125                             | 1,197            | -                              | -              | -                             | -                         |
| · Medium risk   | 60,859                             | 72,962           | -                              | -              | -                             | -                         |
| Allowance for<br>collective impairment                  | (642)                              | (616)            | -                              | -              | -                             | -                         |
| <b>Carrying amount</b>                                  | <b>1,374,517</b>                   | <b>1,161,997</b> | <b>337,310</b>                 | <b>235,867</b> | <b>1,228,693</b>              | <b>1,350,995</b>          |
| <b>Off balance sheet:</b>                               |                                    |                  |                                |                |                               |                           |
| Guarantees  | 25,638                             | 24,401           | -                              | -              | -                             | -                         |
| Letters of credit and<br>performance bonds              | 1,131                              | 2,036            | -                              | -              | -                             | -                         |
| Commitments   | 389,508                            | 346,394          | -                              | -              | -                             | -                         |
| <b>Carrying amount Off<br/>Balance Sheet</b>            | <b>416,277</b>                     | <b>372,831</b>   | <b>-</b>                       | <b>-</b>       | <b>-</b>                      | <b>-</b>                  |
| <b>Total credit risk exposure</b>                       | <b>1,790,794</b>                   | <b>1,534,828</b> | <b>337,310</b>                 | <b>235,867</b> | <b>1,228,693</b>              | <b>1,350,995</b>          |

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**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**28. Financial Risk Management (Continued)**

**(b) Credit risk (continued)**

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

|  | <b>Group<br/>2016<br/>£000</b> | <i>Group<br/>2015<br/>(Restated)<br/>£000</i> |
|--|--------------------------------|---|
| <b>Balance Sheet items</b>   |                                |   |
| Cash and balances at central banks                                 | 1,191,373                      | 495,179                                       |
| Items in course of collection from banks                           | 2,750                          | 2,940   |
| Derivative financial instruments                                   | 185                            | 1,566   |
| Financial assets   | 2,940,520                      | 2,748,859                                     |
| Other assets   | 658                            | 540   |
| Prepayments and accrued income                                     | 23,159                         | 15,176  |
| <b>Maximum credit exposure from Balance Sheet items</b>            | <b>4,158,645</b>               | <b>3,264,260</b>                              |
| <b>Off balance sheet items</b>                                     |                                |   |
| Contingent liabilities (guarantees)                                | 26,769                         | 26,437  |
| Commitments  | 389,508                        | 346,394                                       |
| <b>Maximum credit exposure from off Balance Sheet items</b>        | <b>416,277</b>                 | <b>372,831</b>                                |
| <b>Maximum credit exposure</b>                                     | <b>4,574,922</b>               | <b>3,637,091</b>                              |
| <br>   |                                |   |
| Credit quality of assets not subject to impairment is shown below: |                                |   |
|  | <b>Group<br/>2016<br/>£000</b> | <i>Group<br/>2015<br/>(Restated)<br/>£000</i> |
| Loans and advances to banks, by rating:                            |                                |   |
| - Aaa to Aa3   | 167,977                        | 129,452                                       |
| - A1 to A3   | 169,211                        | 91,085  |
| - Baa1 to Baa3   | 122                            | 15,330  |
| Unimpaired loans and advances to banks                             | <b>337,310</b>                 | <b>235,867</b>                                |
| <br>   |                                |   |
| Debt security financial assets, by rating:                         |                                |   |
| - Aaa to Aa3   | 691,683                        | 709,171                                       |
| - A1 to A3   | 536,284                        | 614,764                                       |
| - Baa1 to Baa3   | -                              | -   |
| - Caa1 and below   | -                              | -   |
| - Not rated  | 726                            | 27,060  |
| Unimpaired debt security financial assets                          | <b>1,228,693</b>               | <b>1,350,995</b>                              |

## **NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

### **28. Financial Risk Management (Continued)**

#### **(b) Credit risk (continued)**

The credit risk classifications used in the preceding table are:

##### Individually impaired loans and securities

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

##### Watch list loans

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

##### Allowances for impairment

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

##### Write-off policy

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

##### Collateral

The Bank holds collateral against loans and advances to customers in the form of charges over residential and commercial property, investment securities, other assets and guarantees. Estimates of fair value are based upon the value of collateral assessed at the time of borrowing and generally are not updated, except when required by regulation, further lending is required or a loan is assessed as impaired. Collateral is not held against loans to other banks or investment securities. At 31 March 2016, the value of property collateral recorded against customer facilities was £3,587m (2015: £3,228m). The estimated value of collateral against the impaired customer loans and advances was £37,000 (2015: £595,000).

##### Renegotiated lending

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

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**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**28. Financial Risk Management (Continued)**

**(c) Liquidity risk**

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

Management of liquidity risk

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

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

Exposure to liquidity risk

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

| <b>Group and Company<br/>£000</b>                      | <b>Carrying<br/>Amount</b> | <b>Next day</b>  | <b>Less than<br/>1 month</b> | <b>1 to 3<br/>months</b> | <b>3 months<br/>to 1 year</b> | <b>Over<br/>1 year</b> |
|--|----------------------------|------------------|------------------------------|--------------------------|-------------------------------|------------------------|
| <b>At 31 March 2016</b>                                |                            |                  |                              |                          |                               |                        |
| <b>Balance sheet</b>                                   |                            |                  |                              |                          |                               |                        |
| Deposits from banks                                    | 303                        | 303              | -                            | -                        | -                             | -                      |
| Deposits from customers                                | 3,841,334                  | 3,126,006        | 286,199                      | 118,599                  | 290,584                       | 19,946                 |
| Derivative liabilities                                 | 85,162                     | 3                | 5                            | 29                       | 256                           | 84,869                 |
| Other liabilities                                      | 41,588                     | -                | 2,823                        | 38,765                   | -                             | -                      |
| <b>Off balance sheet</b>                               |                            |                  |                              |                          |                               |                        |
| Guarantees, Letters of Credit<br>and Performance Bonds | 26,769                     | 26,769           | -                            | -                        | -                             | -                      |
| Undrawn customer facilities                            | 389,508                    | 389,508          | -                            | -                        | -                             | -                      |
| <b>Total liabilities</b>                               | <b>4,384,664</b>           | <b>3,542,589</b> | <b>289,027</b>               | <b>157,393</b>           | <b>290,840</b>                | <b>104,815</b>         |

| <i>Group and Company<br/>£000</i>                              | <i>Carrying<br/>Amount</i> | <i>Next day</i>  | <i>Less than<br/>1 month</i> | <i>1 to 3<br/>months</i> | <i>3 months<br/>to 1 year</i> | <i>Over<br/>1 year</i> |
|--|----------------------------|------------------|------------------------------|--------------------------|-------------------------------|------------------------|
| <i>At 31 March 2015</i>  |                            |                  |                              |                          |                               |                        |
| <i>Balance sheet</i>   |                            |                  |                              |                          |                               |                        |
| <i>Deposits from banks</i>                                     | <i>67</i>                  | <i>67</i>        | <i>-</i>                     | <i>-</i>                 | <i>-</i>                      | <i>-</i>               |
| <i>Deposits from customers</i>                                 | <i>3,014,306</i>           | <i>2,351,463</i> | <i>305,779</i>               | <i>124,004</i>           | <i>215,861</i>                | <i>17,199</i>          |
| <i>Derivative liabilities</i>                                  | <i>41,848</i>              | <i>4</i>         | <i>1</i>                     | <i>100</i>               | <i>781</i>                    | <i>40,962</i>          |
| <i>Other liabilities</i>                                       | <i>29,685</i>              | <i>-</i>         | <i>1,600</i>                 | <i>28,085</i>            | <i>-</i>                      | <i>-</i>               |
| <i>Off balance sheet</i>                                       |                            |                  |                              |                          |                               |                        |
| <i>Guarantees, Letters of Credit<br/>and Performance Bonds</i> | <i>26,437</i>              | <i>26,437</i>    | <i>-</i>                     | <i>-</i>                 | <i>-</i>                      | <i>-</i>               |
| <i>Undrawn customer facilities</i>                             | <i>346,394</i>             | <i>346,394</i>   | <i>-</i>                     | <i>-</i>                 | <i>-</i>                      | <i>-</i>               |
| <b>Total liabilities</b>                                       | <b>3,458,737</b>           | <b>2,724,365</b> | <b>307,380</b>               | <b>152,189</b>           | <b>216,642</b>                | <b>58,161</b>          |

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**28. Financial Risk Management (Continued)**

Exposure to liquidity risk (continued)

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

CRD IV introduced two new liquidity standards, the short term Liquidity Coverage Requirement (LCR) and the longer term Net Stable Funding Requirement (NSFR). The LCR became the Pillar 1 standard for liquidity in the UK on 1 October 2015, with a minimum standard of 80%, thereafter a 10% increase on 1 January 2017 and 2018, to reach 100% on 1 January 2018. The LCR replaced the previous liquidity standards regime, Individual Liquidity Guidance (ILG) with new Europe wide regulations for liquidity. The objective of the LCR is to ensure that banks have sufficient high quality liquid assets (HQLA) that can be converted easily into cash to meet their liquidity needs for a 30 calendar day liquidity stress scenario. Assets which are eligible for inclusion as HQLA include, for example: balances held at the Central Bank, holdings of securities issued by central banks and multilateral development banks and assets which are able to be lent (repo'd) as security against cash advances (e.g. from the Central Bank).

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

**(d) Market risk**

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

Management of market risk

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

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

Foreign currency balances are driven by customer demand and do not form a significant part of the balance sheet. Currency risk is managed by the Treasury department lending surplus funds to other banks and/or taking forward foreign exchange agreements to cover expected future cash flows.

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**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**28. Financial Risk Management (Continued)**

Exposure to market risks: interest rate risk

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

| <b>Group and Company<br/>£000</b>                                     | <b>Carrying<br/>Amount</b> | <b>Up to 3<br/>months</b> | <b>3 to 6<br/>months</b> | <b>6 to 12<br/>months</b> | <b>1 to 5<br/>years</b> | <b>Over<br/>5 years</b> |
|---|----------------------------|---------------------------|--------------------------|---------------------------|-------------------------|-------------------------|
| <b>At 31 March 2016</b>   |                            |                           |                          |                           |                         |                         |
| <b>Assets</b>   |                            |                           |                          |                           |                         |                         |
| Loans and advances to banks and central banks                         | 1,525,311                  | 1,524,698                 | 613                      | -                         | -                       | -                       |
| Loans and advances to customers                                       | 1,364,213                  | 948,714                   | 400                      | 26,254                    | 305,137                 | 83,708                  |
| Debt security financial assets  | 1,153,148                  | 216,312                   | 190,000                  | 250,000                   | 196,336                 | 300,500                 |
| <b>Total assets</b>   | <b>4,042,672</b>           | <b>2,689,724</b>          | <b>191,013</b>           | <b>276,254</b>            | <b>501,473</b>          | <b>384,208</b>          |
| <b>Liabilities</b>  |                            |                           |                          |                           |                         |                         |
| Deposits by banks   | 303                        | 303                       | -                        | -                         | -                       | -                       |
| Customer accounts   | 3,841,334                  | 3,530,804                 | 199,253                  | 91,331                    | 19,946                  | -                       |
| <b>Total liabilities</b>  | <b>3,841,637</b>           | <b>3,531,107</b>          | <b>199,253</b>           | <b>91,331</b>             | <b>19,946</b>           | <b>-</b>                |
| Derivatives   | -                          | 1,162,041                 | (120,400)                | (208,542)                 | (435,791)               | (397,308)               |
| <b>Interest rate gap</b>  | <b>201,035</b>             | <b>320,658</b>            | <b>(128,640)</b>         | <b>(23,619)</b>           | <b>45,736</b>           | <b>(13,100)</b>         |
| <b>Group and Company<br/>£000<br/>(Restated)<br/>At 31 March 2015</b> |                            |                           |                          |                           |                         |                         |
| <b>Assets</b>   |                            |                           |                          |                           |                         |                         |
| Loans and advances to banks and central banks                         | 727,867                    | 727,867                   | -                        | -                         | -                       | -                       |
| Loans and advances to customers                                       | 1,157,148                  | 960,250                   | 3,639                    | 26,603                    | 105,696                 | 60,960                  |
| Debt security financial assets  | 1,288,332                  | 225,023                   | 69,268                   | 402,920                   | 273,262                 | 317,859                 |
| <b>Total assets</b>   | <b>3,173,347</b>           | <b>1,913,140</b>          | <b>72,907</b>            | <b>429,523</b>            | <b>378,958</b>          | <b>378,819</b>          |
| <b>Liabilities</b>  |                            |                           |                          |                           |                         |                         |
| Deposits by banks   | 67                         | 67                        | -                        | -                         | -                       | -                       |
| Customer accounts   | 3,014,306                  | 2,781,246                 | 151,325                  | 64,536                    | 17,199                  | -                       |
| <b>Total liabilities</b>  | <b>3,014,373</b>           | <b>2,781,313</b>          | <b>151,325</b>           | <b>64,536</b>             | <b>17,199</b>           | <b>-</b>                |
| Derivatives   | -                          | 1,004,372                 | (47,868)                 | (351,513)                 | (229,092)               | (375,899)               |
| <b>Interest rate gap</b>  | <b>158,974</b>             | <b>136,199</b>            | <b>(126,286)</b>         | <b>13,474</b>             | <b>132,667</b>          | <b>2,920</b>            |

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**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**28. Financial Risk Management (Continued)**

Exposure to market risk: interest rate risk (continued)

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

The Bank monitors its exposure to interest rate risk. Consistent with the financial regulator's requirements, the impact of a potential 2.00% shift, both increase and decrease, in the yield curve against the Bank's interest bearing assets is computed back to a net present value. The value is calculated monthly and reported to the ALCO against a Board agreed tolerance level. The reported interest rate sensitivity on the year end balance sheet and fixed interest instrument holdings was as follows:

| <b>Effect of a 2.00% shift in Sterling Market Rates</b> | <b>Group<br/>2016<br/>£000</b> | <i>Group<br/>2015<br/>£000</i> |
|---|--------------------------------|--------------------------------|
| Net Present Value Sensitivity to:                       |                                |                                |
| Positive shift  | <b>1,100</b>                   | <i>402</i>                     |
| Negative shift  | <b>(1,195)</b>                 | <i>(424)</i>                   |

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

Exposure to market risk: currency risk

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

| <b>Net currency exposure</b> | <b>Group<br/>2015<br/>£000</b> | <i>Group<br/>2015<br/>£000</i> |
|------------------------------|--------------------------------|--------------------------------|
| US dollar                    | <b>98</b>                      | <i>81</i>                      |
| Euro                         | <b>113</b>                     | <i>130</i>                     |
| Other                        | <b>(12)</b>                    | <i>211</i>                     |
| <b>Total</b>                 | <b>199</b>                     | <i>422</i>                     |

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

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**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**28. Financial Risk Management (Continued)**

**(f) Fair values of financial assets and liabilities**

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

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

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

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

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**28. Financial Risk Management (Continued)**

The Bank has chosen to early adopt FRED 62 and apply the recognition and measurement provisions of IAS 39 (as adopted for use in the EU) and the disclosure requirements of FRS 102 in respect of financial instruments for the fair value hierarchy disclosures.

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

| <b>Group</b>  | <b>2016</b>       | <b>2016</b>       | <b>2016</b>       | <b>2016</b>       |
|---|-------------------|-------------------|-------------------|-------------------|
| Valuation Hierarchy                                   | <b>Level 1</b>    | <b>Level 2</b>    | <b>Level 3</b>    | <b>Total</b>      |
|   | <b>£000</b>       | <b>£000</b>       | <b>£000</b>       | <b>£000</b>       |
| Bank and building society certificates of deposit     | 611,334           | -                 | -                 | 611,334           |
| Equity securities (unlisted)                          | -                 | -                 | 726               | 726               |
| Other variable yield securities                       | -                 | -                 | -                 | -                 |
| Debt securities with readily determinable fair values | 616,633           | -                 | -                 | 616,633           |
| Derivative financial assets                           | -                 | 185               | -                 | 185               |
| <b>Total financial assets</b>                         | <b>1,227,967</b>  | <b>185</b>        | <b>726</b>        | <b>1,228,878</b>  |
| Derivative financial liabilities                      | -                 | 85,162            | -                 | 85,162            |
| <i>Group</i>  | <i>2015</i>       | <i>2015</i>       | <i>2015</i>       | <i>2015</i>       |
| Valuation Hierarchy                                   | <i>(Restated)</i> | <i>(Restated)</i> | <i>(Restated)</i> | <i>(Restated)</i> |
|   | <i>Level 1</i>    | <i>Level 2</i>    | <i>Level 3</i>    | <i>Total</i>      |
|   | <i>£000</i>       | <i>£000</i>       | <i>£000</i>       | <i>£000</i>       |
| Bank and building society certificates of deposit     | 664,777           | -                 | -                 | 664,777           |
| Equity securities (unlisted)                          | -                 | -                 | 1,016             | 1,016             |
| Other variable yield securities                       | -                 | 26,043            | -                 | 26,043            |
| Debt securities with readily determinable fair values | 659,159           | -                 | -                 | 659,159           |
| Derivative financial assets                           | -                 | 1,566             | -                 | 1,566             |
| <b>Total financial assets</b>                         | <b>1,323,936</b>  | <b>27,609</b>     | <b>1,016</b>      | <b>1,352,561</b>  |
| Derivative financial liabilities                      | -                 | 41,848            | -                 | 41,848            |

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

The equity securities (unlisted) consist of the legacy investment portfolio of the Group which is in a wind down phase that will continue for the foreseeable future. By year end the aggregate value of the investment portfolio had fallen to £725,000(2015: £1,016,000), mainly due to the liquidation of one investment and capital distributions.

**(g) Capital management**

The Bank's capital management for regulatory purposes is detailed in the Director's Report on pages 11 and 12.

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**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**29. Segmental Information**

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

**30. Related Party Transactions**

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

The Bank's related parties consists of key management personnel with authority and responsibility for planning, directing, and controlling the financial and operating activities of C. Hoare & Co., directly or indirectly. The Board of directors of the Bank are considered to be key management personnel with significant influence for the purposes of FRS 102.

Among the Bank's transactions with key management personnel and their close family members as at 31 March 2016 were outstanding loans in aggregate of £5.2m (2015: £6.3m) and deposits in aggregate of £6.0m (2015: £7.9m).

In addition, the Bank provides wealth management services to key management personnel and their close family members. The fees from these services amounted in aggregate to £0.07m (2015: £0.2m).

During the year, the Bank received rental income of £5,090 (2015:£3,000) from a related party, where the lease was subject to formal contract terms and conditions.

**31. Ultimate Controlling Party**

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

**32. Charged Assets**

As at 31 March 2016 £500,000 (2015: £10,000,000) 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.

In addition, as at 31 March 2016, £10,000,000 (2015:£10,000,000) of collateral was charged to Royal Bank of Scotland Plc ("RBS") in relation to RBS providing guarantees jointly, with the Bank, to Lloyd's of London on behalf of the Bank's customers. See Note 26 for more detail on the guarantees provided by the Bank.

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**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**33. Transition to FRS 102**

The Bank transitioned to FRS 102 from previous UK GAAP as at 1 April 2014 and has restated the comparative prior year amounts. The last financial statements under the previous UK GAAP were for the year ended 31 March 2015.

Set out below are the changes in accounting policies which reconcile profit for the financial year ended 31 March 2015 and total equity as at 1 April 2014 and 31 March 2015 between UK GAAP as previously reported and FRS 102.

The effects of the FRS 102 adoption on the 2015 comparable figures are set out below.

**33 (a) Consolidated Statement of Comprehensive Income**  
**For the year ended 31 March 2015**

|  | Note                  | As previously<br>stated<br>£000 | Effect of<br>transition<br>£000 | FRS 102<br>(as restated)<br>£000 |
|--|-----------------------|---------------------------------|---------------------------------|----------------------------------|
| Interest receivable  |                       | 72,356                          | -                               | 72,356                           |
| Interest payable   |                       | (9,272)                         | -                               | (9,272)                          |
| <b>Net interest income</b>                                 |                       | <b>63,084</b>                   | <b>-</b>                        | <b>63,084</b>                    |
| <b>Dividend income</b>                                     |                       | <b>108</b>                      | <b>-</b>                        | <b>108</b>                       |
| <b>Other finance income</b>                                | <b>B</b>              | <b>2,345</b>                    | <b>(2,540)</b>                  | <b>(195)</b>                     |
| Fees and commissions receivable                            | <b>E</b>              | 29,922                          | 80                              | 30,002                           |
| Fees and commissions payable                               |                       | (1,229)                         | -                               | (1,229)                          |
| <b>Net fees and commissions income</b>                     |                       | <b>28,693</b>                   | <b>80</b>                       | <b>28,773</b>                    |
| <b>Dealing profits</b>                                     |                       | <b>5,719</b>                    | <b>-</b>                        | <b>5,719</b>                     |
| <b>Other operating income</b>                              | <b>D</b>              | <b>590</b>                      | <b>860</b>                      | <b>1,450</b>                     |
| <b>Total income</b>  |                       | <b>100,539</b>                  | <b>(1,600)</b>                  | <b>98,939</b>                    |
| <b>Operating expenses</b>                                  |                       |                                 |                                 |                                  |
| Administrative expenses                                    | <b>A</b>              | (66,817)                        | (503)                           | (67,320)                         |
| Depreciation   |                       | (4,712)                         | -                               | (4,712)                          |
| <b>Total operating expenses</b>                            |                       | <b>(71,529)</b>                 | <b>(503)</b>                    | <b>(72,032)</b>                  |
| Impairment recovery on loans and advances                  |                       | 672                             | -                               | 672                              |
| Impairment recovery/(losses) on financial assets           |                       | -                               | -                               | -                                |
| <b>Profit on ordinary activities before tax</b>            |                       | <b>29,682</b>                   | <b>(2,103)</b>                  | <b>27,579</b>                    |
| Tax on profit on ordinary activities                       | <b>A, C,<br/>D, E</b> | <b>(6,511)</b>                  | <b>365</b>                      | <b>(6,146)</b>                   |
| <b>Profit for the financial year</b>                       |                       | <b>23,171</b>                   | <b>(1,738)</b>                  | <b>21,433</b>                    |
| <b>Other comprehensive income:</b>                         |                       |                                 |                                 |                                  |
| Remeasurements of net defined benefit obligation           | <b>B</b>              | 2,013                           | 2,540                           | 4,553                            |
| Deferred tax arising on pension scheme                     | <b>C</b>              | (403)                           | (457)                           | (860)                            |
| <b>Other comprehensive income for the year, net of tax</b> |                       | <b>1,610</b>                    | <b>2,083</b>                    | <b>3,693</b>                     |
| <b>Total comprehensive income for the year</b>             |                       | <b>24,781</b>                   | <b>345</b>                      | <b>25,126</b>                    |

In accordance with FRS 102, the Bank does not present a 'Statement of Total Recognised Gains and Losses (STRGL)' as was presented in the 2015 financial statements as items that previously appeared in that statement are now included in the Statement of Comprehensive Income. Further, a 'Statement of Changes in Equity' is presented.

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**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**33. Transition to FRS 102 (Continued)**

**33 (b) Consolidated Balance Sheet**

|  | Note       | Previously<br>stated<br>£000 | Effect of<br>transition<br>£000 | FRS 102<br>(Restated)<br>£000 | Previously<br>stated<br>£000 | Effect of<br>transition<br>£000 | FRS 102<br>(Restated)<br>£000 |
|--|------------|------------------------------|---------------------------------|-------------------------------|------------------------------|---------------------------------|-------------------------------|
| <b>Assets</b>                                    |            |                              |                                 |                               |                              |                                 |                               |
| Cash and balances at central banks               |            | 565,415                      | -                               | 565,415                       | 495,179                      | -                               | 495,179                       |
| Items in course of collection from banks         |            | 5,272                        | -                               | 5,272                         | 2,940                        | -                               | 2,940                         |
| Derivative financial instruments                 |            | 5,105                        | -                               | 5,105                         | 1,566                        | -                               | 1,566                         |
| Loans and advances to banks                      | D          | 121,372                      | (121,372)                       | -                             | 235,867                      | (235,867)                       | -                             |
| Loans and advances to customers                  | D          | 1,086,327                    | (1,086,327)                     | -                             | 1,161,997                    | (1,161,997)                     | -                             |
| Available-for-sale financial assets              | D          | 959,426                      | (959,426)                       | -                             | 1,353,965                    | (1,353,965)                     | -                             |
| Financial assets                                 | D          | -                            | 2,161,436                       | 2,161,436                     | -                            | 2,748,859                       | 2,748,859                     |
| Shares in group                                  |            | -                            | -                               | -                             | -                            | -                               | -                             |
| Property and Equipment                           |            | 50,323                       | -                               | 50,323                        | 54,014                       | -                               | 54,014                        |
| Heritage assets                                  |            | 9,619                        | -                               | 9,619                         | 9,619                        | -                               | 9,619                         |
| Deferred tax asset                               | C, E       | 195                          | 481                             | 676                           | 210                          | 195                             | 405                           |
| Other assets                                     |            | 481                          | -                               | 481                           | 540                          | -                               | 540                           |
| Prepayments and accrued income                   | D          | 13,271                       | (754)                           | 12,517                        | 16,585                       | (1,409)                         | 15,176                        |
| <b>Total assets</b>                              |            | <b>2,816,806</b>             | <b>(5,962)</b>                  | <b>2,810,844</b>              | <b>3,332,482</b>             | <b>(4,184)</b>                  | <b>3,328,298</b>              |
| <b>Liabilities</b>                               |            |                              |                                 |                               |                              |                                 |                               |
| Deposits by banks                                |            | 16                           | -                               | 16                            | 67                           | -                               | 67                            |
| Customer accounts                                |            | 2,525,734                    | -                               | 2,525,734                     | 3,014,306                    | -                               | 3,014,306                     |
| Repurchase agreements                            |            | 25,000                       | -                               | 25,000                        | -                            | -                               | -                             |
| Deposits to subsidiary companies                 |            | -                            | -                               | -                             | -                            | -                               | -                             |
| Derivative financial instruments                 |            | 18,250                       | -                               | 18,250                        | 41,848                       | -                               | 41,848                        |
| Deferred tax liability                           | C          | 26                           | 5,784                           | 5,810                         | 13                           | 5,784                           | 5,797                         |
| Other liabilities                                | D          | 3,712                        | (1,016)                         | 2,696                         | 4,601                        | (1,062)                         | 3,539                         |
| Accruals and deferred                            | A, E       | 18,913                       | 2,541                           | 21,454                        | 22,896                       | 2,964                           | 25,860                        |
| Post retirement benefit liability                |            | 5,488                        | -                               | 5,488                         | 270                          | -                               | 270                           |
| <b>Total liabilities</b>                         |            | <b>2,597,139</b>             | <b>7,309</b>                    | <b>2,604,448</b>              | <b>3,084,001</b>             | <b>7,686</b>                    | <b>3,091,687</b>              |
| Called-up share capital                          |            | 120                          | -                               | 120                           | 120                          | -                               | 120                           |
| Reserve fund                                     |            | 22,598                       | -                               | 22,598                        | 22,598                       | -                               | 22,598                        |
| Revaluation reserves                             | C, D       | 33,387                       | (12,132)                        | 21,255                        | 37,426                       | (11,076)                        | 26,350                        |
| Retained earnings                                | A, C, D, E | 163,562                      | (1,139)                         | 162,423                       | 188,337                      | (794)                           | 187,543                       |
| <b>Equity shareholder's</b>                      |            | <b>219,667</b>               | <b>(13,271)</b>                 | <b>206,396</b>                | <b>248,481</b>               | <b>(11,870)</b>                 | <b>236,611</b>                |
| <b>Total liabilities and shareholder's funds</b> |            | <b>2,816,806</b>             | <b>(5,962)</b>                  | <b>2,810,844</b>              | <b>3,332,482</b>             | <b>(4,184)</b>                  | <b>3,328,298</b>              |
| <b>Memorandum items:</b>                         |            |                              |                                 |                               |                              |                                 |                               |
| Contingent liabilities (guarantees)              |            | 29,428                       | -                               | 29,428                        | 26,437                       | -                               | 26,437                        |
| Commitments                                      |            | 306,671                      | -                               | 306,671                       | 346,394                      | -                               | 346,394                       |

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**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**33. Transition to FRS 102 (Continued)**

**33 (c) Company Balance Sheet**

|  | Note       | As previously<br>stated<br>£000 | Effect of<br>transition<br>£000 | FRS 102 as<br>restated<br>£000 | As previously<br>stated<br>£000 | Effect of<br>transition<br>£000 | FRS 102 as<br>restated<br>£000 |
|--|------------|---------------------------------|---------------------------------|--------------------------------|---------------------------------|---------------------------------|--------------------------------|
| <b>Assets</b>                                    |            |                                 |                                 |                                |                                 |                                 |                                |
| Cash and balances at central banks               |            | 565,415                         | -                               | 565,415                        | 495,179                         | -                               | 495,179                        |
| Items in course of collection from banks         |            | 5,272                           | -                               | 5,272                          | 2,940                           | -                               | 2,940                          |
| Derivative financial instruments                 |            | 5,105                           | -                               | 5,105                          | 1,566                           | -                               | 1,566                          |
| Loans and advances to banks                      | D          | 121,372                         | (121,372)                       | -                              | 235,867                         | (235,867)                       | -                              |
| Loans and advances to customers                  | D          | 1,086,327                       | (1,086,327)                     | -                              | 1,161,997                       | (1,161,997)                     | -                              |
| Available-for-sale financial assets              | D          | 958,209                         | (958,209)                       | -                              | 1,352,949                       | (1,352,949)                     | -                              |
| Financial assets                                 | D          | -                               | 2,160,219                       | 2,160,219                      | -                               | 2,747,843                       | 2,747,843                      |
| Shares in group undertakings                     |            | 1                               | -                               | 1                              | 1                               | -                               | 1                              |
| Property and Equipment                           |            | 50,323                          | -                               | 50,323                         | 54,014                          | -                               | 54,014                         |
| Heritage assets                                  |            | 9,619                           | -                               | 9,619                          | 9,619                           | -                               | 9,619                          |
| Deferred tax asset                               | C, E       | 195                             | 481                             | 676                            | 210                             | 195                             | 405                            |
| Other assets                                     |            | 481                             | -                               | 481                            | 540                             | -                               | 540                            |
| Prepayments and accrued income                   | D          | 13,211                          | (754)                           | 12,457                         | 16,585                          | (1,409)                         | 15,176                         |
| <b>Total assets</b>                              |            | <b>2,815,530</b>                | <b>(5,962)</b>                  | <b>2,809,568</b>               | <b>3,331,467</b>                | <b>(4,184)</b>                  | <b>3,327,283</b>               |
| <b>Liabilities</b>                               |            |                                 |                                 |                                |                                 |                                 |                                |
| Deposits by banks                                |            | 16                              | -                               | 16                             | 67                              | -                               | 67                             |
| Customer accounts                                |            | 2,525,734                       | -                               | 2,525,734                      | 3,014,306                       | -                               | 3,014,306                      |
| Repurchase agreements                            |            | 25,000                          | -                               | 25,000                         | -                               | -                               | -                              |
| Deposits to subsidiary companies                 |            | 7,385                           | -                               | 7,385                          | 7,893                           | -                               | 7,893                          |
| Derivative financial instruments                 |            | 18,250                          | -                               | 18,250                         | 41,848                          | -                               | 41,848                         |
| Deferred tax liability                           | C          | -                               | 5,784                           | 5,784                          | -                               | 5,784                           | 5,784                          |
| Other liabilities                                | D          | 3,693                           | (1,106)                         | 2,587                          | 4,519                           | (1,148)                         | 3,371                          |
| Accruals and deferred income                     | A, E       | 18,913                          | 2,541                           | 21,454                         | 22,896                          | 2,964                           | 25,860                         |
| Post retirement benefit liability                |            | 5,488                           | -                               | 5,488                          | 270                             | -                               | 270                            |
| <b>Total liabilities</b>                         |            | <b>2,604,479</b>                | <b>7,219</b>                    | <b>2,611,698</b>               | <b>3,091,799</b>                | <b>7,600</b>                    | <b>3,099,399</b>               |
| Called-up share capital                          |            | 120                             | -                               | 120                            | 120                             | -                               | 120                            |
| Reserve fund                                     |            | 21,148                          | -                               | 21,148                         | 21,148                          | -                               | 21,148                         |
| Revaluation reserves                             | C, D       | 32,960                          | (11,705)                        | 21,255                         | 37,020                          | (10,670)                        | 26,350                         |
| Retained earnings                                | A, C, D, E | 156,823                         | (1,476)                         | 155,347                        | 181,380                         | (1,114)                         | 180,266                        |
| <b>Equity shareholder's funds</b>                |            | <b>211,051</b>                  | <b>(13,181)</b>                 | <b>197,870</b>                 | <b>239,668</b>                  | <b>(11,784)</b>                 | <b>227,884</b>                 |
| <b>Total liabilities and shareholder's funds</b> |            | <b>2,815,530</b>                | <b>(5,962)</b>                  | <b>2,809,568</b>               | <b>3,331,467</b>                | <b>(4,184)</b>                  | <b>3,327,283</b>               |
| <b>Memorandum items:</b>                         |            |                                 |                                 |                                |                                 |                                 |                                |
| Contingent liabilities (guarantees)              |            | 29,428                          | -                               | 29,428                         | 26,437                          | -                               | 26,437                         |
| Commitments                                      |            | 306,349                         | -                               | 306,349                        | 346,394                         | -                               | 346,394                        |

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**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**33. Transition to FRS 102 (Continued)**

**33 (d) Consolidated Statement of Changes in Equity  
For the year ended 31 March 2015**

|  | Note           | Previously<br>stated<br>£000 | Effect of<br>transition<br>£000 | FRS 102<br>(as restated)<br>£000 |
|--|----------------|------------------------------|---------------------------------|----------------------------------|
| <b>Balance as at 1 April 2014 (as restated)</b>    | <b>C, D, E</b> | <b>219,667</b>               | <b>(13,271)</b>                 | <b>206,396</b>                   |
| Profit for the year                                | A, B, C, D, E  | 23,171                       | (1,738)                         | 21,433                           |
| Other comprehensive income for the year            |                |                              |                                 |                                  |
| Remeasurements of net defined benefit obligation   | B              | 2,013                        | 2,540                           | 4,553                            |
| Deferred tax arising on pension scheme             | B              | (403)                        | (457)                           | (860)                            |
| <b>Total comprehensive income for the year</b>     |                | <b>24,781</b>                | <b>345</b>                      | <b>25,126</b>                    |
| Revaluation of available-for-sale financial assets |                | 2,990                        | -                               | 2,990                            |
| Transferred to Profit and Loss                     |                | 1,049                        | -                               | 1,049                            |
| Dividends  |                | (6)                          | -                               | (6)                              |
| Transition to FRS 102                              | D              | -                            | 1,056                           | 1,056                            |
| <b>Balance as at 31 March 2015 (as restated)</b>   |                | <b>248,481</b>               | <b>(11,870)</b>                 | <b>236,611</b>                   |

**33 (e) Company Statement of Changes in Equity  
For the year ended 31 March 2015**

|  | Note           | Previously<br>stated<br>£000 | Effect of<br>transition<br>£000 | FRS 102<br>(as restated)<br>£000 |
|--|----------------|------------------------------|---------------------------------|----------------------------------|
| <b>Balance as at 1 April 2014 (as restated)</b>    | <b>C, D, E</b> | <b>211,051</b>               | <b>(13,181)</b>                 | <b>197,870</b>                   |
| Profit for the year                                | A, B, C, D, E  | 22,953                       | (1,721)                         | 21,232                           |
| Other comprehensive income for the year            |                |                              |                                 |                                  |
| Remeasurements of net defined benefit obligation   | B              | 2,013                        | 2,540                           | 4,553                            |
| Deferred tax arising on pension scheme             | B              | (403)                        | (457)                           | (860)                            |
| <b>Total comprehensive income for the year</b>     |                | <b>24,563</b>                | <b>362</b>                      | <b>24,925</b>                    |
| Revaluation of available-for-sale financial assets |                | 2,998                        | -                               | 2,998                            |
| Transferred to Profit and Loss                     |                | 1,062                        | -                               | 1,062                            |
| Dividends  |                | (6)                          | -                               | (6)                              |
| Transition to FRS 102                              | D              | -                            | 1,035                           | 1,035                            |
| <b>Balance as at 31 March 2015 (as restated)</b>   |                | <b>239,668</b>               | <b>(11,784)</b>                 | <b>227,884</b>                   |

## **NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

### **33. Transition to FRS 102 (Continued)**

The transition to FRS 102 has resulted in a change in accounting policy for financial instruments. The nature of the changes and the impacts on opening equity and profit for the comparative period are explained below:

#### **A Holiday pay accrual**

FRS 102 requires short term employee benefits to be charged to the profit and loss account as the employee service is received. Previously, holiday pay accruals (holiday earned but not taken prior to the year end) were not recognised and were charged to the profit and loss account as they were paid.

##### **Valuation impact**

This has resulted in the Bank recognising a liability for holiday pay of £503,000 on transition to FRS 102.

##### **Tax impact**

The valuation impact resulted in the Bank recognising a deferred tax asset of £106,000.

#### **B Defined benefit Scheme**

Under previous UK GAAP the Bank recognised an expected return on defined benefit plan assets in the profit and loss account. Under FRS 102 a net interest expense, based on the net defined benefit liability, is recognised in the profit and loss account. There has been no change in the defined benefit liability at either 1 April 2014 or 31 March 2015.

##### **Valuation impact**

The effect of the change has been to reduce the credit to the profit and loss account in the year ended 31 March 2015 by £2,540,000 and increase the credit in other comprehensive income by an equivalent amount.

##### **Tax impact**

This has resulted in the Bank providing a deferred tax provision by crediting the profit and loss account by £457,000 and decreasing the other comprehensive income credit by an equivalent amount.

#### **C Deferred tax on Property and Heritage assets**

Under previous UK GAAP, the Bank was not required to provide for taxation on revaluations, unless the Bank had entered into a binding sale agreement and recognised the gain or loss expected to arise. Under FRS 102 deferred taxation is provided on the temporary difference arising from the revaluation.

In accordance with Section 34 Specialised Activities (Heritage Assets) of FRS 102 the Bank recognises and measure assets in accordance with Section 17 Property, Plant and Equipment.

##### **Valuation impact**

A deferred tax liability of £4,732,000 for property and £2,016,000 for heritage assets arose on transition to FRS 102 and a corresponding debit against revaluation reserves with a total of £6,748,000.

Under previous UK GAAP, investment properties were recorded at market value with the revaluation recognised in revaluation reserves. FRS 102 states investment properties must be measured at fair value through profit and loss, unless a fair value cannot be obtained without undue cost or delay.

##### **Valuation impact**

The Bank recognised a deferred tax asset of £24,000 and a debit of £104,000 to retained earnings and a credit of £128,000 to remove the revaluation reserve balance previously booked.

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**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**33. Transition to FRS 102 (Continued)**

**D Financial instruments**

Under previous UK GAAP, equity and debt securities were classified as available for sale financial assets and recognised at fair value through the revaluation reserve. FRS 102 requires equity securities to be classified as other financial instruments and recognised at fair value through profit or loss and debt securities to be classified as either basic instruments and recorded at amortised cost or complex instruments and recorded at fair value through profit or loss.

**Valuation impact**

On transition to FRS 102, the Bank recognised a debit of £712,000 to retained earnings for fair value changes prior to 1 April 2014 and an increase of £696,000 to the profit and loss account for fair value changes during the year ended 31 March 2015. In addition the revaluation reserve and financial assets decreased by £4,379,000 upon conversion to amortised cost.

**Tax impact**

As a result of changes in fair value the Bank recorded a corporation tax charge of £868,000 on changes prior to 1 April 2014 and a further tax charge of £181,000 for year ended 31 March 2015.

**E Loan fees**

The Bank's policy has been to recognise loan fees immediately in the profit and loss, largely as loans were structured as repayable on demand. As a result of the significant growth in fixed term lending, the Bank has, in conjunction with the transition to FRS 102, changed its policy to amortise loan fees over the expected term of the loans.

**Valuation impact**

This has resulted in the Bank recognising a debit to retained earnings of £2,541,000 for changes prior to 1 April 2014 and a credit of £80,000 to profit and loss for changes during the year ended 31 March 2015.

**Tax impact**

The change in policy resulted in the Bank recognising a deferred tax credit of £457,000 for the years prior to 1 April 2014 and a deferred tax charge of £286,000 and a corporation tax credit of £269,000 for the year ended 31 March 2015.

**34. Post Balance Sheet Event – EU Referendum**

On 23 June 2016 the UK electorate voted to leave the European Union. This decision commences a process that is likely to take a minimum of two years to complete, and during this time the UK remains a member of the European Union. There will be a resulting period of uncertainty for the UK economy, with increased volatility expected in financial markets. This does not impact the fair value of assets and liabilities, reported at the balance sheet date of 31 March 2016.