C. Hoare & Co.

PRIVATE BANKERS SINCE 1672

Annual Report and Consolidated Financial Statements Year Ended 31 March 2021

Company Number: 240822

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Chairman's Foreword

This has been an extraordinary year, even for a bank with a 349-year history. But thanks to the exceptional contribution of the bank's staff, the commitment of the partners and the loyalty of our customers, C. Hoare & Co. has come through it stronger. The bank was able to evolve seamlessly into a virtual bank because of sensible recent investment in our IT infrastructure. The financial year ended just as lockdown restrictions were starting to ease ahead of the Easter break and, despite the newer Delta variant, it is possible to chart a route back to some sort of normality.

The bank has sought to provide an excellent service and to accommodate each customer's needs in the light of the challenges created by COVID-19. And, judging by the positive feedback from our customers through the year we have succeeded. The pandemic has highlighted to all of us the importance of society standing together, and so, as we return to a more normal working environment, our focus is ever more on being 'good bankers and good citizens'. We seek to embed this purpose in everything we do.

The interest rate environment is making life difficult for banks and inevitably has had an impact on profits, which were £16.1 million before tax compared to £21.7 million last year. The balance sheet continued to expand steadily. Customer deposits grew significantly faster than last year, whilst customer lending achieved significant growth, albeit at a lower rate than last year (deposits increased 16.4% to £5.54bn, underlying customer loans by 2.8% to £1.86bn). The balance sheet continues to reflect the prudent intentions of the bank, with £1.70bn on deposit at the Bank of England at the end of the year. Robust capital reserves remain well above required minimum levels, with a common equity tier 1 capital ratio of 21.6% and total capital of £386m at the year end. Capital and liquidity positions are strong.

When the bank sold the wealth management business in 2016, it was left with a concentrated business: UK retail banking. The Board therefore decided to start an investment portfolio to make the bank's excess capital work by investing globally and, ideally, outside banking. The non-correlated nature of this diversification worked well in 2020 and has continued to outperform budget in 2021. We have therefore increased our investment further this year. When interest rates rise, our approach may change and the Board and I want to reassure our customers that we are working to ensure the portfolio is a source of resilience and stability, not volatility. In parallel, we continue to invest in high quality treasury assets issued by governments and top rated institutional counterparties. The focus remains on high grade, low risk, liquid investments with a long term investment horizon.

After long and considered deliberations with regards to the continued low interest rate environment, the bank took the decision to increase bank charges for the first time in 10 years. The new structure, which charges per customer rather than per account, allows us to reinvest in the highly personalised service that defines our customer proposition. It also supports the principle of good stewardship, helping maintain the bank's strength for future generations.

Overall headline costs decreased 2.4% compared with last year, though the underlying reduction was rather less because of one-off costs in 2019-20. We will continue to invest in people and technology, but expect our cost/income ratio to improve from the current level of 82.1% as the economy recovers from the effects of COVID-19 and our ambitious 5 year plan is implemented.

New impairment charges on customer lending were lower than we budgeted for, with no unexpected material items and most charges coming from a very small number of accounts. More generally, credit quality of customer lending continues to be strong, with only 3.6% of the portfolio considered impaired.

Chairman's Foreword (Continued)

This year, we said goodbye to our Chief Executive Officer, Steven Cooper. The Board is very grateful for everything Steven did to set the bank on its current strategic path and for building such a strong senior team. I am however delighted that Diana Brightmore-Armour has agreed to become our new CEO from 14 June; Diana is well known to everybody at the bank because she has served as a non-executive director for the last eighteen months. I would also like to welcome our new CFO Louise Denning, our new Head of Banking Shaun Phillips and our new Head of Internal Audit Fiona Haywood, who all joined the bank under 'lockdown'. Thank you also to Bob Loft, Allan Fielder, Philip Trevett and Karen Moscrop who have left the bank after many years of dedicated service.

Most importantly the Board and I would like to thank all of the hard working and committed people who make the bank what it is, and hope that in the year ahead we manage to meet in the bank more frequently. Finally, I would like to thank our loyal customers. We are proud to retain your trust.

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

Chairman

Strategic Report

The Directors present their Strategic Report on C. Hoare & Co. and its subsidiaries ("the bank") for the year ended 31 March 2021.

1. Review of Business: Market environment

Uncertainty over Brexit became of secondary concern in 2020/21 as the COVID-19 pandemic spread rapidly and brought many parts of the UK economy to a standstill. The service led UK economy suffered the worst contraction in the G7, matching a post war record of 10.0%. However, the successful rollout of the furlough scheme in the UK protected millions of jobs and helped unemployment close 2020 at 4.9%. Inflation stayed below the Bank of England's target of 2.0% and was consistently below 1.0%.

Whilst there remains significant uncertainty, and the full impact of the Brexit deal is still emerging, there is reason to be optimistic for the UK economy. The roll out of vaccinations has been a huge success and consumer confidence has revived rapidly. 2021 is projected to see record post war growth of 7.3%, bringing the UK back to pre-pandemic levels by Q4 2021/Q1 2022. Unemployment forecasts are consistently being revised down and are now expected to close 2021 at 5.0%, following the end of the furlough scheme. Inflation is expected to rise through the year and close 2021 at 2.5%. The UK property market has also been performing well, with prime London property prices rising in Q1 2021 and expected to continue rising through the year.

While optimism is growing, significant risks remain. COVID-19 variants represent the most significant risk and whilst the pandemic is being brought under control in the developed world, it is accelerating in the developing world where the pace of vaccine rollout is significantly slower. The residential housing market has been buoyed by the stamp duty reduction and when this ends in September there could be a correction in particular in London and the South East. Commercial values remain uncertain as workers return to offices and the shift to online shopping becomes entrenched, which is creating downward pressure on our portfolio valuation.

Despite the risks of the last 12 months our conservative lending portfolio has remained resilient, with all material impairment provision increases coming from already impaired loans identified in prior years. The bank continues to monitor the watch list closely and maintains a prudent approach to lending. Currently the base rate is expected to remain at 0.1% for the next 12 months, with the markets indicating modest base rate rises over the next five years, and the risk of negative rates has declined.

As we exit the most recent lockdown, we expect competition for loan growth to increase as competitors relax lending criteria. The technology shift in banking has likely been accelerated by the pandemic and this momentum is expected to continue accelerating over the coming years. The bank is therefore committed to continuing to invest in technology for our customers, whilst remaining nimble and alert to their changing needs, in order to deliver exemplary service and an unrivalled customer experience.

2. How we do business - Statement of Directors' responsibility under S172 of the Companies Act

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

Section 172 of the Companies Act requires us to confirm that our directors have acted in a way that is most likely to promote the success of the bank for the benefit of its members as a whole. As a business underpinned by purpose, we pay close regard to matters set out in Section 172, but we also take into consideration our values and our purpose in all our decision making.

Strategic Report (Continued)

2. How we do business - Statement of Directors' responsibility under S172 of the Companies Act (Continued)

Consequences of long term decisions –

The strong financial position of the bank, coupled with its ownership structure, allows the Board to set, and maintain, a long-term perspective when making decisions. The Board actively participates with the management team in the setting of culture and strategy. Any significant decision, or shift in strategic direction, is discussed at the Board with the broader management team, who represent and bring forward considerations of the key stakeholders.

Our strategy is customer led and founded on purpose in all that we do. In 2020, we refreshed our strategy to ensure we remain sustainable for decades to come. Our goal is to operate at a new pace, with sharper focus on providing a highly empathetic customer experience.

The Board and the management team also spent time during the year reviewing the bank's culture, to ensure that we are in a position to deliver our strategy. We reassessed our values of empathy, honesty, excellence and social responsibility to confirm they remained and ensure we put our values into practice and consider the long-term consequences of our decisions at all levels of the organisation.

Interest of our colleagues –

Our business is based on personal relationships. People are integral to our business and play a critical role in delivering our strategy. The talent, engagement and wellbeing of people who work at the bank is a major area of focus for the Board. The Board receives regular reports on a wide range of people issues. The partners engage with people across the bank every day in formal and informal settings; this allows them to develop a deep understanding of their perspectives on a wide range of matters.

Throughout the pandemic, we have put the interests of our people and our customers at the heart of our response. In the case of colleagues whose work could not be done remotely, we redeployed them to alternative work. In order to ensure our people feel supported, we have: increased the number of well-being champions; trained two mental health first aiders; developed a mental health toolkit for line managers; and started a bank wide conversation on mental health and psychological safety.

We ran a series of workshops to empower under-represented groups to speak openly about their accomplishments and we hosted a number of events to celebrate Black History Month. This year also saw the introduction of a new carers' policy and enhanced maternity and paternity leave.

Supported by our Digital and Technology team, our colleagues rose to the challenges of remote working. This enabled us to continue offering our customers seamless personal service at a time of great uncertainty.

Fostering strong relationships with our stakeholders -

As good bankers and good citizens, we seek to build strong relationships with our customers, our suppliers and our regulators. The Board regularly discusses how we engage with our key stakeholders, from both a governance and a strategic perspective. All matters submitted to the Board include an analysis of which stakeholders will be affected and how their interests have been considered. There is also a requirement to explain the impact each matter has on our purpose.

Trust is a key component in all our relationships and we conduct our relationships in an open and transparent way. In our most recent customer survey, the vast majority of customers confirmed that C. Hoare & Co. is their first choice for all their banking needs, while more customers than ever said they expect to remain with us in the medium term.

We are committed to acting ethically and with integrity in all our supplier relationships. Where possible, we build longstanding relationships with our suppliers and make clear our expectations of business behaviour. This has included supporting our smaller suppliers during the pandemic by speeding up our payment processes to assist their cash flows.

Strategic Report (Continued)

2. How we do business - Statement of Directors' responsibility under S172 of the Companies Act (Continued)

Our relationship with our regulators is open and constructive. We have had regular and ongoing dialogue with our Prudential regulators throughout the last year, across a range of subject matters. We view this dialogue as being of mutual benefit, especially during times of market disruption. We look forward to further discussions with our regulators in the coming year.

Impact of our operations on the community and environment –

The bank has a long history of philanthropy. Social responsibility is one of our core values. In 2020, we decided to focus our efforts on three of the United Nations Sustainable Development Goals: reduced inequalities, health and well-being, and climate action. We set up three colleague led taskforces to focus our efforts in these areas. Some of the key initiatives driven by the taskforces, in partnership with the bank's Facilities & Catering Team, included:

- running a "raising aspiration day" with students from ThinkForward, a youth employability charity that prepares young people for the working world;
- cooking and arranging delivery of meals for The Passage, a voluntary sector day care centre for the homeless and the vulnerable; we also raised over £4,000 to fund the purchase of an electric van for their food deliveries;
- donating blessing bags, filled with essential supplies to The Connection at St Martins-in-the-Fields, to support the many homeless people temporarily rehoused due to COVID-19;
- donating coffee machines and food to Guys & St Thomas' Hospital to support our local NHS workers;
- donating workwear to two charities, Smartworks and Key 4 Life.

The Golden Bottle Trust (the charitable trust established in 1985 by the Hoare family) has also been supporting projects linked to our three target goals. This year it became a supporter of an international effort called United for Global Mental Health, which is looking to break national silos and share best practice. This small and nimble charity is a great example of how we look to engage with a wide group of stakeholders when thinking about our impact on the community. Through the Golden Bottle Trust's (GBT) impact investments, the GBT supported the building, and subsequent launch, of The Big Exchange. Backed by the social enterprise behind the Big Issue, this is an investment platform designed to bring the financially excluded into the financial system.

Climate action is an area in which the GBT is becoming increasingly active. This year it lent its support to both Buglife, a charity that looks to develop insect habitats, and the recently organised climate-change conference, Mock COP.

The Board actively promotes discussion on our wider impact, with time devoted to climate change, the investment strategies for our pension assets, and our relationship with customers involved in industries that are seen as potentially harmful to social or environmental health.

For more information on the activities of the bank that support our community and environment please see the Directors' report section 6.

Importance of maintaining a reputation for high standards of business conduct –

Our remarkable reputation is founded on a consistent record of trust, security and integrity. Our customers feel like equal partners and cherish the bank because we do everything humanly possible to solve their needs.

The bank has a robust governance structure in place to ensure that it maintains the highest standard of business conduct. The bank's Audit, Risk and Compliance Committee reports to the Board on all aspects of risk management, while the Reputation Committee ensures we do business with customers and suppliers who share our values. The whistle-blower function is independent and reports directly to the Board. Conflicts of interest are monitored by the Head of Compliance and both the Board and governance framework are subject to regular audits.

Strategic Report (Continued)

2. How we do business - Statement of Directors' responsibility under S172 of the Companies Act (Continued)

The need to act fairly amongst all stakeholders of the company -

The Board has ultimate responsibility to ensure the bank conducts its activities in a fair and appropriate manner with regard to all its stakeholders. The directors consider which course of action best enables delivery of our strategy, in line with our purpose.

Being a purpose led organisation ensures we take a holistic view of the interests of all our stakeholders in our decision making. In every decision we ask ourselves: 'Is this what a good banker and a good citizen would do?'

3. Review of Business: the bank

Our key focus is to continue to offer a personal banking service characterised by service and efficiency.

Profit before tax decreased to £16.1m, from £21.7m in 2020. Income decreased to £102.6m *(2020: £124.0m)* driven by a lower average Bank of England base rate throughout the year. A focus on cost control, whilst continuing to invest, meant that costs decreased to £85.8m *(2020: £86.8m)*. The cost to income ratio increased to 82.1% *(2020: 70.0%)* due to the lower income profile. Credit quality in the loan book remained good with the impairment charge for the year only £0.7m *(2020: £15.4m)*, or 0.04% *(2020: 0.9%)* of the loan book. The previous year's impairment charge of £15.4m was unusually high due to impact of the pandemic and reflecting the uncertainty of the property market in London and the South East.

Customer deposit balances increased 16.4% to £5,544.3m as at 31 March 2021.

Customer lending balances grew by 2.8% to £1,857.0m and equated to 33.5% of deposits at year-end. The growth in the loan book was in line with our expectations and was largely driven by our fixed rate and term facilities. We continue to see a strong pipeline of new loans despite market conditions.

The bank's money market book increased 17.1% to £3,869.8m, of which £3,200m represented high quality liquid assets. When making investments, we accept that lower market rates will continue to put downward pressure on the money market book yield but we continue to prefer lower risk and shorter duration over higher return.

The net interest margin for the year was 157bps, down 51bps from the previous year, driven by a higher percentage of assets held at the Bank of England. Net interest income decreased by 20.9% to £80.6m, despite strong balance sheet growth, as base rates remained at 10bps throughout the year reducing deposit income contribution.

Fee income remained stable at £10.6m *(2020: £10.6m)* and primarily consisted of account maintenance fees, transactions fees and charges for lending and foreign currency transactions. Fee income as a proportion of total income increased to 10.4% (2020: 8.5%).

The bank's defined benefit pension scheme's surplus decreased from £10.2m to £4.0m as at 31 March 2021, primarily due to a normalisation in key financial assumptions which had reflected the uncertainty caused by COVID-19 at the end of the last financial year. The loss recorded in the current year was primarily due to the relatively large increase in implied future RPI and a decrease in the discount rate applied to the pension liability, caused by a significant narrowing of the previous year's spreads on corporate bonds. Both of these factors increased the estimated value of the pension liability.

Total shareholders' funds increased by £4.0m (1.0%) during the year; this was primarily as a result of retained profits.

Strategic Report (Continued)

4. Principal Risks and Uncertainties

The Board has ultimate responsibility for identifying and managing the bank's principal risks in order to achieve its strategic objectives. The Audit, Risk & Compliance Committee provides oversight and monitors the effectiveness of internal controls and risk management processes and reports thereon to the Board. The following section sets out the principal risks and uncertainties to which the bank is exposed and how these risks are mitigated:

(a) Coronavirus and economic uncertainty

The bank is exposed to an uncertain outlook caused by the coronavirus pandemic. Management has and continues to remain, focussed on monitoring and managing the heightened risk environment.

- Credit risk. The bank acted quickly and proactively to support the needs of our customers from the start of the pandemic. A small number of customers requested payment holidays, but almost all have now resumed full payment. The bank continues to monitor and analyse credit risk in the portfolio to ensure that we remain within our risk appetite.
- Market risk and liquidity risk. At the start of the pandemic, management met daily to review market movements, customer behaviour and economic, political and social trends. Given the significant levels of high quality liquid assets, the trends observed and the stability of the bank's balance sheet since the emergence of the virus, the bank did not experience any liquidity risk events. The risk that the liquidity of the bank is still significantly impacted is considered to be low.
- Operational risk. The bank was able to move quickly to working remotely and we have remained operationally resilient throughout the period. Management continues to pay close attention to operational risks, including to colleague health and well-being.

(b) Credit Risk

Credit risk is the risk of financial loss arising from a borrower or a counterparty failing to meet its contractual financial obligations. The risk arises from loans and advances to customers and banks and from treasury investments.

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

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

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.

The Asset and Liability Committee (ALCo) reviews the authorised list of bank counterparties on a regular basis and authorises any amendments to the approved list of counterparties and related credit limits. The committee will also give ongoing consideration to changes in external credit ratings and amend counterparty limits as appropriate.

Strategic Report (Continued)

4. Principal Risks and Uncertainties (Continued)

(c) Capital Risk

Capital risk is the risk of insufficient capital being available to support the strategic objectives of the bank. The bank's policy is to maintain a strong capital base in line with the capital risk appetite established by the Board. The bank's regulatory capital and leverage ratios are monitored closely to ensure that the bank meets both current and future known regulatory requirements. In addition, the bank's current and forecast capital positions are reported monthly to the ALCo and the Management Team and every two months to the Board. The bank maintains an internal buffer over the minimum regulatory capital requirements.

The bank assesses the adequacy of its capital through the annual update of the Internal Capital Adequacy Assessment Process (ICAAP), and more frequently in the event of a material change in capital. The ICAAP is the bank's own assessment of its capital needs and is based on stress testing and scenario analysis of the impact of material risks affecting the bank. The ICAAP is presented at least annually to the ALCo, the Management Team, the Audit Risk and Compliance Committee for review and challenge, and ultimately to the Board for review, challenge and approval.

The implications of the COVID-19 virus on the capital position of the bank have been considered by the ALCo, the Management Team and the Board regularly since the onset of the virus. Given the strong capital position, the quality of the bank's assets, and the stability of the business, the risk of significant impact on the capital of the bank is considered to be low.

(d) Liquidity and Funding Risk

Liquidity risk is the risk that the bank is unable to meet its liabilities when they come due . The risk arises from mismatches in the timing of cash flows.

Funding risk is the risk that the bank does not have sufficient funding available in the medium and longer term to enable it to fund its customer lending and other longer term and illiquid assets. The risk arises when the funding needed for illiquid asset positions cannot be obtained at the expected terms and when required. The bank does not use wholesale funding. The bank's source of funding is customer deposits in the form of current accounts and savings deposits where a significant proportion of these are repayable on demand.

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

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

(e) Market Risk

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

Market risk is principally a concern in the banking book, since the bank does not operate a significant trading book, generally holds assets until maturity (consistent with the articles of the Capital Requirements Regulation) and makes investments for the long term. Only a small component of the banking book is recorded at fair value and the majority of fixed rate loans are hedged such that their main exposure is interest rate risk, both basis and yield curve risk. The bank also holds an investment portfolio, primarily as a source of income diversity to complement core banking activities. The portfolio is subject, in part, to equity market price movements.

Strategic Report (Continued)

4. Principal Risks and Uncertainties (Continued)

(e) Market risk (Continued)

All investments depend on Board approval and are subject to limits and controls monitored by the ALCo. Therefore the bank's main market risks arise from:

- **Interest Rate Risk:**

  Only a small component of the banking book is recorded at fair value and the majority of fixed rate loans are hedged such that the main exposure to market risk is interest rate risk both yield curve and basis risk.

  Interest (basis) rate risk could arise from an imperfect correlation between the bank's lending and deposit rates. The bank has set limits to manage basis risk, measured as the value of earnings at risk, and this is monitored monthly at the ALCo.

  Interest (yield) 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 rate re-fixing dates as against the contractual maturity dates of the instruments. The bank uses interest rate swaps to hedge exposures to interest rate risk, as part of its risk management process. The ALCo approves the use of specified derivative instruments within agreed limits and business activities.

- **Foreign Currency Risk:**

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

  Foreign currency balances are partly 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 foreign currency deposits from customers. Assets are in respect of foreign currency 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, to meet customers' requirements. The resulting positions are independently monitored and are reported monthly on a currency by currency basis to the ALCo.

  In addition, a small portion of the bank's investments are in a fund that is US dollar denominated, which gives rise to FX risk exposure on the returns of that investment. There are limits established for unmatched FX exposures in the bank's investments that are monitored and reported to the ALCo.

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

(f) Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes and systems, human error or from external events including legal risk, financial crime risk and information security 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. 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, human error and systems or from external events are minimised in line with the Bank's risk appetite.

Strategic Report (Continued)

4. Principal Risks and Uncertainties (Continued)

(e) Operational risk (Continued)

Each department is responsible for operating within the bank's risk appetite and owns the management of the individual risks directly linked to its business operations. This includes identifying, mitigating, monitoring and reporting risks and ensuring that activities are undertaken within the policy requirements. The Risk Department is responsible for establishing risk policies, facilitating the implementation of effective risk management practices by the business, providing oversight over the risk management process and supporting risk reporting (please see the Three Lines of Defence in the Directors' report)

The key elements of the Operational Risk Framework are:

- 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)

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

(g) Concentration Risk

The bank acknowledges that the nature of its business model creates a level of concentration risk. The bank is comfortable to accept and monitor concentration risk to appropriate levels. Reporting on sector, geographic and large customer holding concentrations (relative to Board agreed risk appetite limits) is provided to the ALCo, Management Team, ARCCo and Board.

(h) Conduct Risk

The bank expects the conduct of its colleagues, third party suppliers and customers to be consistent with the bank's values and for customers to be treated fairly. Conduct risk considerations are embedded in product and service design principles and processes to ensure that they align to the bank's values.

To support the management of this risk, the bank has established a robust set of systems and controls, including regular training for staff. The bank has established risk appetite metrics for conduct risk which are monitored by the ORC, Management Team, ARCCo and Board.

(i) Reputational Risk

The bank's standing in the eyes of its customers, regulators, counterparties, employees and the general public is of critical importance to the Board.

The bank established a Reputation Management Committee to ensure appropriate focus is maintained on this risk. The Management Team, ARCCo and Board also monitor a number of different risk appetite metrics associated with this risk exposure.

(j) Regulatory Compliance Risk

As a regulated entity, the bank is subject to a number of regulatory requirements. The bank has a dedicated Compliance Function that provides advice and oversight to the business on regulatory matters and conducts regular monitoring. In addition, the bank has established a Legal and Regulatory Committee. The bank has also established a number of risk appetite limits that are closely monitored by the MT, ARCCo and Board.

Strategic Report (Continued)

4. Principal Risks and Uncertainties (Continued)

(k) ESG risk (including climate change)

The Board, via a specially constituted internal taskforce, focuses on each of its ESG high priority areas. The description below sets out the bank's approach to Climate Change specifically.

- Governance

  In the last year, climate-related issues have been a regular topic on the Board's agenda. It has received several updates on the work to implement the PRA's requirements for climate risk, and it invited a subject matter expert to share their perspective on the risks and opportunities ahead. We will shortly be formalising Climate Change responsibilities into the relevant committees of the bank.

  Under the Senior Managers Regime, responsibility for climate-related issues sits with the Head of Risk and Compliance. Other individuals across the organisation support the Head of Risk and Compliance in this role. The General Counsel is responsible for ensuring the bank complies with Streamlined Energy & Carbon Reporting Regulations, and Risk is responsible for implementing the PRA's requirements on climate change. The bank recently established a climate risk working group, which consists of a team of senior individuals across the bank. This working group is tasked with and has been providing review and challenge of, the approach underpinning the climate risk framework.

  More informally, the bank has also established a climate action taskforce. Its remit is to raise awareness of climate-related issues across the colleague base and support the bank in its work to reduce its carbon footprint.

- Climate Risk Management Framework

  Climate change has the potential to affect the bank directly (company related risks) and indirectly (predominantly via the lending book). These climate risks are anticipated to arise through two primary channels: physical effects from climate change and transitory risks and/or opportunities created as global economies aim to transition towards net zero emissions.

  The bank is developing a methodology to assess its key risks from climate change, with reference to the publications from the Task Force for Climate related Financial Disclosures and evolving industry practices. We are initially prioritising the customer risk assessments initially and the Company risk assessment will be conducted thereafter.

  The bank will continue monitoring the outputs and developments on Climate Change to inform its thinking and actions.

- Streamlined Energy & Carbon Reporting Regulations

  The bank continues to monitor and take action to reduce the bank's own carbon footprint: the bank has been monitoring its tier one and tier two emissions in line with the Streamlined Energy & Carbon Reporting Regulations for two years. In its 2019/20 financial accounts, the bank set itself a target of becoming carbon neutral for its tier two emissions by 2025. The board, via a specific internal taskforce, is now looking to establish more challenging long-term goals in the climate space.

  See section 7 of the Directors' report for more detail.

Strategic Report (Continued)

4. Principal Risks and Uncertainties (Continued)

Detailed disclosures on credit risk, liquidity risk, interest rate risk, foreign exchange risk and the use of derivatives are set out in Notes 12 and 31 in accordance with FRS 102 'Financial Instruments: Disclosures'. The bank's capital management is detailed in the Directors' Report on pages 17 and 18.

A fuller description of the bank's principal risks can be found in the bank's unaudited Pillar 3 disclosures and are available on the bank's website: www.hoaresbank.co.uk.

By Order of the Board

15 July 2021

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

Directors' Report

The Directors of C. Hoare & Co. ("the 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 2021.

The financial statements were approved by the Board on 15 July 2021.

1. Principal Activities

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

2. Results and Dividends

The financial results for the year are set out in the Statement of Comprehensive Income on page 32.

Total comprehensive income for the year of £4.0m *(2020: £22.3m)* will be used to strengthen reserves and support future growth.

The Board recommends an ordinary share dividend for the year of £50 per share *(2020: £50)*, resulting in a total of £6,000 payable on 19 July 2021.

3. Risk Management and Governance Structure

The bank and Group's business is stable and concentrates on the supply of banking and ancillary 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 principal risks affecting the bank are explained in the Strategic Report on pages 7 to 12.

The bank's Risk Management Framework (RMF) comprises the risk governance structures, risk appetite and risk management framework and policies to achieve the bank's risk management objectives. These objectives are to:

i. articulate and communicate the Board's risk appetite and ensure the bank's risk profile operates within the defined parameters;
ii. ensure significant risks are identified, measured, managed, monitored and reported in a consistent and effective manner across the bank;
iii. re-assess regularly, the capital requirements and liquidity impacts implied by these risk exposures;
iv. integrate and consolidate all components of risk information to provide a comprehensive view of the bank's risk exposure to the Board and its Committees in order to evaluate risk adjusted performance against strategic objectives; and
v. ensure a robust risk governance structure and risk culture is maintained.

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

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

Directors' Report (Continued)

3. Risk Management and Governance Structure (Continued)

3.1 Risk Appetite Statement

- **Board Strategic Objective:**

  The Hoare Family's vision is to "perpetuate a profitable family business". With this in mind, the bank's strategic objective is to build profitable long-term relationships with its customers and to offer an exceptional and personalised service.

- **Board Approved Risk Appetite Statement and Risk Appetite Metrics:**

  In order to meet the bank's strategic objective, the bank is willing to take risks if they are consistent with the bank's values and if they do not threaten the bank's reputation or its sustainability. The Board articulates the level of risk that the bank is willing to accept overall and for each risk category in pursuit of its strategic objectives via the Risk Appetite Statement which is reviewed and updated at least annually. The Bank also articulates the level of risk the bank is willing to take, both quantitatively and qualitatively, through the use of risk appetite key risk indicators and early warning indicators.

3.2 Governance Structure

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

The primary structures for the current year are shown below:

Table 1: Governance Structure

Board of Directors		
Remuneration & Nominations Committee	**Audit, Risk & Compliance Committee**	
Management Team		
Asset & Liability Committee	**Credit Committee**	**Product Governance Committee**
Legal & Regulatory Committee	**Operational Risk Committee**	**Reputation Management Committee**

Board of Directors

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

- Audit, Risk & Compliance Committee (ARCCo)
- Management Team
- Remuneration & Nominations Committee (RemCo)

The Board sets the bank's risk appetite and reviews the effectiveness of the systems and controls to manage risks against the risk appetite on an annual basis.

Directors' Report (Continued)

3. Risk Management and Governance Structure (Continued)

3.2 Governance Structure (Continued)

Remuneration & Nominations Committee (RemCo)

The Remuneration & Nominations Committee has two main purposes. The first, in consultation with the partners, is to oversee the appointment of Directors to the Board and members of the Management Team. 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 Partner Directors and Non-Executive Directors. The second is to set the principles, parameters and governance of the remuneration policy across the bank and to consider and approve the remuneration of Identified Staff. Identified Staff include Senior Management (including the Partners, staff performing a Senior Management Function (as defined by the Regulators) and Non-Executive Directors) and Material Risk Takers (staff whose actions are deemed to have a material impact on the bank's risk profile).

Audit, Risk & Compliance Committee (ARCCo)

A key responsibility of the ARCCo is to assist the Board in its oversight of the bank's RMF. This includes challenging and advising the Board on:

i. the risk appetite statement and metrics for monitoring the effectiveness of the bank's risk management framework to ensure that the bank is operating within its risk appetite;
ii. current risk exposures and future risk strategy; and
iii. the ICAAP, ILAAP, and associated stress testing and scenario analysis.

The ARCCo also reviews reports on any material breaches of risk limits and the adequacy of proposed actions:

i. to bring to the attention of the Board and the Management Team matters of concern, arising either internally or externally; and
ii. to recommend actions to mitigate the bank's risks.

Management Team

The Board has delegated day-to-day executive management of the bank to the Chief Executive Officer ("CEO")/Executive Chairman and has established a Management Team to assist in the management of the business and delivery against its strategy.

The Management Team comprises:

- Chief Executive Officer or Executive Chairman
- Head of Banking
- Chief Financial Officer
- Head of Human Resources and Business Services
- Head of Treasury
- Head of Compliance and Risk
- Chief Technology and Operations Officer
- Chief Customer Officer
- General Counsel and Company Secretary

- Head of Internal Audit also attends

The Management Team has in turn established the following sub-committees to support its responsibilities:

iii. Asset & Liability Committee
iv. Credit Committee
v. Product Governance Committee
vi. Legal & Regulatory Committee
vii. Operational Risk Committee
viii. Reputation Management Committee

Directors' Report (Continued)

3. Risk Management and Governance Structure (Continued)

Asset and Liability Committee (ALCo)

The purpose of the Asset and Liability Committee is to oversee the bank's balance sheet, including free capital. It is also responsible for allocating funds within the balance sheet to manage liquidity, currency risk, capital adequacy and profitability.

Credit Committee

The purpose of the Credit Committee is to oversee the bank's approach to customer credit risk. It reviews and approves the credit risk appetite and the lending parameters, oversees the overall lending portfolio and sanctions individual deals within Delegated Authority limits, including any actions being taken on problem lending.

Product Governance Committee

The purpose of the Product Governance Committee is to provide oversight and leadership on the bank's product and service propositions in line with the bank's strategy and core customer needs.

Legal & Regulatory Committee

The purpose of the Legal and Regulatory Committee is to oversee the legal and regulatory obligations of the bank. It is responsible for analysing new legal and regulatory developments affecting the bank, overseeing impact assessment of such developments and ensuring appropriate ownership is allocated. It also operates as a forum for identification and escalation of legal or regulatory issues and the monitoring of related mitigation actions.

Operational Risk Committee (ORC)

The purpose of the Operational Risk Committee is to oversee the bank's operating risks and controls. It is responsible for monitoring the internal and external operational risk environments and tracking the testing of, and improvements to, controls.

Reputation Management Committee

The purpose of the Reputation Management Committee is to give consideration to circumstances in which the bank's reputation could be damaged, either through its own activities or through connection to other parties such as customers or suppliers. It reviews and approves appropriate courses of action to mitigate reputational risks.

Three Lines of Defence Model

A Three Lines of Defence model has been adopted by the bank to embed the Risk Management Framework.

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

Each department is responsible for operating within the bank's risk appetite and owns the management of the individual risks directly linked to its business operations. This includes identifying, mitigating, monitoring and reporting risks.

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

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

Third Line of Defence (3LoD) – Internal Audit

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

Directors' Report (Continued)

4. Capital Management

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 minimum requirements.

The Board is ultimately responsible for capital management. The Board, the Management Team and the ALCo receive regular reports on the current and forecast level of capital.

The bank measures the amount of capital it holds using the regulatory framework defined by the Capital Requirements Directive and Regulation (together referred to as CRD IV) as implemented in the UK by the Prudential Regulation Authority (PRA).

The regulatory landscape continues to evolve, and Brexit prompted a number of publications by the PRA at the end of 2020 and early 2021. Notably, the PRA published Policy Statement 29/20 Capital Requirements Directive V (CRD V) at the end of December 2020, containing 33 final PRA Rulebook instruments, Statements of Policy (SoP), Supervisory Statements (SS) and templates. Furthermore, in February 2021, the PRA published a consultation paper setting out its proposed rules in respect of the implementation of international standards through a new PRA Capital Requirements Regulation (CRR) rule instrument, which is expected to be implemented from 1 Jan 2022.

The bank monitors and assesses the potential impacts of ongoing regulatory developments.

The bank's regulatory capital is comprised of two tiers:

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

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

The bank's capital adequacy and capital resources are managed and monitored in accordance with the regulatory capital requirements of CRD and the PRA. The bank is subject to capital requirements as defined under Pillar 1 (minimum capital requirements) supplemented by additional minimum requirements under Pillar 2A, the aggregate of which is referred to as the Total Capital Requirement (TCR). Further to this, the bank is subject to CRD capital buffers. The capital conservation buffer (CCoB) is a standard buffer of 2.5% of risk weighted assets designed to provide for losses in the event of a severe but plausible stress; it has been phased in since 2016 at the rate of 0.63% each year to reach its final level of 2.5% at 1 January 2021.

The countercyclical capital buffer (CCyB) is designed to require banks to hold additional capital to capture system wide cyclical risk. The amount of the buffer is determined by reference to buffer rates set by The Financial Policy Committee, whereby it was announced on the 11 March 2020, a reduction to the UK's CCyB to 0.0% for a period of at least 12 months. The Bank of England acknowledged in their Financial Stability Report in December 2020 that any subsequent increase in the CCyB is not expected to take effect until 2022 Q4 at the earliest, due to the usual 12-month implementation lag.

The minimum capital requirement is determined as 8.0% of total risk weighted assets. The additional minimum requirements are set by the PRA through the issuance of bank specific Individual Capital Requirement (ICR), following the ICAAP, as part of the supervisory review. The bank assesses the adequacy of its capital through the annual update of the ICAAP and more frequently in the event of a material change in capital. The ICAAP is the bank's own assessment of its capital needs and is based on stress testing and scenario analysis of the impact of material risks affecting the bank. The ICAAP is presented at least annually to the ALCo, the Management Team and the ARCCo for review and challenge, eventually leading to review, challenge and approval by the Board. The bank has put in place processes and controls to monitor and manage capital adequacy, throughout the year, the bank's regulatory capital remained in excess of the minimum requirements determined by the ICR and CRD buffers.

The bank continues to monitor developments and to incorporate the impact of forthcoming regulatory changes to the capital forecasts; this ensures that the bank is able to maintain a strong capital base that exceeds the minimum regulatory requirements.

Directors' Report (Continued)

4. Capital Management (Continued)

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

Group	2021 £000	*2020 £000 Restated*
Common Equity Tier 1 capital		
Ordinary share capital	**120**	*120*
Reserve fund	**22,598**	*22,598*
Profit and loss account	**340,230**	*333,472*
Property revaluation reserve	**27,386**	*29,950*
Heritage assets revaluation reserve	**7,398**	*7,581*
Intangible assets adjustment for CRR II treatment	**(13,091)**	*(9,523)*
Net defined benefit obligation	**(3,200)**	*(8,482)*
Total Common Equity Tier 1 capital and Total Tier 1 capital	**381,441**	*375,716*
Tier 2 capital		
Collective Impairment Allowance	**4,323**	*4,160*
Total Tier 2 capital	**4,323**	*4,160*
Total regulatory capital (audited)	**385,764**	*379,876*
Risk weighted assets	**1,764,829**	*1,779,927*
Capital ratios		
Total regulatory capital expressed as a percentage of risk weighted assets	**21.86%**	*21.34%*
Common Equity Tier 1 capital expressed as percentage of risk weighted assets	**21.61%**	*21.11%*

In the prior year intangible assets were presented as a separate category within tangible fixed assets. During the year there was a change in accounting policy and it was determined that these assets should be presented separately from tangible fixed assets. There was neither an impact on opening equity nor on profits from this change, however the prior year comparatives for capital were adjusted accordingly resulting in a total deduction from both RWAs & CET1 for the year of £13,091,000 *(2020: £9,523,000)*.

The bank has adopted the CRR II changes relating to the capital treatment of intangible assets. The new CRR II treatment introduces a prudential amortisation concept and sets this at three years. The bank deducts from capital the difference between the software intangible prudential amortisation and the accounting amortisation period of 4 years, with the remaining portion of the net book value being taken as a risk weighted asset. Work in progress costs are recorded as other assets until the asset is available for use and are 100% deducted from the capital calculation of CET1 and risk weighted assets.

The bank's total regulatory capital ratio increased year on year from 21.34% (restated) to 21.86%, while the Common Equity Tier 1 ratio increased from 21.11% (restated) to 21.61%. The capital ratios remain above the regulatory requirements. The increase in total regulatory capital during the year was due to retained profits.

The bank's total capital requirement, being the aggregate of Pillar 1 and Pillar 2A requirements, as at 31 March 2021 was 11.52% *(2020: 11.85%)*.

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

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:

Mr A. S. Hoare
Miss V. E. Hoare
Mr S. M. Hoare
Miss A. S. Hoare
Mr A. R. Q. Hoare
The Rt. Hon. Lord Macpherson of Earl's Court GCB (Chairman)
Ms D. S. Brightmore-Armour (appointed Chief Executive Officer 14 June 2021)
Mr S. Cooper (Chief Executive Officer) (resigned 13 November 2020)
Mr A. J. McIntyre
Ms J. E. M.Waterous

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.

6. How we engage with our stakeholders

Our purpose is to be good bankers and good citizens. We recognise that our purpose can only be achieved by building strong relationships with all of our stakeholders. Our success depends on us having engaged stakeholders who trust that we share their values and have their best interests at the heart of all our activities. We continually strive to deepen our understanding of our stakeholders' needs through regular and meaningful dialogue.

Customers

The bank prides itself on providing an empathetic customer experience. Relationships of deep trust are founded on shared values of honesty, empathy, excellence and social responsibility.

Every one of our customers has their own relationship manager who offers them a comprehensive range of services tailored to their individual needs. This includes everything from day-to-day banking and flexible lending to specialist services from our Tax, Treasury, Landed Estates and Family Office teams and support with philanthropic giving via our Master Charitable Trust.

Our research shows us that openness, trust and reciprocity are abundantly present in the 'experience' customers have with us. This has a direct impact on the types of products and services we offer our customers. We seek to embed purpose into all our products and services to align with our customers' values.

We also seek to engage with our customers in other ways. Every prospective customer has a meeting with a partner before joining the bank to ensure they share our values and we curate lively communities based on shared interests such as entrepreneurship and philanthropy.

Against the backdrop of the pandemic we quickly set ourselves up as a 'virtual' private bank, making sure all our colleagues had the technology they needed to continue to provide excellent customer service. In March 2020, we opened up our first account remotely - a milestone in the long history of the bank. Since then we have continued to see a strong flow of new business from our existing customers and a record number of introductions from the professional firms with whom we work closely. Our response times compared to those of the competition have also been good despite the challenging environment; this has also seen us attract new prospects.

Although the pandemic made physical gatherings challenging this year, we hosted a number of virtual events including a wine-tasting evening; a landed estates webinar; an entrepreneurs forum; a presentation by the National Youth Jazz Orchestra; and a series of online talks on subjects ranging from impact investment to WW2 history and the power of disruptive technologies. No longer confined by the size of our physical meeting rooms, we have seen a dramatic increase in attendance, with over 500 guests at some events.

These events, and the way in which we have continued to establish and maintain personal connections in the bank community, received particularly warm commendation in our customer survey.

Directors' Report (Continued)

6. How we engage with our stakeholders (Continued)

Recognising that our customers' lifestyles are changing, and that they have increasingly high expectations of instant, error-free, interactions, this year we introduced electronic statements and electronic signing, while mobile phone-generated secure codes replaced the hard tokens used to log in online. In addition, we have substantially increased our social-media engagement with regular posts on Twitter, Facebook and LinkedIn updating the whole bank community on our social and philanthropic initiatives. A key milestone for the next financial year will be the introduction of faster payments over the weekend.

Colleagues

The bank has a caring performance culture that is very clearly articulated in terms of our core values and the mind-set and behaviours that we need to demonstrate if we are to live up to those values. We have built up an awareness and understanding of culture amongst colleagues through interactive workshops and by ensuring that our hiring, training and performance management tools are fully aligned to the caring performance culture that we all truly value.

The bank is an equal opportunities employer and recruits the most suitable applicant for any given vacancy. We take a number of steps to ensure that we are a truly inclusive employer: we insist on a diverse shortlist of candidates in our hiring practices; colleagues in all roles may adopt flexible work patterns with a number of internal policies to support this; and we actively encourage open conversations that foster the creation of a more inclusive bank.

Our success in achieving this caring performance culture was very clearly marked in our latest Colleague Survey where the Colleague Net Promoter Score, Colleague Happiness score, Colleague Engagement score and the Colleague Inclusion score all moved significantly ahead.

Regulators

The bank is authorised by the Prudential Regulation Authority and regulated by the Prudential Regulation Authority and the Financial Conduct Authority. Additionally, the bank engages with the Information Commissioner's Office and HMRC. Our engagement with regulators ensures we serve our stakeholders' best interests and provides us with important oversight on how we manage the various elements of our business model. Our approach is to conduct our business, including our tax affairs, in a transparent manner, complying with all the relevant legislation and submitting payments and reporting on a timely basis.

Owners

Founded in 1672 by Sir Richard Hoare, C. Hoare & Co. is still owned and by the Hoare family. The current shareholders, or partners - the 11th-generation of Hoare family members to lead the bank - are fully involved in all aspects of our business and engage with our colleagues and customers on a daily basis.

The Partners play a critical role in continuing to uphold the philanthropic traditions of the bank, as well as encouraging customers to give effectively. Every year Alexander Hoare publishes a Summer and Winter letter in which he shares his thoughts on the progress of the bank. He is also the chair of Snowball; co-founded in 2016 by the Golden Bottle Trust, this multi-asset social-impact investment fund is looking to democratise social impact investment.

With fellow Partner Rennie Hoare, Alexander hosts a series of talks every winter which, among other things, showcases the best charities and social enterprises discovered by the bank. Rennie Hoare is also our Head of Philanthropy. Part of this role involves the development of the bank's donor advised fund (DAF), the Master Charitable Trust. In 2011, C. Hoare & Co. was the first UK bank to launch a DAF. Celebrating its 10th anniversary, the Master Charitable Trust has grown to support the philanthropic activities of numerous customers and now stands at 10% of the UK DAF market. The Master Charitable Trust has already channelled £152m to charitable causes, and a further £210m remains invested for future distribution.

The Partners' deep understanding of the needs of private banking customers, developed over eleven generations, ensures the continuation of the bank's culture, values and purpose.

Directors' Report (Continued)

6. How we engage with our stakeholders (Continued)

Suppliers

As a private bank dedicated to excellence in personal service, we partner with a number of organisations to deliver strategic, financial or operational benefits.

As a purpose led organisation, we believe we are responsible for ensuring that the organisations with whom we choose to partner share our values and operate in an ethical manner. To this end we have established a system of monitoring to ensure that all our suppliers adhere to our polices on modern slavery, anti-bribery and corruption, data protection, information security and tax evasion.

Operational resilience is a topic regularly on the Board's agenda. This ensures any threats to the operational resilience of the bank are understood and managed.

The success of our control system largely depends upon us building and maintaining honest, open relationships with our key suppliers. This has been particularly critical this year, as we contend with Brexit and the pandemic. To ensure we can have confidence in the robustness and integrity of our critical supply chain, we have established regular dialogue with all our critical suppliers, and we have worked with them to overcome recent challenges. The success of this programme has ensured there has been no disruption to the bank's operation as a result of the pandemic or Brexit. Our list of critical suppliers is under constant review to ensure all services that affect the bank's ability to do business are identified and governance is in place to support those relationships.

Community

Social responsibility is one of our core values. We understand that we have a responsibility to give back to our community and to mitigate our environmental impact.

We work with our colleagues and our customers to ensure we make a positive difference in our community. This year our colleague led taskforces have continued to focus our efforts on three of the United Nations Sustainable Development Goals: Good Health and Well-being, Reduced Inequalities and Climate Action.

During the year the bank made charitable donations of £1.5m *(2020: Nil)* to the bank's charitable trust, The Golden Bottle Trust; the Trust's objective is the continuation of the philanthropic commitments and ideals of the Hoare family.

To encourage all our colleagues to give back, we double-match all charitable donations made via our Give-As-You-Earn. As at 31 March 2021 221 employees, *(2020: 209)* were donating via GAYE.

As our ability to get out into our community was affected by the pandemic this year, we found new ways to offer our support. This year saw the launch of a new partnership with Ethical Angels, a volunteering enterprise that allows colleagues to continue their philanthropic efforts digitally. Colleagues can select from bite-size projects, which both helps them to develop their skills and allows them to support causes committed to the United Nation's Sustainability Development Goals.

Raising money for charity this year was especially important to us, as many charities struggled to host their usual fund-raising events, whilst at the same time seeing an increase in demand for the services they provide.

During 2020 the bank raised £14,000 for Variety, the children's charity, through various events including a virtual cycling of the Tour de France by our team 'Hoare de France'. The events were supported both by our colleagues and the Golden Bottle Trust. We also continued to support MIND our colleague selected charity of the year. Through a series of fund-raising initiatives including a quiz night, a 5k race, a photograph competition and a gig from the bank's in-house band, we donated £74,857.

The bank's charitable trust, the Golden Bottle Trust, has distributed £3.1m during the year *(2020: £2.9m).* These donations have had a strong focus on our three target Sustainable Development Goals. We have also supported our customers in their philanthropic giving via the Master Charitable Trust (MCT). During the year MCT recorded £53.6m *(2020: £38.2m)* of donations.

Directors' Report (Continued)

7. Environmental Policy Statement

One of the bank's core values is social responsibility. We seek to operate our business in a long-term, sustainable manner. Effectively managing our carbon footprint is a core part of this strategy and we are committed to becoming net carbon neutral by 2025. We are currently developing our own carbon reduction strategy and we continue to seek to address the underlying operational sources producing carbon.

In last year's annual report, we reported a carbon footprint of 145.41 carbon tonnes. This was calculated using a market-based method, which reflects emissions from electricity that companies have purposefully chosen. It derives emission factors from contractual instruments, which include any type of contract between two parties for the sale and purchase of energy. This year we have included an additional calculation using a location-based method. This reflects the average emissions intensity of grids on which energy consumption occurs (using mostly grid-average emission factor data).

Using on the location-based method, our carbon footprint for the 2020/21 financial year was 369.28 carbon tonnes. While this is an increase in the figure reported in last year's annual report, year on year our market-based carbon footprint has decreased from 145.41 carbon tonnes to 130.40 carbon tonnes. This reduction is largely due to reduced staff occupancy on site and the subsequent reduction in our energy consumption. Less materially, further integration of plant and machinery into our building management systems, switching to greener diesel for our boilers and generators, and rolling out more energy efficient lighting in some office areas also contributed to the reduction.

Going forward, we will continue to publish both our location-based carbon footprint and our market-based carbon footprint.

Scope	Emissions Source Market Based	Use kWh	Emissions kgCO2e	Emissions tCO2e	Ratio tCO2e / £mil	Use kWh	Emissions kgCO2e	Emissions tCO2e	Ratio tCO2e / £mil
		2021				2020			
Scope 1 (Direct)	Fuel use by owned and leased vehicles travel (fleet)	55.63	13.00	0.01	0.0001	2,226	527	0.53	0.0043
	Natural gas consumed in offices	150,392	38,609	38.61	0.3763	592,426	108,918	108.92	0.88
	Gas Oil consumed by boilers and back-up generators	376,181	69,168	69.17	0.6742	64,648	16,599	16.6	0.13
Scope 2 (Indirect)	Electricity consumed in offices	1,121,419	22,564	22.56	0.2199	1,491,426	19,190.06	19.19	0.15
	Electricity consumed by owned / leased vehicles travel (fleet)	176.83	41	0.04	0.0004	674	172	0.17	0.0014
TOTAL		**1,648,224**	**130,395**	**130.4**	**1.271**	**2,151,400**	**145,406**	**145.41**	**1.17**

Scope	Emissions Source Location Based	Use kWh	Emissions kgCO2e	Emissions tCO2e	Ratio tCO2e / £mil	Use kWh	Emissions kgCO2e	Emissions tCO2e	Ratio tCO2e / £mil
		2021				2020			
Scope 1 (Direct)	Fuel use by owned and leased vehicles travel (fleet)	55.63	13.00	0.01	0.0001	2,226	527	0.53	0.0043
	Natural gas consumed in offices	150,392	38,609	38.61	0.3763	592,426	108,918	108.92	0.88
	Gas Oil consumed by boilers and back-up generators	376,181	69,168	69.17	0.6742	64,648	16,599	16.6	0.13
Scope 2 (Indirect)	Electricity consumed in offices	1,121,419	261,448	261.45	2.5482	1,491,426	381,209.00	381.21	3.09
	Electricity consumed by owned / leased vehicles travel (fleet)	176.83	41	0.04	0.0004	674	172	0.17	0.0014
TOTAL		**1,648,224**	**369,279**	**369.28**	**3.599**	**2,151,400**	**507,425**	**507.43**	**4.11**

Directors' Report (Continued)

7. Environmental Policy Statement (Continued)

The following methodology has been applied to calculate the required energy and carbon data for SECR:

- Energy consumption data for gas and other fuels used at the properties has been gathered in the form of supplier invoices and/or half hourly data, where available.
- Electricity energy data has been gathered in the form of supplier invoices, meter readings and/or half hourly data, where available.
- Fuel and/or mileage data has been provided for each vehicle owned/leased by C Hoare & Co.
- The total energy data associated with each data source has been collated to calculate the total energy usage.
- This has been converted to GHG emissions by applying the appropriate 2020 UK Government GHG Conversion Factors for Company Reporting, in line with the GHG Protocol Corporate Standard methodology.
- The selected metric for the emissions intensity ratio is income. Carbon emissions have been reported for each category per £102.6m *(2020: £124.0m)* total income for the reporting period.

8. 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.

9. Statement of Directors' Responsibilities

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

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

Under company law, directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and company and of the profit or loss of the group for that period. In preparing the financial statements, the directors are required to:

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

Directors' Report (Continued)

9. Statement of Directors' Responsibilities (Continued)

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

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

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 15 July 2021

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

Independent auditors' report to the members of C. Hoare & Co.

Report on the audit of the financial statements

Opinion

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

- give a true and fair view of the state of the Group's and of the Company's affairs as at 31 March 2021 and of the Group's profit and the Group's cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Consolidated Financial Statements (the "Annual Report"), which comprise: the consolidated and company balance sheets as at 31 March 2021; the consolidated statement of comprehensive income, the consolidated and company statement of changes in equity and the consolidated cash flow statement for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit, Risk and Compliance Committee.

Basis for opinion

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

Independence

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

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

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

Our audit approach

Overview

Audit scope

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

Key audit matters

- Valuation of provisions for impairment of loans and advances to customers (Group and Company)
- Impact of COVID-19 (Group and Company)

Materiality

- Overall Group and Company materiality: £1.9m (2020: £1.8m) based on 0.5% of Tier 1 capital (2020: 5% of adjusted 3 year average profit before tax).
- Performance materiality: £1.4m (Group and Company).

Independent auditors' report to the members of C. Hoare & Co. (Continued)

The scope of our audit

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

Key audit matters

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

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

The key audit matters below are consistent with last year.

Key audit matter	How our audit addressed the key audit matter
Valuation of provisions for impairment of loans and advances to customers (Group and Company) The Group and Company have loans and advances to customers of £1,857m which is net of a provision for impairment of £29m. Further details are set out in notes 14 and 31, and the accounting policies are set out in note 1. There is a risk that loans and advances made to customers are not recoverable and/or the judgements made in determining the impairment provision are inappropriate or incorrectly applied. This risk is partially mitigated by the nature of the lending, in particular given the majority of lending is secured, with the value of the collateral typically in excess of the amount of the customer exposure. We considered this a key audit matter because the Directors make subjective judgments over both the timing of recognition and the size of impairment provisions, and individual exposures are in excess of audit materiality. In addition, COVID-19 developments increase uncertainty around recovery of the credit impaired loans and the valuation of collateral, and we have focused our procedures over both of these areas.	We evaluated the design and tested the operating effectiveness of relevant controls including: • The approval of the granting of loan facilities to customers; • The registration of collateral; • IT controls over the systems used to record customer lending and repayments, including restricted access and change management controls. We determined that we could rely on these controls for the purposes of our audit. We tested all material loans and advances to customers identified as impaired by management and formed our own judgement as to whether the provisions recorded on these exposures were appropriate. This included assessing: • Relevant evidence about the customer's ability to repay; • The appropriateness of collateral valuation estimates; • External projections of future movements in property price and how these compared to the estimated collateral realisations assumed in the impairment provisions, and • The time period assumed before collateral can be realised.

Independent auditors' report to the members of C. Hoare & Co. (Continued)

Key audit matters (Continued)

Key audit matter	How our audit addressed the key audit matter
	We also assessed the completeness of the credit impairment provision, including by: • Testing a sample of customer accounts identified as 'non-performing' but for which no impairment was recorded, including by obtaining evidence to support how the collateral held is in excess of the exposure; • Testing a sample of performing customer accounts, for example by obtaining evidence customers are servicing the loan and • Assessing whether the collective provision was appropriate in light of uncertainties, including Covid-19, the nature of the loan book and the collateral held against most exposures. In our view, the overall impairment provision held is within a reasonable range of outcomes.
Impact of COVID-19 (Group and Company) The global COVID-19 pandemic, and the associated societal restrictions imposed by governments have adversely affected the UK population and economy. The UK's vaccination programme is progressing well and government restrictions are being lifted. However, there remains significant uncertainty over the successful rollout and efficacy of the vaccines, the future mutation and spread of the virus, the extent and impact of government measures and economic outlook. The majority of the Group's employees have been working remotely since March 2020 and the Directors have considered the impact of COVID-19 when preparing the financial statements, with the main impacts being on the level of impairment provisions, the valuation of property, plant and equipment held at fair value, and the going concern status of the Group and Company. Further details are set out in the Directors' report, notes 16, 17, 18 and 31, and the accounting policies are set out in note 1. We considered this area a key audit matter given the pervasive nature of the risk and the level of uncertainty at the date of signing the financial statements. The impact on impairment provisions is considered in the key audit matter above.	Our testing in this area included: • We obtained management's going concern assessment, which included specific consideration of the impacts of COVID-19; • We read correspondence with regulators and met with the Bank's lead regulator, the Prudential Regulation Authority; • We assessed the capital adequacy of the Group and Company, considering the level of headroom above minimum capital requirements, the potential impact of COVID-19 on future profitability, and the mitigating actions that could be taken by the Directors; • We assessed the liquidity position of the Group and Company, considering the historic experience of depositor behaviour, the liquid assets held and the mitigating actions that could be taken by the Directors; • When performing these tests we tested the impact of applying a severe but plausible stress including in relation to future profitability, deposit outflows and collateral values, and • We considered the adequacy of disclosures made in the financial statements. • We also understood and assessed the transition of the Group employees to working remotely on the control environment relevant to financial reporting, and reflected this in our audit approach.

Independent auditors' report to the members of C. Hoare & Co. (Continued)

Key audit matters (Continued)

Key audit matter	How our audit addressed the key audit matter
	In addition, we also considered the reasonableness of the fair value of land and buildings held at fair value, including assessing changes since the last formal valuation report, comparing to external price indices, and meeting with the Group's valuation expert in this area. Based on our testing we consider that the impacts of COVID-19 have been reflected in the financial statements.

How we tailored the audit scope

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

The Group has subsidiary entities on which we perform audit testing to statutory materiality levels, but as over 97% of Group profit before tax arises in the Company, for Group audit scoping purposes we consider the Company to be the only significant component. We performed audit work for all financial statement line items in the Company with balances above our materiality level.

Materiality

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

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

	Financial statements - Group	Financial statements - Company
Overall materiality	£1.9m *(2020: £1.8m)*	£1.9m *(2020: £1.8m)*
How we determined it	0.5% of Tier 1 capital (2020: 5% of adjusted 3 year average profit before tax)	
Rationale for benchmark applied	We considered Tier 1 capital an appropriate benchmark for the year ended 31 March 2021, as it is a key metric for key stakeholders including shareholders and the PRA.	

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

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% of overall materiality, amounting to £1.4m for the Group and Company financial statements.

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

We agreed with the Audit, Risk and Compliance Committee that we would report to them misstatements identified during our audit above £95,000 (Group audit) (2020: £88,000) and £94,000 (Company audit) (2020: £84,000) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Independent auditors' report to the members of C. Hoare & Co. (Continued)

Conclusions relating to going concern

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

- Performing a risk assessment to identify factors that could impact the going concern basis of accounting including the impact of COVID-19.
- Understanding management's forecasts and stresses with a focus on capital and liquidity risk, and assessing their reasonableness based on historic performance and our testing of the key funding sources of the Group.
- Reading the latest ICAAP and ILAAP and evaluating the consistency with the going concern assessment performed by management.
- Met with the Group's lead regulator, the PRA, and understood their view of the Group and its going concern risk.
- Reading and evaluating the adequacy of the disclosures made in the financial statements in relation to going concern.

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

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

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

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

Reporting on other information

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

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

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

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

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' report for the year ended 31 March 2021 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Independent auditors' report to the members of C. Hoare & Co. (Continued)

Responsibilities of the directors for the financial statements

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

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

Auditors' responsibilities for the audit of the financial statements

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

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

Based on our understanding of the Group and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of the rules of the Prudential Regulatory Authority and Financial Conduct Authority, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006.

We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to management bias in accounting estimates. Audit procedures performed by the engagement team included:

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

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

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

Independent auditors' report to the members of C. Hoare & Co. (Continued)

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report. In our engagement letter, we also agreed to describe our audit approach, including communicating key audit matters.

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the Audit, Risk and Compliance Committee, we were appointed by the directors on 19 December 2011 to audit the financial statements for the year ended 31 March 2012 and subsequent financial periods. The period of total uninterrupted engagement is 10 years, covering the years ended 31 March 2012 to 31 March 2021.

L. C. Hanson

Luke Hanson (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

20 July 2021

Consolidated Statement of Comprehensive Income

for the year ended 31 March 2021

	Note	**Group 2021 £000**	*Group 2020 £000 Restated*	
Interest receivable		**89,772**	*113,495*	
Interest payable		**(9,131)**	*(11,492)*	
Net interest income	3	**80,641**	*102,003*	
Dividend income		**(2)**	*14*	
Other finance income	4	**256**	*20*	
Fees and commissions receivable		**12,490**	*12,991*	
Fees and commissions payable		**(1,864)**	*(2,421)*	
Net fees and commissions income		**10,626**	*10,570*	
Dealing profits	5	**6,264**	*10,890*	
Other operating income	6	**4,821**	*477*	
Total income		**102,606**	*123,974*	
Operating expenses				
Administrative expenses:				
Administrative expenses excluding depreciation and amortisation	7	**(76,184)**	*(78,033)*	
Depreciation		**(1,964)**	*(1,863)*	*
Amortisation		**(7,626)**	*(6,932)*	*
Total operating expenses		**(85,774)**	*(86,828)*	
Impairment charge on loans and advances	14	**(730)**	*(15,434)*	
Profit before taxation		**16,102**	*21,712*	
Tax on profit	9	**(3,848)**	*(4,053)*	
Profit for the financial year		**12,254**	*17,659*	
Other comprehensive (expense)/income:				
Remeasurement of retirement benefit obligations (loss)/gain	4	**(6,526)**	*9,502*	
Deferred tax arising on pension scheme expense/(income)	9	**1,036**	*(1,614)*	
Revaluation of property and heritage assets (losses)	28	**(2,275)**	*(3,866)*	
Deferred tax arising on valuation (losses)/gains	9	**(472)**	*657*	
Other comprehensive (expense)/income for the year, net of tax		**(8,237)**	*4,679*	
Total comprehensive income for the year		**4,017**	*22,338*	

* For full details of restatement, refer to note 16.

The Notes on pages 37 to 84 form an integral part of these Financial Statements.

Consolidated and Company Balance Sheets

As at 31 March 2021

		Group As at 31 March		Company As at 31 March		
	Note	**2021 £000**	*2020 £000 Restated*	**2021 £000**	*2020 £000 Restated*	
Assets						
Cash and balances at central banks		**1,709,735**	*1,161,138*	**1,709,735**	*1,161,138*	
Items in course of collection from banks		**303**	*12*	**303**	*12*	
Derivative financial instruments	12	**29,394**	*31*	**29,394**	*31*	
Financial assets	13	**4,159,605**	*3,956,424*	**4,159,555**	*3,956,314*	
Shares in group undertakings	15	**-**	*-*	**1**	*1*	
Intangible assets	16	**16,067**	*21,649*	**16,067**	*21,649*	*
Property and equipment	17	**57,697**	*61,200*	**57,697**	*61,200*	*
Heritage assets	18	**9,477**	*9,473*	**9,477**	*9,473*	
Deferred tax asset	19	**1,677**	*1,016*	**1,677**	*1,016*	
Other assets	20	**3,266**	*3,591*	**3,355**	*3,760*	
Prepayments and accrued income	21	**13,045**	*9,121*	**12,979**	*9,098*	
Post retirement benefit asset	4	**3,950**	*10,220*	**3,950**	*10,220*	
Total assets		**6,004,216**	*5,233,875*	**6,004,190**	*5,233,912*	
Liabilities						
Deposits by banks	22	**-**	*466*	**-**	*466*	
Customer accounts	23	**5,544,294**	*4,761,856*	**5,544,294**	*4,761,856*	
Deposits to subsidiary companies		**-**	*-*	**11,910**	*11,298*	
Derivative financial instruments	12	**21,787**	*37,128*	**21,787**	*37,128*	
Deferred tax liability	19	**10,725**	*10,367*	**10,725**	*10,367*	
Other liabilities	24	**3,318**	*845*	**3,215**	*691*	
Accruals and deferred income	25	**21,547**	*24,946*	**21,547**	*24,946*	
Provision for other liabilities	26	**4,813**	*4,546*	**4,813**	*4,546*	
Total liabilities		**5,606,484**	*4,840,154*	**5,618,291**	*4,851,298*	
Called up share capital	27	**120**	*120*	**120**	*120*	
Reserve fund		**22,598**	*22,598*	**21,148**	*21,148*	
Revaluation reserves	28	**34,784**	*37,531*	**34,784**	*37,531*	
Current year net income		**6,758**	*25,541*	**6,032**	*25,004*	
Retained earnings brought forward		**333,472**	*307,931*	**323,815**	*298,811*	
Total equity		**397,732**	*393,721*	**385,899**	*382,614*	
Total liabilities and equity		**6,004,216**	*5,233,875*	**6,004,190**	*5,233,912*	
Memorandum items:						
Contingent liabilities	29	**24,960**	*27,013*	**24,960**	*27,013*	
Commitments	29	**397,190**	*357,861*	**397,190**	*357,861*	

* For full details of restatement, refer to note 16.

The Financial Statements on pages 32 to 84 were approved by the Board of Directors on 15 July 2021 and signed on its behalf by:

Mr A. S. Hoare	Miss V.E. Hoare
Director	Director
20 July 2021	20 July 2021

The Notes on pages 37 to 84 form an integral part of these Financial Statements.

Consolidated Statement of Changes in Equity

For the year ended 31 March 2021	Note	Called Up Share Capital £000	Reserve Fund £000	Revaluation Reserves £000	Retained Earnings £000	Total Equity £000
Balance as at 1 April 2019		**120**	**22,598**	**40,740**	**307,931**	**371,389**
Profit for the financial year		-	-	-	17,659	17,659
Other comprehensive income/(expense) for the year						
Remeasurement of retirement benefit obligations		-	-	-	9,502	9,502
Deferred tax arising on pension scheme		-	-	-	(1,614)	(1,614)
Valuation loss of property and heritage assets	28	-	-	(3,866)	-	(3,866)
Deferred tax arising on valuation losses	28	-	-	657	-	657
Total comprehensive income for the year		-	-	(3,209)	25,547	22,338
Dividends		-	-	-	(6)	(6)
Balance as at 31 March 2020		**120**	**22,598**	**37,531**	**333,472**	**393,721**
Profit for the financial year		-	-	-	12,254	12,254
Other comprehensive (expense)/income for the year						
Remeasurement of retirement benefit obligations		-	-	-	(6,526)	(6,526)
Deferred tax arising on pension scheme		-	-	-	1,036	1,036
Valuation loss of property and heritage assets	28	-	-	(2,275)	-	(2,275)
Deferred tax arising on valuation losses	28	-	-	(472)	-	(472)
Total comprehensive income for the year		-	-	(2,747)	6,764	4,017
Dividends		-	-	-	(6)	(6)
Balance as at 31 March 2021		**120**	**22,598**	**34,784**	**340,230**	**397,732**

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

Company Statement of Changes in Equity

For the year ended 31 March 2021	Note	Called Up Share Capital £000	Reserve Fund £000	Revaluation Reserves £000	Retained Earnings £000	Total Equity £000
Balance as at 1 April 2019		**120**	**21,148**	**40,740**	**298,811**	**360,819**
Profit for the financial year		-	-	-	17,122	17,122
Other comprehensive income/(expense) for the year						
Remeasurements of retirement benefit obligations		-	-	-	9,502	9,502
Deferred tax arising on pension scheme		-	-	-	(1,614)	(1,614)
Valuation loss of property and heritage assets	28	-	-	(3,866)	-	(3,866)
Deferred tax arising on valuation losses	28	-	-	657	-	657
Total comprehensive income for the year		-	-	(3,209)	25,010	21,801
Dividends		-	-	-	(6)	(6)
Balance as at 31 March 2020		**120**	**21,148**	**37,531**	**323,815**	**382,614**
Profit for the financial year		-	-	-	11,528	11,528
Other comprehensive (expense)/income for the year						
Remeasurements of retirement benefit obligations		-	-	-	(6,526)	(6,526)
Deferred tax arising on pension scheme		-	-	-	1,036	1,036
Valuation loss of property and heritage assets	28	-	-	(2,275)	-	(2,275)
Deferred tax arising on valuation losses	28	-	-	(472)	-	(472)
Total comprehensive income for the year		-	-	(2,747)	6,038	3,291
Dividends		-	-	-	(6)	(6)
Balance as at 31 March 2021		**120**	**21,148**	**34,784**	**329,847**	**385,899**

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

The Notes on pages 37 to 84 form an integral part of these Financial Statements.

Consolidated Cash Flow Statement

For the year ended 31 March 2021 Group	Note	2021 £000	*2020* *£000*
Net cash from operating activities	30	**830,193**	*154,741*
Taxation paid		**(3,329)**	*(7,851)*
Net cash generated from operating activities		**826,864**	**146,890**
Cash flow from investing activities			
Purchase of investment securities		**(1,647,128)**	*(2,318,017)*
Sale and maturity of investment securities		**1,407,391**	*1,815,052*
Purchase of intangible assets		**(1,981)**	*(11,044)*
Purchase of tangible fixed assets		**(1,316)**	*(1,858)*
Proceeds from disposals of tangible assets		**1**	*2*
Net cash used in investing activities		**(243,033)**	**(515,865)**
Cash flow from financing activities			
Dividend paid		**(6)**	*(6)*
Net cash used in financing activities		**(6)**	*(6)*
Net increase/ (decrease) in cash and cash equivalents		**583,825**	*(368,981)*
Cash and cash equivalents at the beginning of the year		**1,228,146**	*1,597,127*
Cash and cash equivalents at the end of the year		**1,811,971**	*1,228,146*
Cash and cash equivalents consists of:			
Cash at bank and in hand		**1,709,735**	*1,161,138*
Short term deposits		**102,236**	*67,008*
Cash and cash equivalents		**1,811,971**	*1,228,146*

In the prior year intangible assets were presented as a separate category within tangible fixed assets. During the year the accounting policy was reviewed, and in line with FRS 102, section 18 these assets are now presented separately from tangible fixed assets. Consequently the prior year's purchases of intangible assets in the above table has been separated for comparative purposes.

The Notes on pages 37 to 84 form an integral part of these Financial Statements.

Notes to the Financial Statements for the year ended 31 March 2021

1. Summary of significant accounting policies

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

(a) Basis of preparation

The financial statements have been prepared under the historical cost convention and on a going concern basis, except that the following assets and liabilities are stated at their fair values: land and buildings, investment properties, heritage assets, financial instruments recognised at fair value through the profit or loss and derivative contracts. The financial statements have been prepared under the provisions of Part XV of the Companies Act 2006 relating to Banking Groups, SI 2008/410, and in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, “The Financial Reporting Standards applicable in the United Kingdom and the Republic of Ireland” (FRS 102). The 2021 figures represent continuing operations unless otherwise disclosed.

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

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

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

(b) Going concern

The going concern of the Company and the Group is dependent on funding and maintaining adequate levels of capital. The Directors have undertaken an assessment of the Company and the Group’s going concern status, with consideration of current and projected financial performance, including capital and funding projections of the Group and having regard to the Group’s principal risks and uncertainties as set out in the Strategic report. The Directors have given due consideration to the implications of the COVID-19 virus on the sustainability of the Company and the Group and have concluded that the Group has adequate resources to continue in operational existence for the foreseeable future and therefore it is appropriate to continue to adopt the going concern basis in preparing its financial statements for the following reasons:

- the Company has a strong financial position with high levels of capital and liquidity
- stress testing has indicated that, even in severe but plausible circumstances, the Company has sufficient capital and liquidity reserves to meet all of the Company’s on-going commitments and remain substantially above regulatory required minimum levels
- to date of signing there have been no indications of material deterioration in the customer loan book
- a very small number of customer requests for contingency lending facilities or adjustment of payment terms relating to COVID-19 were received, assessed and granted. Only a single customer remains on deferral arrangements
- to date of signing customer lending and deposits have continued to grow

Notes to the Financial Statements for the year ended 31 March 2021 (Continued)

1. Summary of significant accounting policies (Continued)

(c) Basis of consolidation

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

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

(d) Foreign currencies

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

(e) Interest

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

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

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

The bank uses the contractual term, where available, to set the amortisation expected life for its loan arrangement fees. However, for its on demand loan portfolio historic data is used to determine the average life of the loan. This analysis is performed on an annual basis and for the year ended 31 March 2021 it has been determined to be three years.

(f) Fees and commissions

Income from fees and commission is recognised when the services are performed. Expenses relating to fees and commissions are expensed when the services are received.

(g) Dealing profits

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

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

Notes to the Financial Statements for the year ended 31 March 2021 (Continued)

1. Summary of significant accounting policies (Continued)

(h) Retirement benefit obligations

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

The defined benefit scheme’s assets are measured using fair values in accordance with the FRS 102 fair value hierarchy.

The asset recognised in the balance sheet in respect of the defined benefit scheme is the present value of the defined benefit obligation less the fair value of the scheme assets at the reporting date.

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

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

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

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

(i) Taxation

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

i) Current tax

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

Management periodically evaluates positions taken in tax returns with respect to situations where applicable tax regulation is subject to interpretation. It establishes provisions where appropriate based on amounts expected to be paid to the tax authorities.

Notes to the Financial Statements for the year ended 31 March 2021 (Continued)

1. Summary of significant accounting policies (Continued)

(i) Taxation (Continued)

ii) Deferred tax

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

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

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

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

(j) Dividends payable

In accordance with Section 32 'Events after the end of the reporting period', of FRS102, dividends payable is 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 instruments, such as cash, loans and receivables and complex financial instruments, such as equity securities and derivatives.

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

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

Notes to the Financial Statements for the year ended 31 March 2021 (Continued)

1. Summary of significant accounting policies (Continued)

(m) Financial assets and liabilities

(i) Recognition

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

(ii) Derecognition

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

The bank derecognises a financial liability when its contractual obligations are discharged, cancelled or expired.

(iii) Offsetting

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

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

(iv) Amortised cost measurement

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

(v) Fair value measurement

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

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

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

- Level 1: Quoted prices (unadjusted) in active markets for identical instruments.
- Level 2: Valuation techniques based on observable inputs either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued where all significant inputs are directly or indirectly observable from market data.
- Level 3: Valuation techniques not based on observable market data (unobservable inputs).

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

Notes to the Financial Statements for the year ended 31 March 2021 (Continued)

1. Summary of significant accounting policies (Continued)

(m) Financial assets and liabilities (continued)

(vi) Identification and measurement of impairment

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

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

Objective evidence that financial assets are impaired can include default or delinquency by a borrower, indications of inability to repay or 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.

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

The principal derivatives used by the bank are interest rate swaps and forward foreign exchange rate contracts. The fair value of interest rate swaps is the estimated amount that the bank would receive or pay to terminate the swap at the balance sheet date, considering current interest rates and the current creditworthiness of the swap counterparties. The fair value of 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.

Notes to the Financial Statements for the year ended 31 March 2021 (Continued)

1. Summary of significant accounting policies (Continued)

(o) Derivative financial instruments (continued)

(ii) Derivative instruments and fair value hedging activities

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

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

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 recorded in the profit and loss account.

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

The bank discontinues hedge accounting prospectively when 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.

(iii) IBOR reform

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

<u>Hedge relationships:</u> The bank's transition from IBOR benchmark rates commenced during the previous year, with all new treasury transactions after December 2019 being SONIA based. Legacy hedges are expected to convert to SONIA based instruments by December 2021 using International Swap and Derivatives Association (ISDA) protocol or the LCH rulebook amendment.

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

<u>Financial instruments using amortised cost measurement:</u> All IBOR based customer lending will be transitioned to central bank benchmark linked products by September 2021.

Notes to the Financial Statements for the year ended 31 March 2021 (Continued)

1. Summary of significant accounting policies (Continued)

(p) Intangible assets

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

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

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

- IT general software £50,000 per system and over will be amortised over four years

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

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

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

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

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

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

(q) Property, equipment and depreciation

The bank uses the revaluation model to determine the fair value of its Land and buildings and are based on the latest professional market valuation.

Subsequent changes in the fair value of properties are recognised in other comprehensive income and accumulated in equity.

An increase shall be recognised in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss. The decrease of an asset’s carrying amount as a result of a revaluation shall be recognised in other comprehensive income to the extent of any previously recognised revaluation increase accumulated in equity, in respect of that asset. If a revaluation decrease exceeds the accumulated revaluation gains accumulated in equity in respect of that asset, the excess shall be recognised in profit or loss.

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

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

Notes to the Financial Statements for the year ended 31 March 2021 (Continued)

1. Summary of significant accounting policies (Continued)

(q) Property, equipment and depreciation (continued)

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

Project costs are capitalised only when they can be directly attributed to bringing an asset into use. Such costs may include the costs of staff directly employed on a project or brought in to backfill permanent members of C. Hoare & Co. staff seconded to work on a project. Administration costs, other general overhead costs or 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.

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

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

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

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

(r) Operating leased assets

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

(s) Investment property

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

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

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

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

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

Notes to the Financial Statements for the year ended 31 March 2021 (Continued)

1. Summary of significant accounting policies (Continued)

(t) Heritage assets

The bank has a collection of artefacts regarded as heritage assets, largely comprising paintings, an extensive coin collection and the bank's own ledgers . These are recorded as heritage assets due to their historical importance are held for the purposes of its contribution to the knowledge and culture of the bank's history.

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

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

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

(u) Classification of financial instruments issued by the bank

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

(v) Investments in subsidiaries

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

(w) Contingent liabilities and commitments

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

The bank issues guarantees on behalf of its customers. In the majority of cases, the bank will hold collateral against the resultant exposure or have a right of recourse to the customer, or both.

The main types of guarantees provided are financial guarantees given to banks and financial institutions on behalf of customers to secure loans, overdrafts or other banking facilities, including stock borrowing indemnities and standby letters of credit. Other guarantees provided include performance guarantees, advance payment guarantees, tender guarantees, and guarantees to Her Majesty's Revenue and Customs and retention guarantees.

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

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

(x) Operating expenses

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

Notes to the Financial Statements for the year ended 31 March 2021 (Continued)

1. Summary of significant accounting policies (Continued)

(y) Recognition and movement of provisions

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

2. Critical accounting judgements and estimation uncertainty

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

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

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

(i) Loan impairment provisions

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

For individual loan impairment provisions there is a reliance on relationship managers in ensuring the timely identification of subjective indicators of impairment. These subjective indicators are augmented by the observation of objective triggers relating to the ongoing performance of the loan. These triggers are monitored regularly by the Risk department.

In determining whether an impairment is likely, factors such as late payments, cash flow or income deterioration and likelihood and timing of planned capital transactions being successfully executed, are considered.

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

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

(ii) Provisions

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

Notes to the Financial Statements for the year ended 31 March 2021 (Continued)

2. Critical accounting judgements and estimation uncertainty (Continued)

(b) Key accounting estimates and assumptions

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

(i) Impairment of Loans (note 1 (m) (vi), note 13 and note 31 (b))

The bank regularly assesses whether there is objective evidence that any loans or securities are impaired. When it has been determined that an impairment has occurred the estimation is made of what level of impairment is likely and what amount of provision would be needed. The levels of specific provisions are determined giving consideration to the implications of the macro environment and include estimations on property values, expected sales proceeds and the time needed to liquidate collateral, should that become necessary. Consequently property values on impaired loans have been set at conservative levels because of the lack of liquidity and market data available at the date of the balance sheet. An additional 10% reduction in property values could result in a modest increase in provisions of up to £5m whereas an additional 6 month extension to the expected assumed sale date was implemented would result in an additional provision of £600,000.

The collective impairment allowance is subject to estimation uncertainty, as it is calculated using the bank's historical experience, the use of management overlays and the emergence period applied in calculating the provision. Given all but a 'de minimis' amount of the non-impaired customer portfolio is secured with real property, with an average loan to value level of 52%, the collective provision is reasonably well insulated from material movements.

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

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

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

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

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

(iv) Land, Buildings and Investment Properties (note 1 (q) and note 1 (s))

As at 31 March 2021, AGL, Chartered Surveyors updated the valuations based on latest indices available. Based on this updated valuation, a revaluation loss of 5.4% of the 31 March 2020 valuations has been recognised to reflect the uncertainty in the market and lack of independent evidence available since the lockdown. During the year the bank has recorded a revaluation loss of £2.9 million. A further 5% decrease in value of the land, buildings and investment properties could result in a revaluation loss of £2,620,000. The Royal Albert Hall Box (included within land and buildings) requires a specialist valuation and was last valued as at 31 March 2019 by Harrods Estates Luxury Property Agents.

On the 29 May the Royal Albert Hall re-opened its doors for socially distanced events. The bank has found no indication that the current valuation has changed and is satisfied it remains appropriate for this iconic venue.

Notes to the Financial Statements for the year ended 31 March 2021 (Continued)

2. Critical accounting judgements and estimation uncertainty (Continued)

(b) Key accounting estimates and assumptions (continued)

In addition, while not critical, the following are areas of estimation uncertainty:

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

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

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

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

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

(ii) Loan arrangement fees (note 1 (e) and note 25)

Loan arrangement fees are required to be amortised over the expected duration of the loan.

The bank uses historic data to determine the expected average duration of its customer lending which is repayable on demand or at short notice, this analysis is performed annually and for the year ended 31 March 2021, it has been determined to be three years.

3. Net Interest Income

Group	**2021 Total £000**	*2020 Total £000*
Interest receivable and similar income		
Interest on debt securities	**10,173**	*18,667*
Loans and advances to customers	**77,769**	*79,948*
Loans and advances to banks	**1,830**	*14,880*
Total interest receivable and similar income	**89,772**	*113,495*
Interest payable and similar charges		
Deposits from banks and customers	**(2,163)**	*(9,666)*
Derivative liabilities	**(6,968)**	*(1,826)*
Total interest payable and similar charges	**(9,131)**	*(11,492)*
Net interest income	**80,641**	*102,003*

Included within interest income is £183,271 *(2020: £3,850,565)* accrued in respect of impaired financial assets.

Notes to the Financial Statements for the year ended 31 March 2021 (Continued)

4. Retirement Benefit Obligations

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

Defined benefit scheme

The bank operated a defined benefit pension scheme until 1 December 2007 when it was closed to further accrual and all staff that were members at that date were made deferred members; all benefits accrued to that date were enhanced and then preserved. The defined benefit scheme provides a pension based upon the final salary at retirement date or preserved rights as at leaving the scheme or upon curtailment. Contributions to the defined benefit scheme for the year ended 31 March 2021 were £Nil (2020: £Nil). There was no charge (2020: £Nil) to the profit and loss account for past service costs.

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

The 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 Company, Hoare's Bank Pension Trustees Limited, is required to act in the best interest of the scheme's beneficiaries. The appointment of Directors to the Trustee Company is determined by the scheme's trust documentation. The bank has a policy that one third of such Directors should be nominated by members of the scheme.

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

Group	**2021**	*2020*
	%	*%*
Pension increases in payment	**3.20**	*2.60*
Discount rate	**2.00**	*2.50*
Retail price inflation	**3.30**	*2.60*

The actuarial assumptions allow for commutation of members' pensions for cash at retirement, where members are expected to commute 10% (2020: 10%) of their pensions at retirement.

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

As at 31 March 2021, the valuation of scheme assets less liabilities showed a surplus of £3,950,000 (2020: £10,220,000 surplus).

Movement in net defined benefit asset		
Group	**2021**	*2020*
	£000	*£000*
Opening net defined benefit asset at 1 April	**10,220**	*698*
Other finance income	**256**	*20*
Actuarial (losses)/gains	**(6,526)**	*9,502*
Closing net defined benefit asset at 31 March	**3,950**	*10,220*

Notes to the Financial Statements for the year ended 31 March 2021 (Continued)

4. Retirement Benefit Obligations (Continued)

Future funding obligations

The most recent triennial actuarial valuation was carried out as at 1 April 2019. As the scheme is closed to future accrual, there are no further employer contributions are required to support future service. There are no future deficit contributions due under the current schedule of contributions. The bank continues to work with the Trustees to explore ways to further stabilise the defined benefit obligation through an investment strategy to minimise volatility and any potential mismatch between the liabilities and assets of the scheme.

The next triennial actuarial valuation is to be carried out as at 1 April 2022.

Scheme assets and liabilities

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

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

Group	**2021** **£000**	*2020* *£000*
Global equities	**7,468**	*7,713*
Diversified growth funds ("DGF")	**7,254**	*7,814*
Liability driven investments ("LDI")	**15,590**	*15,790*
Short duration credit	**18,493**	*5,613*
Property	**4,681**	*4,701*
Cash	**7,764**	*14,612*
Bulk annuity policy	**78,875**	*72,213*
Total fair value of assets	**140,125**	*128,456*
Present value of scheme liabilities	**(136,175)**	*(118,236)*
Pension scheme asset	**3,950**	*10,220*

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

Notes to the Financial Statements for the year ended 31 March 2021 (Continued)

4. Retirement Benefit Obligations (Continued)

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

Changes in the fair value of the scheme assets		
Group	**2021**	*2020*
	£000	*£000*
Opening fair value of scheme assets at 1 April	**128,456**	*135,977*
Interest on assets	**3,167**	*3,183*
Actual return on assets less interest	**13,335**	*(4,786)*
Benefits paid	**(4,833)**	*(5,918)*
Closing fair value of scheme assets at 31 March	**140,125**	*128,456*
Actual return on assets	**16,502**	*(1,603)*

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

Movement in the present value of the defined benefit obligation		
Group	**2021**	*2020*
	£000	*£000*
Opening defined benefit obligation at 1 April	**118,236**	*135,279*
Interest on obligation	**2,911**	*3,163*
Actuarial gain on liabilities due to experience	**(764)**	*(1,269)*
Actuarial loss/(gain) on liabilities due to assumption changes	**20,625**	*(13,019)*
Benefits paid	**(4,833)**	*(5,918)*
Closing pension obligation at 31 March	**136,175**	*118,236*

The net finance income or expense recognised in profit and loss is calculated by applying the discount rate to the benefit asset recorded at the beginning of the year; this was £10,220,000 (2020: £698,000).

The pension income recorded for this year of £256,000 (2020: £20,000) was higher than that of the previous year due to the increase of the fund surplus.

Analysis of amounts recognised in profit and loss		
Group	**2021**	*2020*
	£000	*£000*
Interest on obligation	**(2,911)**	*(3,163)*
Interest on assets	**3,167**	*3,183*
Total recognised as other finance income	**256**	*20*

Notes to the Financial Statements for the year ended 31 March 2021 (Continued)

4. Retirement Benefit Obligations (Continued)

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

Remeasurements		
Group	**2021**	*2020*
	£000	*£000*
Actual return on assets less interest	**13,335**	*(4,786)*
Actuarial gains due to experience	**764**	*1,269*
Actuarial (losses)/gains due to assumption changes	**(20,625)**	*13,019*
Total recognised in other comprehensive (expense)/income	**(6,526)**	*9,502*

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

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

% of total scheme assets		
Group	**2021**	*2020*
Global equities	**3.4%**	*4.6%*
Diversified growth funds ("DGF")	**5.2%**	*6.1%*
Liability driven investments ("LDI")	**11.1%**	*12.3%*
Short duration credit	**13.2%**	*4.4%*
Property	**3.4%**	*3.6%*
Future world fund	**1.9%**	*1.4%*
Cash	**5.5%**	*11.4%*
Bulk annuity policy	**56.3%**	*56.2%*
Total	**100.0%**	**100.0%**

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

Over recent years, the scheme has reduced its interest rate and inflation risks through a significant amount of investment in Liability driven investments (LDI) and bonds, the values of which increase and decrease, in line with scheme liabilities, from changes in interest rates and market implied inflation. The LDI strategy aims to hedge 100% of the interest rate risk and inflation risk on a technical provisions basis. The scheme hedges interest rate risk on a statutory and long-term funding basis using gilts whereas AA corporate bonds are implicitly used to set the FRS 102 discount rate, there is therefore some risk of mismatch to the bank should yields on gilts and corporate bonds diverge.

Notes to the Financial Statements for the year ended 31 March 2021 (Continued)

4. Retirement Benefit Obligations (Continued)

Defined contribution scheme

The bank operates a defined contribution scheme which has become the main retirement scheme for all employees. During the year ended 31 March 2021 the charge to the Statement of Comprehensive Income was £5,514,000 (2020: £4,800,000), representing the contributions payable by the employer in accordance with the scheme's rules. Other pension costs are recorded within the bank's administrative expenses (see note 7).

Analysis of other pension costs included within the Profit and Loss Account under Administrative expenses

Group	**2021 Total £000**	*2020 Total £000*
In respect of defined contribution scheme		
- Current service cost	**5,514**	*4,800*
Included within Administrative expenses (Note 7)	**5,514**	*4,800*

5. Dealing Profits

Group	**2021 £000**	*2020 £000*
Bank and building society certificates of deposits	**17**	*16*
Debt securities	**8**	*3,531*
Foreign Currency	**6,239**	*7,343*
Dealing profits	**6,264**	*10,890*

Dealing profits arise from gains or losses on treasury positions, including those from foreign currency trades carried out by the bank.

Notes to the Financial Statements for the year ended 31 March 2021 (Continued)

6. Other Operating Income

Group	2021 £000	*2020 £000*
Rental income	**503**	*944*
Gain on sale of fixed assets	**-**	*2*
(Loss)/gain on sale of financial assets	**(37)**	*5*
Hedging result		
- (Loss)/gain on hedged items attributable to hedged risk on loans	**(17,625)**	*15,768*
- Loss on hedged items attributable to hedged risk on debt securities	**(26,818)**	*(57,124)*
- Gain on hedged items (swaps)	**44,703**	*40,989*
Net hedging income/(expense)	**260**	*(367)*
Unrealised profit from financial assets at FVTPL	**4,668**	*925*
Increase/(decrease) in value of derivative contracts	**2**	*(7)*
Investment property revaluation	**(575)**	*(1,025)*
Total other operating income	**4,821**	*477*

The above table includes unrealised losses of £37,000 *(2020: £17,000 profit)* arising from changes in market value on Level 3 financial assets and unrealised losses of £575,000 *(2020: £1,025,000)* arising from revaluation of the banks investment properties.

7. Employee Information and Administrative Expenses

Group	2021 Total £000	*2020 Total £000*
Staff costs		
- Wages and salaries and other short term benefits	**37,131**	*38,764*
- Social security costs	**5,735**	*6,155*
- Other pension costs (Note 4)	**5,514**	*4,800*
Operating lease expense	**25**	*25*
Other administrative expenses	**27,779**	*28,289*
Total administrative expenses excluding depreciation and amortisation	**76,184**	*78,033*

Included in the above table, other administrative expenses includes the charitable donation of £1,500,000 *(2020: £Nil)* paid to the bank's charitable trust.

Notes to the Financial Statements for the year ended 31 March 2021 (Continued)

7. Employee Information and Administrative Expenses (Continued)

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

Group	2021 Total Number	*2020 Total Number*
Full time	**380.0**	*338.0*
Part time	**42.0**	*47.0*
Contractors and agency staff	**29.0**	*51.0*
Total average full time equivalent headcount	**451.0**	*436.0*

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

Auditors' Remuneration

Group	2021 £000	*2020 £000*
Remuneration payable to the auditors in respect of:		
- Statutory audit of the company and consolidated financial statements	**289**	*227*
- Statutory audit of the subsidiaries' financial statements	**16**	*13*
	305	*240*

8. Emoluments of Directors

Group	2021 £000	*2020 £000*
Aggregate emoluments	**10,722**	*11,401*
Pension contributions	**8**	*20*
	10,730	*11,421*
Highest paid Director		
- Emoluments	**1,782**	*1,982*
- Pension contributions	**4**	*-*
	1,786	*1,982*

Notes to the Financial Statements for the year ended 31 March 2021 (Continued)

9. Tax on profit

The UK corporation tax rate for the year was 19% *(2020: 19%)*. The Company's profits for this accounting period have been taxed for corporation tax at 19%.

9(a) Analysis of taxation charge

Group	2021 Total £000	*2020 Total £000*
Current tax		
UK corporation tax on profits for the year at 19% *(2020: 19%)*	**2,737**	*4,122*
Adjustments in respect of previous years	**849**	*54*
Total current tax	**3,586**	*4,176*
Deferred tax		
Origination and reversal of timing differences	**206**	*(123)*
Adjustments in respect of previous periods	**(53)**	-
Impact of change in tax rate	**109**	-
Total deferred tax	**262**	*(123)*
Tax on profit	**3,848**	*4,053*

The Finance (No.2) Act (the Act) was substantively enacted on 22 July 2020. The Act's main rate of corporation tax is 19%. The Chancellor confirmed an increase in corporation tax rate from 19% to 25% effect from 1 April 2023. The new law was enacted after the balance sheet date.

9(b) Tax (income)/expense included in other comprehensive income/(expense)

Group	2021 £000	*2020 £000*
Deferred tax		
Timing differences on actuarial (gains)/losses in the pension scheme	**(1,036)**	*1,614*
Deferred tax losses/(gains) arising on land, building	**289**	*(658)*
Deferred tax losses arising on heritage assets valuation	**183**	*1*
Total tax (income)/expense included in other comprehensive (expense)/income	**(564)**	*957*

Deferred tax is recognised on all revaluation movements at 19% and is recorded in revaluation reserves.

In the Spring Budget 2020, the UK Government announced that from 1 April 2020 the corporation tax rate would remain at 19% (rather than reducing to 17%, as previously enacted). This new law was enacted during the year and deferred taxes have been remeasured using these rates.

Notes to the Financial Statements for the year ended 31 March 2021 (Continued)

9. Tax on profit (Continued)

9(c) Reconciliation of taxation charge

The tax charge for the year of £3,848,000 *(2020: £4,053,000)* is higher *(2020: lower)* than the result of applying the standard rate of corporation tax in the UK for the year ended 31 March 2021 of 19% *(2020: 19%)* The reasons for this are shown below:

Group	2021 Total £000	*2020 Total £000*
Profit before tax	**16,102**	*21,712*
Profit multiplied by standard rate of tax in the UK of 19% *(2020: 19%)*	**3,059**	*4,125*
Effects of:		
- Permanent disallowables	**(128)**	*(142)*
- Fixed asset timing differences	**12**	*20*
- Other timing differences	**-**	*(4)*
- Adjustments in respect of previous years	**796**	*54*
- Impact of change in tax rate	**109**	-
Total tax charge for the year	**3,848**	*4,053*

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

£11,528,000 *(2020: £17,122,000)* of the Group profit attributable to shareholders relates to the Company this includes dividends of £Nil *(2020: £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.

Notes to the Financial Statements for the year ended 31 March 2021 (Continued)

11. Dividends

The aggregate of dividends comprises:

Group	2021 £ per share	*2020 £ per share*	2021 £000	*2020 £000*
Ordinary shares (declared)	**50**	*50*	**6**	*6*

12. Derivative Financial Instruments

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

Group	2021 Notional amount £000	2021 Fair value £000	*2020 Notional amount £000*	*2020 Fair value £000*
Derivative assets				
Exchange rate contracts				
Forward foreign exchange contracts	**5,947**	**2**	*11,909*	*10*
Interest rate contracts				
Interest rate swaps – hedging instruments	**639,989**	**29,392**	*10,001*	*21*
Total derivative assets	**645,936**	**29,394**	*21,910*	*31*
Derivative liabilities				
Exchange rate contracts				
Forward foreign exchange contracts	**1,429**	**1**	*3,118*	*10*
Interest rate contracts				
Interest rate swaps – hedging instruments	**844,469**	**21,786**	*1,362,033*	*37,118*
Total derivative liabilities	**845,898**	**21,787**	*1,365,151*	*37,128*

Interest rate swaps are used to hedge the interest rate risk arising on the bank's fixed interest rate assets. The amount has increased during the year to match an increase in fixed rate lending, debt securities and other financial assets held by the bank.

Interest Rate Swaps Notional		
Group	**2021 £000**	*2020 £000*
Loans and advances to customers		
- Drawn	**1,060,231**	*1,001,374*
- Undrawn	**46,162**	*11,037*
Debt securities	**378,065**	*359,623*
	1,484,458	*1,372,034*

Notes to the Financial Statements for the year ended 31 March 2021 (Continued)

13. Financial Assets

	Group 2021 £000	Company 2021 £000	*Group 2020 £000*	*Company 2020 £000*
Financial assets at fair value through profit or loss				
Equity securities	**141,084**	**141,034**	*6,038*	*5,928*
	141,084	**141,034**	*6,038*	*5,928*
Financial assets at cost less impairment				
Investment in equity shares	**1,528**	**1,528**	*1,528*	*1,528*
	1,528	**1,528**	*1,528*	*1,528*
Financial assets measured at amortised cost				
Loans and advances to banks (Note 13(a))	**326,999**	**326,999**	*384,872*	*384,872*
Loans and advances to customers (Note 13(b))	**1,886,062**	**1,886,062**	*1,832,836*	*1,832,836*
Less specific and collective allowances for impairment	**(29,047)**	**(29,047)**	*(26,842)*	*(26,842)*
Bank and building society certificates of deposits	**180,403**	**180,403**	*617,362*	*617,362*
Debt securities	**1,652,576**	**1,652,576**	*1,140,630*	*1,140,630*
	4,016,993	**4,016,993**	*3,948,858*	*3,948,858*
Total financial assets	**4,159,605**	**4,159,555**	*3,956,424*	*3,956,314*

On 10 March 2021 the bank purchased 1,219,988 fully paid B Ordinary shares in Lindsell Train Global Equity Fund with a nominal value of £4.0984 per share. Total consideration paid for the investment was £5,000,000. The investment has been classified as a financial asset at fair value through profit or loss.

On 23 March 2021 the bank purchased 252,500 shares in Vontobel Fund – Twentyfour Sustainable Short Term Bonds with a nominal value of £99.01 per share. Total consideration paid for the investment was £25,000,000. The investment has been classified as a financial asset at fair value through profit or loss.

On 23 March 2021 the bank purchased 969,744 shares in Vontobel Fund - Twentyfour Absolute Return Credit Fund with a nominal value of £103.12 per share. Total consideration paid for the investment was £100,000,000. The investment has been classified as a financial asset at fair value through profit or loss.

Included in the above table are fixed rate securities with a nominal value of £378.1m *(2020: £359.6m)* and drawn fixed rate loans with a nominal value of £1,060.2m *(2020: £1,001.4m)* 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 has invested in Residential Mortgage Backed Securities (RMBS). The portfolio consists of standard interests in senior RMBS positions which have been assessed under FRS 102, including by referencing the solely payments of principals and interest (SPPI) criteria set out in IFRS 9. As a result, the bank has classified them as basic instruments and records them at amortised cost. Included within debt securities is £313m *(2020: £87m)* in respect of Residential Mortgage-Backed Securities.

Notes to the Financial Statements for the year ended 31 March 2021 (Continued)

13. Financial Assets (Continued)

13(a) Loans and advances to banks

Group	**2021 £000**	*2020 £000*
Repayable on demand	**102,236**	*67,008*
Other loans and advances:		
Remaining maturity		
- 3 months or less	**195,760**	*261,755*
- over 5 years	**29,003**	*56,109*
Total loans and advances to banks	**326,999**	*384,872*

13(b) Loans and advances to customers

Group	**2021 £000**	*2020 £000*
Remaining maturity		
- 3 months or less	**583,806**	*681,096*
- 1 year or less but over 3 months	**293,512**	*165,148*
- 5 years or less but over 1 year	**801,002**	*812,272*
- over 5 years	**207,742**	*174,320*
Allowance for impairment losses (Note 14)	**(29,047)**	*(26,842)*
Total loans and advances to customers	**1,857,015**	*1,805,994*
Of which repayable on demand or short notice	**480,975**	*609,749*

Included in the above loans and advances to customers are fixed rate loans which have been hedged against interest rate risk using interest rate swaps. The value of drawn and undrawn customer lending hedged at 31 March 2021 was £1,106.4m *(2020: £1,012.4m)*.

Notes to the Financial Statements for the year ended 31 March 2021 (Continued)

14. Allowance for Impairment Losses

Loans and advances to customers		
Group	**2021**	*2020*
	£000	*£000*
Specific allowances for impairment		
Balance at 1 April	**22,682**	*8,474*
Impairment loss for the year		
- Charge for the year	**3,326**	*16,713*
- Recoveries for the year	**(2,759)**	*(2,302)*
Net charge	**567**	*14,411*
Release of discount	**1,588**	-
Write-offs	**(113)**	*(203)*
Balance at 31 March	**24,724**	*22,682*
Collective allowance for impairment		
Balance at 1 April	**4,160**	*3,137*
Impairment loss for the year		
- charge for the year	**163**	*1,023*
Balance at 31 March	**4,323**	*4,160*
Total specific and collective impairment allowances	**29,047**	*26,842*

15. Shares in Group Undertakings

The Company has the following investments in subsidiaries:

Shares at cost		**Principal Activity**	**2021 £**	*2020 £*
Messrs Hoare Trustees	20 shares of no par value	Trustee company	-	-
Hoare's Bank Pension Trustees Limited	1 Ordinary £1 share	Pension scheme trustee	**1**	*1*
Hoares Bank Nominees Limited	72 Ordinary £1 shares	Nominee company	**72**	*72*
C. Hoare & Co. EIG Management Limited	1 Ordinary £1 share	Holding company	**1**	*1*
Mitre Court Property Holding Company	10,000 Ordinary £1 shares partly paid	Dormant	**1,000**	*1,000*
Total Investments in Subsidiaries			**1,074**	*1,074*

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

Notes to the Financial Statements for the year ended 31 March 2021 (Continued)

16. Intangible assets (restated)

Group	Software
At 1 April 2020	**£000**
Cost	*54,506*
Accumulated amortisation and impairment	*(32,857)*
Net book amount	*21,649*
Year ended 31 March 2021	
Opening net book amount	**21,649**
Additions	**1,981**
Disposal - cost	**(7,476)**
Amortisation	**(7,626)**
Disposal - amortisation	**7,539**
Closing net book amount	**16,067**
At 31 March 2021	
Cost	**49,011**
Accumulated amortisation and impairment	**(32,944)**
Net book amount	**16,067**

In the prior year intangible assets were presented as a separate category within tangible fixed assets. During the year the accounting policy was reviewed, and in line with FRS 102, section 18 these assets are now presented separately from tangible fixed assets. This change had neither an impact on opening equity nor on 2020 profits.

Individual intangible assets which are material to the financial statements

	Carrying Amount		**Remaining amortisation period**	
Group	**2021**	*2020*	**2021**	*2020*
	£000	*£000*	**Years**	*Years*
Software				
Digital & Mobile Online	**1,745**	*3,053*	**1.3**	*2.3*
PSD2 RTS	**1,170**	*1,587*	**2.5**	*3.5*
Cards Platform	**1,014**	*1,426*	**2.6**	*3.6*

The Digital & Mobile team built a re-platformed back-end for our web and mobile channels that enables the bank to build more responsive and native digital applications. This also included a new user interface front end that gives customers an improved user experience.

PSD2 RTS –Adherence to the Payment Services Directive (PSD2) including the Security Measures for Operational and Security. The software provides third-party providers with access to our customers private data based on consents given by the customers.

The bank's current Cards Platform system required an upgrade to the latest version so that it could be migrated to an outsourced platform.

Notes to the Financial Statements for the year ended 31 March 2021 (Continued)

17. Property and Equipment (restated)

Group	Land and Buildings	Investment Properties	Equipment	Total
At 1 April 2020	**£000**	**£000**	**£000**	**£000**
Cost	*5,071*	*8,878*	*18,095*	*32,044*
Revaluation	*40,604*	*697*	*-*	*41,301*
Accumulated depreciation and impairment	*-*	*-*	*(12,145)*	*(12,145)*
Net book amount	*45,675*	*9,575*	*5,950*	*61,200*
Year ended 31 March 2021				
Opening net book amount	**45,675**	**9,575**	**5,950**	**61,200**
Additions	**-**	**-**	**1,312**	**1,312**
Disposals - cost	**-**	**-**	**(676)**	**(676)**
Reclassification - cost	**4,519**	**(4,519)**	**-**	**-**
Revaluation movement	**(2,275)**	**(575)**	**-**	**(2,850)**
Reclassification - revaluation	**(4,519)**	**4,519**	**-**	**-**
Depreciation	**-**	**-**	**(1,964)**	**(1,964)**
Disposals - depreciation	**-**	**-**	**675**	**675**
Closing net book amount	**43,400**	**9,000**	**5,297**	**57,697**
At 31 March 2021				
Cost	**9,590**	**4,359**	**18,731**	**32,680**
Revaluation	**33,810**	**4,641**	**-**	**38,451**
Accumulated depreciation and impairment	**-**	**-**	**(13,434)**	**(13,434)**
Net book amount	**43,400**	**9,000**	**5,297**	**57,697**

In the prior year intangible assets were presented as a separate category within tangible fixed assets. During the year the accounting policy was reviewed and, in line with FRS 102, section 18 these assets are now presented separately from tangible fixed assets. The comparatives have been restated to reflect the move to Intangible assets see Note 16. This change had neither an impact on opening equity nor on 2020 profits.

Group	2021	*2020*
	£000	*£000*
Land and buildings occupied for own activities		
- Net book amount	**35,239**	*37,204*
At cost		
- Land and buildings	**9,590**	*5,071*
- Investment properties	**4,359**	*8,878*
	13,949	*13,949*

The bank's land, buildings and investment properties were valued as at 31 March 2021 by AGL, Chartered Surveyors. Based on this updated valuation, a revaluation loss of 5% of the 31 March 2020 valuation has been recognised to reflect the uncertainty in the market and lack of independent evidence available since the lockdown. The Royal Albert Hall Box (included within land and buildings) was last valued as at 31 March 2019 by Harrods Estates Luxury Property Agents.

Notes to the Financial Statements for the year ended 31 March 2021 (Continued)

17. Property and Equipment (restated) (Continued)

Group	2021 £000	*2020* *£000*
Future capital expenditure Contracted but not provided in the financial statements	**8,932**	*1,793*

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

Group	2021 £000	*2020* *£000*
Payment due		
Not later than one year	**13**	*19*
Later than one year and not later than five years	**5**	*17*
	18	*36*

18. Heritage Assets

Group	Paintings £000	Artefacts £000	2021 Total £000	*Paintings* *£000*	*Artefacts* *£000*	*2020* *Total* *£000*
Valuation 1 April	**6,864**	**2,609**	**9,473**	*6,839*	*2,599*	*9,438*
Movements - additions	**4**	**-**	**4**	*25*	*1*	*26*
Movements - valuation	**-**	**-**	**-**	*-*	*9*	*9*
Valuation 31 March	**6,868**	**2,609**	**9,477**	*6,864*	*2,609*	*9,473*

The bank has accumulated a collection of artefacts largely in the form of paintings, an extensive coin collection and the bank's own ledgers reflecting the bank's history of over 300 years. These are regarded as heritage assets due to their relevance to the knowledge and culture of the bank's history. Most of these are housed at the bank's registered office at 37 Fleet Street London, including collections on display at the bank's museum at the same address. At any time, approximately 50% of the collection is on display. The remaining items are held in storage that is not open to the public, although access is permitted to historians and others providing valuable research into the bank's history.

The bank's museum maintains a register for its collections of heritage assets which records the nature, provenance and current location of each asset. The bank continues to add to its collection of heritage assets by purchase or donation, with the objective to retain items that are relevant to the history of the bank for future generations.

The bank aims to preserve and maintain the condition of the collections in a steady state of repair.

The bank commissioned external valuers (Messrs Christie's, auctioneers and valuers and Classical Numismatic Group – Coin Valuers) to undertake a full valuation of the Heritage assets as at 31 March 2017.

Notes to the Financial Statements for the year ended 31 March 2021 (Continued)

18. Heritage Assets (Continued)

The 2017 valuations were based on commercial market prices, including recent transaction information from auctions where similar paintings to those held by the bank had been sold; the figure included in the financial statements is based on the lower end of the range indicated by these various sources.

In November 2018 the bank commissioned external valuer Tim Ritchie & Associates Ltd to undertake a valuation for items that had been transferred to heritage assets from fixed assets since 31 March 2017. The bank has assessed that the valuation of the Heritage assets has not been affected by COVID-19.

19. Deferred Tax

19(a) Analysis of Deferred Taxation

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

Group	2021 £000	2020 £000
Deferred tax asset		
Fixed assets timing differences	**1,677**	*1,015*
Provision on loan fees	**-**	*1*
Total deferred tax asset	**1,677**	*1,016*
Deferred tax liability		
Timing differences on valuations		
- Land and buildings	**6,424**	*6,134*
- Investment properties	**882**	*887*
- Heritage assets	**1,735**	*1,553*
- Capital gains	**887**	*-*
Short term timing differences	**47**	*55*
Defined pensions scheme	**750**	*1,738*
Total deferred tax liability	**10,725**	*10,367*

The Chancellor confirmed an increase in the corporation tax rate from 19 to 25 percent with the effect from 1 April 2023. The new law was enacted after the balance sheet date and therefore not reflected in the financial statements. The impact of the rate increase on the deferred tax recorded on the balance sheet as at 31 March 2021 would have been an increase of £2.8m.

Notes to the Financial Statements for the year ended 31 March 2021 (Continued)

19. Deferred Tax (Continued)

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

Group	2021 £000	*2020 £000*
Deferred tax asset		
Balance at 1 April	**1,016**	*856*
Capital allowances on fixed asset additions	**662**	*162*
Timing differences on loan fees	**(1)**	*(2)*
Balance at 31 March	**1,677**	*1,016*
Deferred tax liability		
Balance at 1 April	**10,367**	*9,544*
Timing differences on valuations		
- Land and buildings	**289**	*(658)*
- Investment properties	**(5)**	*(174)*
- Heritage assets	**183**	*1*
- Capital gains	**887**	*-*
Short term timing difference	**(8)**	*35*
Defined benefit pensions scheme movement:		
- Actual (losses)/gains	**(1,036)**	*1,614*
- Other Pensions movements	**48**	*5*
Balance at 31 March	**10,725**	*10,367*

20. Other Assets

	Group 2021 £000	Company 2021 £000	*Group 2020 £000*	*Company 2020 £000*
Corporation tax	**2,866**	**2,955**	*3,122*	*3,282*
Settlement balances	**400**	**400**	*469*	*469*
Amounts owed by group undertakings	**-**	**-**	*-*	*9*
	3,266	**3,355**	*3,591*	*3,760*

Settlement balances relate to unsettled transactions at the year end.

Notes to the Financial Statements for the year ended 31 March 2021 (Continued)

21. Prepayments and Accrued Income

	Group 2021 £000	**Company 2021 £000**	*Group 2020 £000*	*Company 2020 £000*
Interest receivable	**16**	**16**	*4,404*	*4,404*
Other debtors and prepayments	**13,029**	**12,963**	*4,717*	*4,694*
	13,045	**12,979**	*9,121*	*9,098*

During the year the accounting policy for the bank's IT software was reviewed and included in Other debtors and prepayment is a work in progress balance of £7.9m for IT software.

22. Deposits by Banks

Group	**2021 £000**	*2020 £000*
Repayable on demand	**-**	*466*

23. Customer Accounts

Group	**2021 £000**	*2020 £000*
Repayable on demand	**4,554,785**	*3,591,821*
With agreed maturity date or notice period, by remaining maturity:		
- 3 months or less but not repayable on demand	**478,723**	*682,888*
- 1 year or less but over 3 months	**487,556**	*428,005*
- 2 years or less but over 1 year	**23,230**	*59,142*
	5,544,294	*4,761,856*
Amount due to Subsidiary Companies	**11,910**	*11,297*

24. Other Liabilities

	Group 2021 £000	**Company 2021 £000**	*Group 2020 £000*	*Company 2020 £000*
Settlement balances	**3,188**	**3,188**	*651*	*650*
Other liabilities	**130**	**13**	*194*	*41*
Amounts owed to group undertakings	**-**	**14**	*-*	*-*
	3,318	**3,215**	*845*	*691*

Settlement balances relate to unsettled transactions at the year end.

Notes to the Financial Statements for the year ended 31 March 2021 (Continued)

25. Accruals and Deferred Income

Group	2021 £000	*2020 £000*
Interest payable	**2,158**	*2,620*
Other creditors and accruals	**19,389**	*22,326*
	21,547	*24,946*

26. Provision for Other Liabilities

(a)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 £3.3m, *(2020: £3.3m)* in respect of legal provisions and related costs; the provision was increased by £109,000 during the year *(2020: £Nil)* resulting in the bank carrying a closing provision of £3.4m at 31 March 2021 *(2020: £3.3m).*

27. Called up Share Capital

Group	2021 £000	*2020 £000*
Authorised, allotted and fully paid:		
120 *(2020: 120)* Ordinary shares of £1,000	**120**	*120*

28. Revaluation reserves

Group	Property £000	Heritage Assets £000	Total £000
Balance as at 1 April 2019	**33,167**	**7,573**	**40,740**
Revaluation of property and heritage assets	*(3,875)*	*9*	*(3,866)*
Deferred tax charge on property and heritage assets	*658*	*(1)*	*657*
Balance as at 31 March 2020	**29,950**	**7,581**	**37,531**
Revaluation of property and heritage assets	**(2,275)**	**-**	**(2,275)**
Deferred tax charge on property and heritage assets	**(289)**	**(183)**	**(472)**
Balance as at 31 March 2021	**27,386**	**7,398**	**34,784**

Deferred tax is recognised on all revaluation movements at 19% and is recorded in revaluation reserves.

In the Spring Budget 2020, the UK Government announced that from 1 April 2020 the corporation tax rate would remain at 19% (rather than reducing to 17%, as previously enacted). This new law was enacted during the year and deferred taxes have been remeasured using these rates.

Notes to the Financial Statements for the year ended 31 March 2021 (Continued)

29. Contingent Liabilities, Commitments

Contingent Liabilities and commitments

The table below discloses the nominal principal amounts of contingent liabilities and commitments undertaken for customers as at 31 March 2021.

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	2021 £000	*2020* *£000*
Contingent liabilities:		
- Performance bonds and other transaction-related contingencies	**517**	*517*
- Guarantees	**24,443**	*26,496*
Total contingent liabilities	**24,960**	*27,013*
Commitments:		
- Undrawn formal standby facilities, credit lines and other commitments to lend (Less than 1 year maturity)	**393,273**	*353,029*
Commitments on equity investments	**3,917**	*4,832*
Total commitments	**397,190**	*357,861*

Notes to the Financial Statements for the year ended 31 March 2021 (Continued)

30. Notes to the statement of cash flows

Group	2021 £000	*2020 £000*
Profit for the financial year	**12,254**	*17,659*
Tax on profit on ordinary activities	**3,848**	*4,053*
Profit before tax	**16,102**	*21,712*
Impairment charge	**730**	*15,366*
Loans and advances written off	**113**	*203*
Unwinding of discount on customer loans	**1,588**	-
Amortisation of intangible assets	**7,563**	*6,995*
Depreciation of tangible fixed assets	**1,964**	*1,800*
Operating lease	**25**	*25*
Net income in respect of defined benefit scheme	**(207)**	*(17)*
Loss/(profit) on sale of investment securities	**37**	*(5)*
Profit on disposal of tangible asset	**(1)**	*(2)*
Loss on revaluation of investment property	**575**	*1,025*
Fair value movements on financial assets	**(15,114)**	*8,208*
Working capital movements:		
- Decrease/(increase) in loans and advances	**39,359**	*(293,675)*
- (Increase)/decrease in debtors	**(3,856)**	*2,179*
- Increase in payables	**781,315**	*390,927*
Cash flow generated from operating activities	**830,193**	*154,741*

In the prior year intangible assets were presented as a separate category within tangible fixed assets. During the year the accounting policy was reviewed, and in line with FRS 102, section 18 these assets are now presented separately from tangible fixed assets. Consequently the prior year's amortisation in the above table has been separated for comparative purposes.

Notes to the Financial Statements for the year ended 31 March 2021 (Continued)

31. Financial Risk Management

(a) Overview

The Board has ultimate responsibility for the management of risk within the bank. The ARCCo, which reports to the Board, provides oversight and monitors the effectiveness of internal control and risk management processes. Further details of the bank's risk management and governance structure are given in the Directors' Report on pages 13 to 24.

The principal risks affecting the bank are explained in the Strategic Report on pages 7 to 12. A fuller description of the bank's principal risks can be found in the bank's Pillar 3 disclosures, which is unaudited, and is available on the bank's website: www.hoaresbank.co.uk.

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

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

(b) Credit risk

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

Management of credit risk

The bank seeks to limit loan losses by maintaining a conservative credit portfolio managed via a robust credit risk framework. As part of the framework, the bank has established risk appetite metrics which are aligned to its lending policy and credit risk monitoring processes and conducts stress tests to ensure that the bank remains within appetite. The bank's credit risk exposures and performance against appetite are monitored and reported to the Credit Committee; Management Team, Audit, Risk and Compliance Committee and Board.

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

The bank seeks to build strong relationships with customers and endeavours to assist those customers in financial difficulty. The support provided to customers throughout the COVID-19 pandemic is outlined in section 4 of the Strategic Report.

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

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

Notes to the Financial Statements for the year ended 31 March 2021 (Continued)

31. Financial Risk Management (Continued)

(b) Credit risk (continued)

Maximum credit exposure

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

Maximum credit exposure		
Group	**2021**	*2020*
	£000	*£000*
Balance Sheet items		
Cash and balances at central banks	**1,709,735**	*1,161,138*
Derivative financial instruments	**29,394**	*31*
Loans and advances to banks (Note 13(a))	**326,999**	*384,872*
Loans and advances to customers (Note 13(b))	**1,857,015**	*1,805,994*
Bank and building society certificates of deposits	**180,403**	*617,362*
Debt securities	**1,652,576**	*1,140,630*
Equity securities	**142,612**	*7,566*
Maximum credit exposure from Balance Sheet items	**5,898,734**	*5,117,593*
Off balance sheet items		
Contingent liabilities	**24,960**	*27,013*
Commitments	**397,190**	*357,861*
Maximum credit exposure from off Balance Sheet items	**422,150**	*384,874*
Maximum credit exposure	**6,320,884**	*5,502,467*

Concentration risk

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

The bank's activities are concentrated on serving high net worth individuals within the UK primarily in the South of England, where a significant proportion of the bank's lending activities relate residential properties. Whilst this is a somewhat concentrated group, the bank's experience, particularly with respect to lending, is that exposures to this group are lower risk than to the average UK population. The bank's treasury department also invests in a range of high quality assets issued by governments, top rated institutional counterparties, funds which invest mainly in investment grade bonds and securitisations backed by large and diverse portfolios of UK prime owner-occupied mortgages. Treasury counterparty concentration risk is limited in accordance with Bank limits to large exposures as established by the PRAs Capital Requirements Regulation and is actively monitored daily with oversight by the ALCo.

At 31 March the bank's exposure to UK customers and counterparties was 88% (2020:81%) of total asset exposures.

Credit quality of assets

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

Notes to the Financial Statements for the year ended 31 March 2021 (Continued)

31. Financial Risk Management (Continued)

(b) Credit risk (continued)

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

The credit quality of assets is shown below.

Loans and advances to customers by payment status		
Group	**2021**	*2020*
	£000	*£000*
Performing		
Neither past due nor impaired	**1,713,653**	*1,572,309*
Non-performing		
Past due but not impaired		
Past due up to 3 months	**43,820**	*111,451*
Past due 3 to 6 months	**12,884**	*13,435*
Past due 6 to 12 months	**14,860**	*16,606*
Past due over 12 months	**33,272**	*29,463*
Impaired	**67,573**	*89,572*
Total non-performing loans	**172,409**	*260,527*
Total loans and advances to customers	**1,886,062**	*1,832,836*
Impairment		
Specific allowances for impairment	**24,724**	*22,682*
Collective allowance for impairment	**4,323**	*4,160*
Total impairment	**29,047**	*26,842*
Total loans and advances to customers	**1,857,015**	*1,805,994*
Non-performing loans to gross loans and advances	**9.1%**	*14.2%*
Specific impairment to gross loans and advances	**1.3%**	*1.2%*
Collective impairment to gross loans and advances	**0.2%**	*0.2%*
Specific impairment to non-performing loans	**14.3%**	*8.7%*
Collateral*		
Against loans past due but not impaired	**197,853**	*332,711*
Against impaired loans	**53,497**	*66,895*
Total collateral against non-performing loans	**251,350**	*399,606*

*The collateral represents the direct security linked to the non-performing loan however, in almost all cases the borrower would have provided additional security to support their total borrowings.

At 31 March 2021, impaired loans of £16.9m *(2020: £16.7m)* had forbearance considerations, and specific provisions of £4.1m *(2020: £2.8m)*. The estimated value of collateral against these loans is £14.5m *(2020: £15.0m)*.

Notes to the Financial Statements for the year ended 31 March 2021 (Continued)

31. Financial Risk Management (Continued)

(b) Credit risk (continued)

Collateral held as security

The bank holds collateral against loans and advances to customers in the form of charges over residential and commercial property, investment securities, other assets and guarantees. Estimates of fair value are based upon the value of collateral assessed at the time of borrowing and are assessed at regular intervals in the lending life cycle. At 31 March 2021, the value of property collateral recorded against customer facilities was £4,632m *(2020: £4,693m).* The valuation does not assume any reduction relating to the uncertainty of COVID-19 except for collateral relating to impaired loans. The estimated value of collateral against the impaired customer loans and advances was £53.5m *(2020: £66.9m).*

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

Individually impaired loans and securities

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

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

Allowances for impairment

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

Write-off policy

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

Forbearance

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

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

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

Notes to the Financial Statements for the year ended 31 March 2021 (Continued)

31. Financial Risk Management (Continued)

(b) Credit risk (continued)

Analysis of loans and advances to banks and debt and equity securities		
Group	**2021 £000**	*2020 £000*
Loans and advances to banks, by rating:		
- Aaa to Aa3	**259,966**	*278,817*
- A1 to A3	**67,033**	*106,055*
Total unimpaired loans and advances to banks	**326,999**	*384,872*
Debt and equity security financial assets, by rating:		
- Aaa to Aa3	**1,682,622**	*1,456,679*
- A1 to A3	**150,357**	*301,313*
- Not rated	**142,612**	*7,566*
Total debt and equity securities	**1,975,591**	*1,765,558*

(c) Liquidity risk

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

Management of liquidity risk

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

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

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

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

With the onset of COVID-19, the bank increased its monitoring of external developments and assessments on implications to liquidity. Regular meetings between senior members of the Treasury, Finance and Risk departments take place to review and discuss economic, political and social developments, monitor market movements, monitor the credit quality of our treasury assets as well as customer deposit behaviour and escalate as necessary to the ALCo. ALCo's scheduled meetings initially increased to every two weeks from monthly, reverting to monthly after a sustained period of stability. Initially twice weekly meetings of the full Management Team and Partners of the bank took place to discuss all business recovery elements implicated by the COVID-19 virus, including any unusual movements in deposit balances and liquidity in general. No unusual trends were noted and the meetings were discontinued after a sustained period of stability.

Notes to the Financial Statements for the year ended 31 March 2021 (Continued)

31. Financial Risk Management (Continued)

(c) Liquidity risk (Continued)

Exposure to liquidity risk

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

Group At 31 March 2021	**Carrying Amount £000**	**Next day £000**	**Less than 1 month £000**	**1 to 3 months £000**	**3 months to 1 year £000**	**1 - 5 years £000**	**Over 5 years £000**
Balance sheet							
Deposits from banks	-	-	-	-	-	-	-
Deposits from customers	**5,544,448**	**4,592,520**	**109,411**	**343,765**	**475,421**	**23,331**	-
Derivative liabilities	**21,787**	-	**13**	**29**	**1,484**	**12,178**	**8,083**
Off balance sheet							
Guarantees, letters of credit and performance bonds	**24,960**	**24,960**	-	-	-	-	-
Undrawn customer facilities	**397,190**	**397,190**	-	-	-	-	-
Total liabilities	**5,988,385**	**5,014,670**	**109,424**	**343,794**	**476,905**	**35,509**	**8,083**

Group At 31 March 2020	*Carrying Amount £000*	*Next day £000*	*Less than 1 month £000*	*1 to 3 months £000*	*3 months to 1 year £000*	*1 - 5 years £000*	*Over 5 years £000*
Balance sheet							
Deposits from banks	*466*	*466*	-	-	-	-	-
Deposits from customers	*4,762,228*	*3,537,864*	*197,881*	*506,441*	*460,859*	*59,183*	-
Derivative liabilities	*37,128*	*1*	*13*	*56*	*1,564*	*19,763*	*15,731*
Off balance sheet							
Guarantees, letters of credit and performance bonds	*27,013*	*27,013*	-	-	-	-	-
Undrawn customer facilities	*357,861*	*357,861*	-	-	-	-	-
Total liabilities	*5,184,696*	*3,923,205*	*197,894*	*506,497*	*462,423*	*78,946*	*15,731*

Notes to the Financial Statements for the year ended 31 March 2021 (Continued)

31. Financial Risk Management (Continued)

(c) Liquidity risk (continued)

Exposure to liquidity risk (continued)

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

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

(d) Market risk

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

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

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

Management of interest rate risks

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

Fixed rate loans that are hedged use 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.

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

Notes to the Financial Statements for the year ended 31 March 2021 (Continued)

31. Financial Risk Management (Continued)

(d) Market risk (continued)

Exposure to interest rate risk

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

Group **At 31 March 2021**	**Carrying Amount £000**	**Up to 3 months £000**	**3 to 6 months £000**	**6 to 12 months £000**	**1 to 5 years £000**	**Over 5 years £000**
Assets						
Loans and advances to banks and central banks	**2,025,999**	**2,025,999**	**-**	**-**	**-**	**-**
Loans and advances to customers	**1,853,846**	**554,709**	**49,662**	**243,032**	**796,424**	**210,019**
Debt security financial assets	**1,843,418**	**1,284,853**	**180,500**	**27,000**	**43,689**	**307,376**
Total assets	**5,723,263**	**3,865,561**	**230,162**	**270,032**	**840,113**	**517,395**
Liabilities						
Deposits by banks	**-**	**-**	**-**	**-**	**-**	**-**
Customer accounts	**5,544,294**	**5,033,508**	**341,746**	**145,810**	**23,230**	**-**
Total liabilities	**5,544,294**	**5,033,508**	**341,746**	**145,810**	**23,230**	**-**
Net derivatives	**-**	**1,438,774**	**(33,803)**	**(217,934)**	**(649,715)**	**(537,322)**
Interest rate gap	**178,969**	**270,827**	**(145,387)**	**(93,712)**	**167,168**	**(19,927)**

Group *At 31 March 2020*	*Carrying Amount £000*	*Up to 3 months £000*	*3 to 6 months £000*	*6 to 12 months £000*	*1 to 5 years £000*	*Over 5 years £000*
Assets						
Loans and advances to banks and central banks	*1,536,872*	*1,536,872*	*-*	*-*	*-*	*-*
Loans and advances to customers	*1,785,200*	*654,222*	*65,632*	*98,790*	*800,737*	*165,819*
Debt security financial assets	*1,741,612*	*1,176,989*	*250,000*	*211,558*	*70,689*	*32,376*
Total assets	*5,063,684*	*3,368,083*	*315,632*	*310,348*	*871,426*	*198,195*
Liabilities						
Deposits by banks	*466*	*466*	*-*	*-*	*-*	*-*
Customer accounts	*4,761,856*	*4,274,709*	*302,405*	*125,600*	*59,142*	*-*
Total liabilities	*4,762,322*	*4,275,175*	*302,405*	*125,600*	*59,142*	*-*
Net derivatives	*-*	*1,289,424*	*(200,408)*	*(158,369)*	*(728,838)*	*(201,809)*
Interest rate gap	*301,362*	*382,332*	*(187,181)*	*26,379*	*83,446*	*(3,614)*

Notes to the Financial Statements for the year ended 31 March 2021 (Continued)

31. Financial Risk Management (Continued)

(d) Market risk (continued)

Exposure to market risk: interest rate risk (continued)

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

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

The bank's interest rate gap sensitivity resulting from a potential +/- 200bps parallel shift in the yield curve, measured in accordance with the PRA's requirements to incorporate all assets and liabilities on the balance sheet, was £1.5m and -£2.0m respectively. The bank monitors its exposure to yield curve risk weekly and is reported to the ALCo monthly against a Board approved policy limit.

The reported interest rate sensitivity as at 31 March 2021 is shown in the table below.

Effect of a change of 2.00% in Sterling Market Rates		
Group	**2021**	*2020*
	£000	*£000*
Net present value sensitivity to:		
Positive shift	**1,456**	*(812)*
Negative shift	**(2,023)**	*868*

The interest rate sensitivities set out above are illustrative only and are based on simplified scenarios in which all managed rates are assumed to be able to move in tandem with changes in the benchmark rates. The figures above represent the effect on net interest income, primarily relating to the small number of unhedged fixed rate loans, arising from a parallel fall or rise in the yield curve. The bank aims to minimise interest rate risk and uses interest rate swaps to hedge exposures on fixed rate loans and investments. Given the bank's approach to managing interest rate risk, as outlined in the Strategic report section 3(d), the net exposure to this risk after hedging is minimal and arises primarily during the period from offering a facility to a customer to the date of acceptance at which point a hedge is put in place.

The bank also assesses the broader impact of basis risk and interest rate changes on future earnings, which is caused by potential time delays in moving managed rates to mirror changes in benchmark rates, creating an imperfect correlation between the bank's lending and deposit rates. As at 31 March 2021 the aggregate value difference between assets and liabilities priced on, or linked to, different benchmark interest rates were equivalent to 154% *(2020: 142%)* of the bank's assets. The delay in adjusting managed rates to align with a 25bps shift in benchmark rates would affect future earnings by £1.4m over a 12 month period. This assumes interest paid and received on unhedged assets and liabilities moves in line with benchmark rates. The bank monitors benchmark rates closely in order to take pre-emptive action where possible.

Management of currency risk

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

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

Notes to the Financial Statements for the year ended 31 March 2021 (Continued)

31. Financial Risk Management (Continued)

(d) Market risk (continued)

Exposure to market risk: currency risk

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

Net currency exposure sensitivity analysis			
Group	**2021 £000**		
	Net Exposure	**% of net assets**	**Sensitivity**
US dollar	**(88)**	**(0.02)**	**(9)**
Euro	**511**	**0.11**	**51**
Other	**79**	**0.02**	**8**
Total	**502**	**0.11**	**50**

Net currency exposure sensitivity analysis			
Group	*2020 £000*		
	Net Exposure	*% of net assets*	*Sensitivity*
US dollar	*(230)*	*(0.05)*	*(23)*
Euro	*512*	*0.10*	*51*
Other	*68*	*0.01*	*7*
Total	*350*	*0.06*	*35*

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

(e) Fair values of financial assets and liabilities

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

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-priced frequently, their fair values approximate to the carrying value.

Notes to the Financial Statements for the year ended 31 March 2021 (Continued)

31. Financial Risk Management (Continued)

(e) Fair values of financial assets and liabilities (continued)

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

The recognition and measurement provisions of FRS 102 Section 11 and the disclosure requirements of FRS 102 Section 34 have been adopted in respect of financial instruments for the fair value hierarchy disclosures.

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

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

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

Valuation Hierarchy

Group	Level 1 £000	Level 2 £000	Level 3 £000	2021 Total £000
Equity securities	**141,034**	**-**	**50**	**141,084**
Derivative financial assets	**-**	**29,394**	**-**	**29,394**
	141,034	**29,394**	**50**	**170,478**
Derivative financial liabilities	**-**	**21,787**	**-**	**21,787**

Notes to the Financial Statements for the year ended 31 March 2021 (Continued)

31. Financial Risk Management (Continued)

(e) Fair values of financial assets and liabilities (continued)

Valuation Hierarchy				
				2020
Group	*Level 1*	*Level 2*	*Level 3*	*Total*
	£000	*£000*	*£000*	*£000*
Equity securities	*5,928*	*-*	*110*	*6,038*
Derivative financial assets	*-*	*31*	*-*	*31*
	5,928	*31*	*110*	*6,069*
Derivative financial liabilities	*-*	*37,128*	*-*	*37,128*

The table above includes financial assets as reported in Note 13 and derivative assets and liabilities as reported in Note 12.

The equity securities include a small legacy investment portfolio held in Messrs Hoare Trustees which is in the process of being wound down under the discretion of the ALCo. By the end of the year the portfolio had fallen to £49,918 *(2020: £109,819).*

During the year the bank invested in a number of funds:

- Lindsell Train Global Equity Fund at a cost of £5,000,000, which had a market value of £5,007,198 at 31 March 2021
- Vontobel Fund – Twentyfour Sustainable Short Term Bonds at a cost of £25,000,000, which had a market value of £24,989,900 at 31 March 2021
- Vontobel Fund - Twentyfour Absolute Return Credit Fund at a cost pf £100,000,000, which had a market value of £100,000,000 at 31 March 2021

During the year the bank recorded a gain of £4,655,816 on its Baillie Gifford Long Term Global Growth Investment.

By the end of the year, the aggregate value of the investment portfolio reported in the above table had risen to £141,084,000 *(2020: £6,038,000)*. These investments are measured at the market share price as at 31 March 2021.

(f) Capital management

The bank's capital management for regulatory purposes (unaudited) is detailed in the Directors' Report on pages 17 and 18.

32. Segmental Information

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

Notes to the Financial Statements for the year ended 31 March 2021 (Continued)

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

Related Party Transactions		
Group	**2021**	*2020*
	£000	*£000*
Loans and advances	**10,500**	*10,188*
Customer deposits	**6,418**	*6,638*
Fee income	**94**	*111*

Key management personnel compensation		
Group	**2021**	*2020*
	£000	*£000*
Aggregate emoluments	**2,031**	*1,828*
Pension contributions	**31**	*40*
	2,062	*1,868*

The bank included related party transactions with key management personnel as at 31 March 2021 for loans and advances of £10.5m (*2020: £10.2m)* and deposits of £6.4m *(2020: £6.6m).*

The bank provides banking services to the bank's charitable trust, The Golden Bottle Trust, and made a charitable donation to the trust of £1.5m *(2020: £Nil)* during the year.

During the year the bank received fee income from related parties of £94.0k *(2020: £111.0k).* The bank's fee income derives from tax and trustees services to key management personnel and their close family members of £8.0k *(2020: £14.0k)* and rental income of £86.0k *(2020: £97.0k)* from a related party, where the lease was subject to formal contract terms and conditions.

34. Ultimate Controlling Party

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

35. Charged Assets

As at 31 March 2021 £0.5m *(2020: £0.5m)* 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.