

C. Hoare & Co.

PRIVATE BANKERS SINCE 1672

Annual Report and
Consolidated Financial Statements
Year Ended 31 March 2019



Company Number: 240822

C. HOARE & Co.
ANNUAL REPORT AND CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED 31 MARCH 2019

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CHAIRMAN'S FOREWORD

I am pleased to report on another year of strong performance for the bank. We have remained focused on ensuring that we deliver excellent customer service, that we contribute to our community and that we make the bank a great place for people to work. We seek to be good bankers and good citizens.

Our purpose is clear and remains unchanged, unlike the economic and political environment in which the bank operates. Despite the uncertainty, British economic activity has held up reasonably well, although some sectors have come under pressure, in particular parts of the property market. Like other banks, C. Hoare & Co. saw further increases in regulatory capital requirements during the year. These increases were expected, and we were able to comfortably meet them given our strong capital position. Technology and innovation remain important challenges for the bank, representing both an opportunity and a threat. We continue to explore ways to harness technology to improve the experience for our customers while remaining extremely vigilant to the threat from fraudsters through cybercrime.

The bank has a broad customer base, spanning the width and breadth of the country. We were very pleased to announce in March that we have expanded our regional presence through the opening of our new Cambridge office. This is our first office outside London and we will have relationship managers permanently based there. We look forward to developing and strengthening relationships with both new and existing customers in the surrounding area.

The 11th generation of the Hoare family now manage the business. Henry, Sir David and Richard Hoare stepped down from the partnership last year and Rennie Hoare became a Partner at the end of May 2018. There were also changes in the management team. We said farewell to our previous Managing Director, David Green, in January and we thank him for all that he contributed to the bank in his 16 years of service. At the same time, we welcomed Steven Cooper as our new Chief Executive Officer and look forward to the contribution that he will make.

The bank's balance sheet has continued to expand steadily. Customer deposits increased 8% to £4.4bn, growing at a similar pace to that experienced in the previous financial year. The bank has maintained conservative lending standards and in a challenging market the loan book increased 2% to £1.7bn. The composition of the balance sheet reflects a tradition of prudence. £1.5bn is on deposit at the Bank of England and the bank's capital reserves remain robust: the common equity tier 1 capital ratio rose from 21.5% to 22.4% over the course of the year. The bank's capital and liquidity positions are sound.

The bank delivered a good profit performance, with profit before tax increasing 25% to £32.5m. Net interest income increased 14% during the year, in part benefiting from the increase in the Bank of England base rate in August 2018, but also reflecting growth in the balance sheet. We continue to invest in people and technology, which drove a 9% increase in costs. Growth in income was higher than cost growth which led to an improvement in the cost income ratio to 68%. The impairment charge on customer lending increased during the year due to a small number of specific cases reflecting the state of the property market in London and the South East. Credit quality of customer lending remains good despite this increase, with less than 4% of the portfolio considered non-performing.

Finally, the Board and I would like to thank our customers and employees. We are grateful to our loyal customers who entrust us to address their financial needs. We are also grateful for the hard work and commitment of everybody who works here. People are the heart of the bank. Our relationships with our customers, and the dedication of our employees to our customers will continue to drive the bank forward.

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

Chairman

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STRATEGIC REPORT

The directors present their Strategic Report on the C. Hoare & Co. and its subsidiaries (“the bank”) for the year ended 31 March 2019.

1. Review of Business: Market environment

Political and economic risk in the UK remained elevated during the year. Despite this the UK economy has been resilient with record employment and continued GDP growth. Whilst the UK housing market, in aggregate, has been broadly flat there have been areas of growth and areas of weakness. Property prices in London and the South East in particular have remained weak, and notably so in the super prime segment of the market.

The UK’s anticipated withdrawal from the European Union has been a significant contributor to the increased economic and political risk over the last few years and will continue to create uncertainty in the short term. The bank’s conservative business model and ability to adapt to change should insulate it from significant impact, subject to an orderly exit being achieved.

Competition across financial services in the UK has historically been strong however focused primarily on mainstream banking markets with niche and specialist segments such as private banking being less impacted. This has however been changing, notably as the large systemic banks conclude their ring-fencing process and have surplus capital available for investment. In addition, non-traditional and technology-based companies have also entered the market with targeted single service offers competing on price and convenience.

Technology continues to be a great enabler across the financial services sector. Artificial intelligence is increasingly being used to automate and make processes more efficient as well as inform organisations and therefore improve customer interactions. Innovation continues across financial services and at an ever increasing pace.

As the political, economic, competition and technology forces combine to drive evolution and change across the sector, the bank will also adapt and change but will remain focused on maintaining its core values and ensuring optimal customer service.

2. 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 increased to £32.5m, from £25.9m in 2018. Income increased to £123.5m (2018: £105.5m) driven by balance sheet growth and an increase in the Bank of England base rate. A focus on cost control, whilst continuing to invest, meant that costs increased to £83.5m (2018: £74.0m). The cost income ratio reduced to 67.6% (2018: 70.1%). Credit quality in the loan book remained good and the overall loan impairment charge as a proportion of the loan book was 0.4%. It was necessary to increase the loan impairment provision, resulting in the loan impairment charge of £7.5m. The increased charge was primarily due to concerns on the impact to collateral of lower property prices in specific segments of the lending portfolio.

Customer deposit balances increased 7.8% to £4,364.9m as at 31 March 2019.

Customer lending grew by 2.0% to £1,698.4m and equated to 38.9% 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 good pipeline of new loans.

The bank’s money market book increased 9.8% to £3,054m, of which £2,182m were high quality liquid assets. When placing funds with other banks we continue to prefer lower risk over higher return: accepting that low market rates and a shortage of appropriate counterparties will continue to put pressure on the money market book yield.

The net interest margin for the year was 2.25%, up 22bps from the previous year. Net interest income rose by 13.5% to £95.0m in part benefiting from the improved yields reflecting the Bank of England base rate rise and driven by balance sheet growth.

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STRATEGIC REPORT (CONTINUED)

2. Review of Business: the bank (Continued)

Fee income was broadly stable at £13.4m and primarily consisted of charges to customers for lending and foreign currency transactions. Fee income as a proportion of total income marginally reduced to 10.8%.

The bank's bad debt experience for the year reflected the good credit quality of the loan book. New specific provisions were relatively low at £6.4m, including accrued interest on provided for loans. The level of non-performing loans increased during the year, this was due to a small number of loans with very specific circumstances and is not reflective of the portfolio overall.

During the year, the Trustee to the bank's defined benefit scheme undertook a strategy to reduce the scheme's risk, by purchasing a bulk annuity policy. The scheme sees all financial and demographic risks hedged for the pensioners insured and the annuity provides an income stream to match future pension payments to the pensioners covered by the contract. Whilst the pension risks have substantially reduced, it has introduced some counterparty risk. The scheme moved from a balance sheet surplus of £10.3m to £0.7m as at 31 March 2019.

Total shareholders' funds increased by £18.9m (5.4%) during the year, this was primarily as a result of retained profits.

The bank maintains a strong philanthropic culture. One of its key non-financial performance indicators is the proportion of staff which shares the bank's values and donates to charity through the bank's "Give as You Earn" scheme. Under this scheme, the bank's charitable trust ("The Golden Bottle Trust") double matches staff donations, thereby tripling their value. As at 31 March 2019, 47.3% of staff chose to give in this way (2018: 48.3%). In addition, staff are encouraged to give up some of their own time to charitable causes by matching the time taken with paid leave, up to a maximum of two days each year. The bank also offers the Master Charitable Trust for philanthropic customers who wish to make charitable donations; this continued to attract new monies during the year and now has approximately £106.4m (2018: £46.6m) in funds set aside for charitable purposes.

3. 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) Credit Risk

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

Credit risk to customer lending is managed in accordance with Board approved lending policies and procedures aligned to the bank's risk appetite. There is also a maximum exposure limit which is linked to the bank's regulatory capital as defined by the regulator. The bank has controls and processes in place to regularly assess whether there is objective evidence that any loans or securities are impaired.

Credit risk to money market lending is governed by Board approved counterparty policies which ensure that lending is only made with high quality counterparties with the levels of permitted exposures set 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 at least annually and authorises any amendments to the approved list of counterparties and related credit limits. The committee will also give on-going consideration to changes in external credit ratings and amend counterparty limits as appropriate.

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STRATEGIC REPORT (CONTINUED)

3. Principal Risks and Uncertainties (Continued)

(b) 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 closely monitored to ensure that it meets both current and future known regulatory requirements. In addition, the bank's current and forecast capital positions are reported monthly to the ALCO, Management Team and 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 and more frequently in the event of a material change in capital, of the Internal Capital Adequacy Assessment Process ("ICAAP"). 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, Audit, Risk and Compliance Committee and the Management Team for review and challenge, eventually leading to challenge and approval by the Board.

(c) Liquidity and Funding Risk

Liquidity risk is the risk that the bank is unable to meet 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.

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 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 bank assesses the adequacy of its liquidity through the annual update and more frequently in the event of a material change in liquidity, of the Internal Liquidity Adequacy Assessment Process ("ILAAP"). 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, eventually leading to challenge and approval by the Board.

(d) Interest Rate Risk

Interest (basis) rate risk could arise from the mismatch between the bank's lending and deposit rates and is actively managed. The ALCO has set limits to manage basis risk. Advances and deposits which are priced off base rate with margins are closely monitored and evaluated. The sensitivity to interest rate changes in terms of interest cash flows and their effect on fixed interest instruments are computed and reported monthly to the ALCO.

Interest rate risk is managed by the bank's Treasury department principally through monitoring interest rate gaps between assets and liabilities based upon the next interest 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.

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STRATEGIC REPORT (CONTINUED)

3. Principal Risks and Uncertainties (Continued)

(e) 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. 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 firm's risk appetite. Proprietary and non-proprietary operational risks are managed in a similar fashion.

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

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

(f) Foreign 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, 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, either to meet or match customers' requirements or to trade on the bank's behalf. The resulting positions are independently monitored and are reported monthly on a currency by currency basis to the ALCO.

(g) Derivatives

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

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

(h) Dealing Profits

Consistent with the articles of the Capital Requirements Regulation, it is the bank's policy not to operate any significant trading (i.e. non banking) positions. As a result, the bank will only hold de minimis positions. During the normal course of business the bank will undertake spot and forward foreign exchange dealing within agreed limits set by ALCO and approved by the Board, income from which is included in dealing profits (Note 5).

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STRATEGIC REPORT (CONTINUED)

3. Principal Risks and Uncertainties (Continued)

(i) Reputational risk

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

Detailed disclosures on credit risk, liquidity risk, interest rate risk, foreign exchange risk and the use of derivatives are set out in Notes 12 and 30 in accordance with FRS 102 'Financial Instruments: Disclosures'. The bank's capital management is detailed in the Directors' Report on pages 12 and 13.

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

16 May 2019



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

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DIRECTORS' REPORT

The Directors of C. Hoare & Co. ("the Company" or "the bank") present their Annual Report and audited Consolidated Financial Statements of the Company and its subsidiaries, Messrs Hoare Trustees, Mitre Court Property Holding Company, Hoares Bank Nominees Limited, Hoare's Bank Pension Trustees Limited and C. Hoare & Co. EIG Management Limited ("the Group"), for the year ended 31 March 2019.

The financial statements were approved by the Board on 16 May 2019.

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 23.

Total comprehensive income for the year of £18.9m (2018: £32.8m) will be used to strengthen reserves and support future growth.

The Board recommends an ordinary share dividend for the year of £50 per share (2018: £50), resulting in a total of £6,000 payable on 20 June 2019.

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 2 to 6.

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

The design of the risk management framework was driven by the principles and guidance prescribed by the Committee of Sponsoring Organisations ("COSO"), the International Organisation for Standardisation ("ISO") and the Basel Committee for Banking Supervision ("BCBS").

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DIRECTORS' REPORT (CONTINUED)

The key design principles are:

Principle	Description
Protective	Risk management must protect the net asset value and commercial reputation of the bank whilst maintaining compliance with all applicable regulatory requirements.
Proportionate	Risk management activities must be proportionate to the size of the bank's operations and relative levels of risk which the bank is exposed.
Aligned	Risk management activities must be aligned across the bank's departments and functions.
Comprehensive	Risk management must consider all current and emerging risks that apply across the bank's departments and functions, including third party providers.
Embedded	Risk management activities must be core to the bank's operating model and embedded in day-to-day business activities which are supported by a strong culture of risk awareness from the Board.
Dynamic	Risk management activities must be robust, dynamic and responsive to changes to the bank's external environment, changes to the bank's business model and emerging regulations.

The new framework is designed to be flexible, such that new risks can be added as the nature of the business changes. It is expected that the risk framework will continue to evolve through usage and embedding within the business.

3.1 Risk Appetite Framework

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

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

3.2 Risk Management Objectives and Policies

The main risk management objectives are:

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

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DIRECTORS' REPORT (CONTINUED)

3. Risk Management and Governance Structure (Continued)

3.3 Risk Appetite and Guiding principles

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

Our mission is to perpetuate a profitable family business. We are willing to take risks as laid out in the risk appetite statements reviewed annually by the Board.

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

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

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

3.4 Governance Structure

The bank's risk governance structures assign roles and responsibilities to a number of committees and individuals focused on managing the principal risks faced by the bank.

The primary structures for the current year are shown below:

Table 1: Governance Structure

Board of Directors	
Remuneration & Nominations Committee	Audit, Risk & Compliance Committee
Management Team	
Banking Committee	Assets & Liabilities Committee

Board of Directors

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

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

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

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

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DIRECTORS' REPORT (CONTINUED)

3. Risk Management and Governance Structure (Continued)

3.4 Governance Structure (Continued)

The Board has delegated day-to-day executive management of the bank to the Chief Executive Officer (the CEO) and has established a Management Team to assist in the management of the business and delivery against the strategy in an effective and controlled way. The Management Team has in turn established two sub-committees:

- Banking Committee (BC)
- Asset and Liability Committee (ALCO)

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

Group subsidiary companies and boards

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

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

Remuneration & Nominations Committee (RemCo)

The Remuneration & Nominations Committee has two main purposes. The first, in consultation with the Partners, is to oversee the appointment of new Directors to the Board and members of the 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 Partners/Directors and Non-Executive Directors. The second is to set the principles, parameters and governance of remuneration policy across the bank and to consider and approve the remuneration of the Partners, Management Team and identified staff.

Audit, Risk & Compliance Committee (ARCCo)

The ARCCo has two main purposes:

The first is to review the effectiveness and provide independent oversight of the bank's systems of internal controls and financial reporting process, which is achieved through the ongoing review of the quality, independence and effectiveness of the control functions.

In this regard specific duties include: overseeing the integrity of the financial statements of the Company, including the content of the annual report and financial statements; overseeing the adequacy and effectiveness of the Company's internal audit programme and function; reviewing the adequacy and security of the Company's arrangements for employees and contractors, including the effectiveness of the whistleblowing function; and overseeing the external audit programme.

The second purpose is to provide the Management Team and the Board with appropriate oversight and challenge on risk management, to embed a culture of risk awareness and control consciousness within the bank, and to ensure the bank's compliance with the legal and regulatory framework governing the activities of the bank and its associated businesses.

Specific duties include: overseeing the effectiveness of all aspects of the risk management framework, including reviewing and recommending or approving the risk appetite framework, statements and metrics, risk and compliance policies, ICAAP, ILAAP and associated stress testing and scenario analysis; ensuring the effective operation of the risk framework including reviewing and challenging the findings of management's risk and control self-assessments; and overseeing the compliance programme, the work of the MLRO, the Data Protection Officer and the Information Security Officer.

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DIRECTORS' REPORT (CONTINUED)

3. Risk Management and Governance Structure (Continued)

3.4 Governance Structure (Continued)

Management Team

The Management Team recommends and delivers against the bank's strategy in an effective and controlled manner by providing for the general executive management of the business and facilitating cross-functional communication and liaison. The respective Management Team members are responsible to the CEO and the Board for managing performance in line with the long-term plan, strategy, budget and risk appetite.

The Management Team is comprised of:

- Chief Executive Officer
- Chief Finance and Operations Officer
- Head of Private Banking
- Head of Human Resources and Business Services
- Head of Treasury
- Head of Compliance and Risk
- Chief Digital and Information Officer
- Chief Customer Officer
- Head of Internal Audit
- General Counsel and Company Secretary

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

Banking Committee (BC)

The purpose of the Banking Committee is to oversee day-to-day activities of the banking business, including oversight of its day-to-day deposit and lending activities.

Asset and Liability Committee (ALCO)

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

Risk Appetite: Responsibilities

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

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

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

Second line of defence – Risk oversight, policies and methodology

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

The Risk Management Function is responsible for reporting breaches of risk appetite to the Management Team, ARCCo and Board.

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

C. HOARE & CO.
ANNUAL REPORT AND CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED 31 MARCH 2019

DIRECTORS' REPORT (CONTINUED)

3. Risk Management and Governance Structure (Continued)

3.4 Governance Structure (Continued)

Third line of defence – Independent assurance

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

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

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 driven expectations of higher capital ratios across the industry.

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 ("CRD IV") which took effect from 1 January 2014 and was implemented in the UK by the Prudential Regulation Authority ("PRA").

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

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

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

The bank's capital adequacy and capital resources are managed and monitored in accordance with the regulatory capital requirements of CRD IV and the PRA. The bank 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 IV capital buffers. The capital conservation buffer 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 and has been phased in since 2016 at the rate of 0.625% each year to reach its final level of 2.5% at 1 January 2019.

The countercyclical capital buffer 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, where for the UK it is currently set at 1%.

The minimum capital requirement is determined as 8% 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 and more frequently in the event of a material change in capital, of the ICAAP. 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, ARCCo and the Management Team for review and challenge, eventually leading to challenge and approval by the Board. The bank has put in place processes and controls to monitor and manage capital adequacy and throughout the year, the bank's regulatory capital remained in excess of the minimum requirements determined by the ICR and CRD IV buffers.

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

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ANNUAL REPORT AND CONSOLIDATED FINANCIAL STATEMENTS
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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	2019	<i>2018</i>
	£000	<i>£000</i>
Common Equity Tier 1 capital		
Ordinary share capital	120	120
Reserve fund	22,598	22,598
Profit and loss account	307,931	286,617
Property revaluation reserve	33,167	36,087
Heritage assets revaluation reserve	7,573	7,035
Net defined benefit obligation	(579)	(8,546)
Total Common Equity Tier 1 capital and Total Tier 1 capital	370,810	<i>343,911</i>
Tier 2 capital		
Collective Impairment Allowance	3,137	2,007
Total Tier 2 capital	3,137	<i>2,007</i>
Total regulatory capital	373,947	<i>345,918</i>
Risk weighted assets (unaudited)	1,653,911	<i>1,598,298</i>
Capital ratios (unaudited)		
Total regulatory capital expressed as a percentage of risk weighted assets	22.61%	<i>21.64%</i>
Common Equity Tier 1 capital expressed as percentage of risk weighted assets	22.42%	<i>21.52%</i>

The bank's regulatory total capital ratio increased year on year from 21.64% to 22.61%, while the Common Equity Tier 1 ratio increased from 21.52% to 22.42%. The capital ratios remain above the regulatory requirements. The increase during the year was due to higher retained profits.

The bank's total capital requirement, being the aggregate of Pillar 1 and Pillar 2A requirements, as at 31 March 2019 was 11.92% (2018: 11.95%).

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.

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

5. The Board of Directors

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

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)
Mr D. Green (Chief Executive Officer/Managing Director) (resigned 10 January 2019)
Mr S. Cooper (Chief Executive Officer) (appointed 10 January 2019)
Mr A. J. McIntyre
Ms J. E. M. Waterous
Dame Susan Rice

The Board of Directors included five Directors (those marked with an asterisk in the list above) who are all descendants of the bank's founder. They, and one other Hoare family member are the bank's only shareholders, and each has unlimited liability. They are known as Partners and all work in the business to ensure the continuation of the bank's long-held culture, values and approach to business.

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. Employees

The bank had 411 employees on a full time equivalent basis as at 31 March 2019 (2018: 371). The bank is an equal opportunities employer and recruits the most suitable applicant for any given vacancy regardless of race, sex, age or ethnicity. The bank recognises its obligation to give disabled persons full and fair consideration for all vacancies and to ensure that such persons are not discriminated against on the grounds of their disability. Employees who become disabled during their working life will be retained in employment wherever possible and given help with rehabilitation and training.

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

7. Charitable Donations

During the year the bank made charitable donations of £3.5m (2018: £3.0m) to the bank's charitable trust, The Golden Bottle Trust, whose objective is the continuation of the philanthropic commitments and ideals of the Hoare family.

8. Environmental Policy Statement

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

Climate change remains an important issue for us and future generations. We are committed to running the bank with minimum adverse impact on the environment, for example by an ongoing effort to continue to reduce the bank's carbon footprint. As a responsible business, we aim to make better use of resources, including managing our energy, waste, and water more efficiently and effectively.

All of this is embodied in our formal 'Ethics Policy', which outlines the culture that we promote for serving our customers, how we contribute to the community, our approach to managing our environmental impact and how we foster a positive and rewarding workplace. The policy is regularly reviewed and performance against stated aims monitored and managed.

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ANNUAL REPORT AND CONSOLIDATED FINANCIAL STATEMENTS
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DIRECTORS' REPORT (CONTINUED)

9. Disclosure of Information to Auditors

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

10. Statement of Directors' Responsibilities

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

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

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

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

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

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

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

By Order of the Board

16 May 2019



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

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

Report on the 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 2019 and of the group's profit and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (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 Statement of Comprehensive Income for the year ended 31 March 2019; the Consolidated and Company Balance Sheet as at 31 March 2019; the Consolidated Statement of Changes in Equity for the year then ended; the Consolidated Cash Flow Statement for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

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

Basis for opinion

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

Independence

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

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

Other than those disclosed in note 7 to the financial statements, we have provided no non-audit services to the group or the company in the period from 1 April 2018 to 31 March 2019.

Our audit approach

Overview

Materiality

- Overall group materiality: £1.6m (2018: £1.3m), based on 5% of profit before tax.
- Overall company materiality: £1.6m (2018: £1.3m), based on 5% of profit before tax.

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

- Risk of Fraud in revenue recognition arising from manual intervention (Group and parent).
- Valuation of provisions for impairment of credit balances (Group and parent).

C. HOARE & CO.
ANNUAL REPORT AND CONSOLIDATED FINANCIAL STATEMENTS
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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.

Capability of the audit in detecting irregularities, including fraud

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 banking regulations such as, but not limited to, the relevant rules of the Prudential Regulatory Authority as the Bank's lead regulator, 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 preparation of 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 posting inappropriate journal entries to increase revenue or reduce expenditure, and management bias in accounting estimates. Audit procedures performed by the engagement team included:

- Reading key correspondence with regulatory authorities;
- Discussions with management including consideration of known or suspected instances of non-compliance with laws and regulations and fraud;
- Challenging assumptions and judgements made by management in their significant accounting estimates, in particular in relation to impairment of loans and advances to customers (see related key audit matter below);
- Identifying and testing journal entries, in particular any journal entries considered higher risk, for example those posted by senior management or those with unusual descriptions or time of posting.

There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it. 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.

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.

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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
<p>Risk of fraud in revenue recognition from manual intervention (Group and Company)</p> <p>Under Auditing Standards, there is a rebuttable presumption that fraud within revenue recognition is a significant risk on all audits.</p> <p>Total income of £123.5m includes interest receivable, fees and commissions receivable and dealing profits. Further details are provided in notes 3 and 5, and the accounting policies are set out in note 1.</p> <p>We considered the risk of fraud within revenue and concluded that the significant audit risk lies with manual intervention in the revenue process. This is due to the automated nature of the recording of revenue transactions and the relatively straightforward nature of the underlying customer transactions.</p> <p>Entity risk applicable to: Group and parent</p>	<p>We tested IT general computer controls over the general ledger and the core banking system used to record customer transactions and calculate revenue. We determined that we could rely on these controls for the purposes of our audit.</p> <p>We independently built an expectation of the interest revenue recorded for all customers. This testing included:</p> <ul style="list-style-type: none"> • Extracting the full transaction history from the core banking system; • Testing controls over loan origination; • Testing a sample of key inputs to the core banking system; • Using customer characteristics and transaction history to independently calculate an expectation of revenue to be recorded for that customer, and; • Comparing actual to expected revenue at a customer and overall basis. <p>No material differences were identified between our independent recalculation and the actual revenue recorded.</p> <p>We also performed other substantive revenue testing including:</p> <ul style="list-style-type: none"> • Testing the input of customer information upon origination into the banking system; • Recalculation of automated interest amounts calculated by the banking system, and; • Testing of input of deals nominal amounts and associated interest through matching to deal tickets and third party confirmations. <p>We extracted a full list of journals, including those posted to revenue, and tested the completeness and accuracy of the population obtained. A series of tests were run on the journals listing (such as postings by senior management, backdated entries, post close entries, weekend journals and unusual descriptions) to identify those considered higher risk. All journals identified in this way were tested by obtaining supporting evidence and by critically assessing whether this evidence was persuasive and had commercial substance. Our testing did not identify any exceptions.</p> <p>Based on the work performed, we found that the revenue recorded was supported by underlying evidence.</p>

C. HOARE & CO.
ANNUAL REPORT AND CONSOLIDATED FINANCIAL STATEMENTS
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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
<p>Valuation of provisions for impairment of credit balances (Group and Company).</p> <p>The Group and Company have loans and advances to customers of £1,698m which is net of a provision for impairment of £11.6m. Further details are set out in notes 13 and 30, and the accounting policies are set out in note 1.</p> <p>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 significantly in excess of the amount of the customer exposure.</p> <p>We focussed on this area because the Directors make subjective judgments over both the timing of recognition of impairment provisions and the size of any such impairment, and individual exposures are in excess of audit materiality. In addition, there have been some recent declines in prime and super prime property valuations, particularly in London, which could impact the strength of the collateral held.</p> <p>Entity risk applicable to: Group and parent</p>	<p>We evaluated the design and tested the operating effectiveness of the controls over impairment processes. These controls included:</p> <ul style="list-style-type: none"> • The approval of the granting of loan facilities to customers; • The registration of collateral; • The regular review of the portfolio to assess actions to be taken on at-risk loans, and assess whether individual loan exposures require provision, and; • IT controls over the systems used to record customer lending and repayments, including restricted access and change management controls. <p>We determined that we could rely on these controls for the purposes of our audit.</p> <p>We tested a sample of loans and advances to customers identified as potentially impaired or impaired by management and formed our own judgement as to whether the provisions recorded on these exposures were appropriate. This included assessing relevant internal and external evidence about the customer's ability to repay. We also considered the appropriateness of collateral valuations and considered the impact of applying forced sale haircuts or other valuation sensitivities.</p> <p>We assessed the completeness of the credit impairment provision, including by:</p> <ul style="list-style-type: none"> • Testing a sample of customer accounts identified as 'at risk' but for which no impairment was recorded; • Assessing whether the collective provision was appropriate in light of the nature of the exposures and the fall in property values, and; • Considering the collective provision held and whether the size of the provision was reasonable in light of the characteristics of the exposures with no specific identified provision recorded. <p>We did not identify any material additional impairment provisions that we considered were required.</p> <p>In our view, the overall impairment provision held is within a reasonable range of outcomes in the context of the overall loans and advances and the uncertainties disclosed in the financial statements.</p>

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INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF C. HOARE & Co. (CONTINUED)

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 performance materiality of £1.2m.

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:

	Group financial statements	Bank financial statements
Overall materiality	£1.6m (2018: £1.3m)	£1.6m (2018: £1.3m)
How we determined it	5% of profit before tax.	5% of profit before tax.

Rationale for benchmark applied:

We believe that profit before tax is the primary measure used by the shareholders in assessing the performance of the group and company, and is a generally accepted auditing benchmark

We agreed with the Audit Committee that we would report to them misstatements identified during our group and company audits above £79k (2018: £65k) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's and company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's and company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the group's trade, customers, suppliers and the wider economy.

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INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF C. HOARE & CO. (CONTINUED)

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 the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require 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 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities set out on page 15, 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.

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.

C. HOARE & CO.
ANNUAL REPORT AND CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED 31 MARCH 2019

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF C. HOARE & CO. (CONTINUED)

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

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the audit committee, we were appointed by the directors on 19 December 2011 to audit the financial statements for the year ended 31 March 2012 and subsequent financial periods. The period of total uninterrupted engagement is 8 years, covering the years ended 31 March 2012 to 31 March 2019.



Luke Hanson (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
22 May 2019

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

for the year ended 31 March 2019

	Group 2019	Group Continuing operations	Group Discontinued operations	At 31 March 2018 Total
Note	£000	£000	£000	£000
Interest receivable	103,740	91,382	43	91,425
Interest payable	(8,705)	(7,708)	-	(7,708)
Net interest income	95,035	83,674	43	83,717
Dividend income	19	59	-	59
Other finance income/(expense)	268	(1)	-	(1)
Fees and commissions receivable	14,665	14,239	135	14,374
Fees and commissions payable	(1,284)	(1,080)	(7)	(1,087)
Net fees and commissions income	13,381	13,159	128	13,287
Dealing profits	12,878	7,514	-	7,514
Other operating income	1,925	1,086	241	1,327
Total income	123,506	105,491	412	105,903
Operating expenses:				
Administrative expenses:				
Administrative expenses excluding depreciation	7 (76,529)	(67,209)	(3,292)	(70,501)
Depreciation	(7,018)	(6,759)	(4)	(6,763)
Total operating expenses	(83,547)	(73,968)	(3,296)	(77,264)
Impairment charge on loans and advances	14 (7,544)	(2,743)	-	(2,743)
Impairment recovery on debt securities	14 58	35	-	35
Profit before taxation	32,473	28,815	(2,884)	25,931
Tax on profit	9 (6,713)	(2,555)	564	(1,991)
Profit for the financial year	25,760	26,260	(2,320)	23,940
Other comprehensive (expense)/income:				
Remeasurement of retirement benefit obligations	4 (9,867)	10,328	-	10,328
Deferred tax arising on pension scheme	9 1,677	(1,756)	-	(1,756)
Revaluation of property and heritage assets	27 1,648	298	-	298
Deferred tax arising on valuation gains	9 (280)	(51)	-	(51)
Other comprehensive (expense)/income for the year, net of tax	(6,822)	8,819	-	8,819
Total comprehensive income for the year	18,938	35,079	(2,320)	32,759
Total comprehensive income distribution:				
Distributable profits	17,963	35,079	(2,320)	32,759
Undistributable profits	6 975	-	-	-
	18,938	35,079	(2,320)	32,759

In the above table, the 2019 profit for financial year represents continuing operations of £25,835,000 (2018: 26,260,000) and discontinued operations £75,000 loss (2018: 2,320,000 loss).

The Notes on pages 28 to 74 form an integral part of these Financial Statements.

C. HOARE & CO.
ANNUAL REPORT AND CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED 31 MARCH 2019

CONSOLIDATED AND COMPANY BALANCE SHEET

As at 31 March 2019		Group		Company	
		As at 31 March		As at 31 March	
		2019	2018	2019	2018
Note		£000	£000	£000	£000
Assets					
	Cash and balances at central banks	1,525,359	1,153,969	1,525,359	1,153,969
	Items in course of collection from banks	1,074	2,108	1,074	2,108
	Derivative financial instruments	2,105	8,422	2,105	8,422
	Financial assets	3,227,198	3,292,506	3,227,097	3,292,127
	Shares in group undertakings	-	-	1	1
	Property and equipment	83,668	79,295	83,668	79,295
	Heritage assets	9,438	8,755	9,438	8,755
	Deferred tax asset	856	986	856	986
	Other assets	343	405	321	326
	Prepayments and accrued income	12,469	18,121	12,291	18,037
	Post retirement benefit asset	579	8,546	579	8,546
	Total assets	4,863,089	4,573,113	4,862,789	4,572,572
Liabilities					
	Deposits by banks	60	586	60	586
	Customer accounts	4,364,933	4,048,889	4,364,933	4,048,889
	Deposits to subsidiary companies	-	-	10,616	9,854
	Derivative financial instruments	80,184	125,270	80,184	125,270
	Deferred tax liability	9,425	8,959	9,425	8,959
	Other liabilities	2,990	2,115	2,644	1,806
	Accruals and deferred income	30,738	31,467	30,738	31,468
	Provision for other liabilities	3,370	3,370	3,370	3,370
	Total liabilities	4,491,700	4,220,656	4,501,970	4,230,202
	Called up share capital	120	120	120	120
	Reserve fund	22,598	22,598	21,148	21,148
	Revaluation reserves	40,740	43,122	40,740	43,122
	Current year net income	17,564	32,506	17,081	31,958
	Changes in retained earnings	3,750	-	3,750	-
	Retained earnings brought forward	286,617	254,111	277,980	246,022
	Total equity	371,389	352,457	360,819	342,370
	Total liabilities and equity	4,863,089	4,573,113	4,862,789	4,572,572
Memorandum items:					
	Contingent liabilities	20,276	20,959	20,276	20,959
	Commitments	367,228	320,620	367,228	320,620

The Financial Statements on pages 23 to 74 were approved by the Board of Directors on 16 May 2019 and signed on its behalf by:

Mr A. S. Hoare
 Director
 21 May 2019



Miss V.E. Hoare
 Director
 21 May 2019



The Notes on pages 28 to 74 form an integral part of these Financial Statements.

C. HOARE & CO.
ANNUAL REPORT AND CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED 31 MARCH 2019

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2019

	Called Up Share Capital £000	Reserve Fund £000	Revaluation Reserves £000	Retained Earnings £000	Total Equity £000
Balance as at 1 April 2017	120	22,598	42,875	254,111	319,704
Profit for the financial year	-	-	-	23,940	23,940
Other comprehensive income/(expense) for the year					
Remeasurement of retirement benefit obligations	-	-	-	10,328	10,328
Deferred tax arising on pension scheme	-	-	-	(1,756)	(1,756)
Revaluation of property and heritage assets	27	-	298	-	298
Deferred tax arising on valuation gains	27	-	(51)	-	(51)
Total comprehensive income for the year	-	-	247	32,512	32,759
Dividends	-	-	-	(6)	(6)
Balance as at 31 March 2018	120	22,598	43,122	286,617	352,457
Profit for the financial year	-	-	-	25,760	25,760
Other comprehensive (expense)/income for the year					
Remeasurement of retirement benefit obligations	-	-	-	(9,867)	(9,867)
Deferred tax arising on pension scheme	-	-	-	1,677	1,677
Reclassify property to investment property	27	-	(3,750)	3,750	-
Revaluation of property and heritage assets	27	-	1,648	-	1,648
Deferred tax arising on valuation gains	27	-	(280)	-	(280)
Total comprehensive income for the year	-	-	(2,382)	21,320	18,938
Dividends	-	-	-	(6)	(6)
Balance as at 31 March 2019	120	22,598	40,740	307,931	371,389

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 28 to 74 form an integral part of these Financial Statements.

C. HOARE & CO.
ANNUAL REPORT AND CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED 31 MARCH 2019

COMPANY STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2019

	Note	Called Up Share Capital £000	Reserve Fund £000	Revaluation Reserves £000	Retained Earnings £000	Total Equity £000
Balance as at 1 April 2017		120	21,148	42,875	246,022	310,165
Profit for the financial year		-	-	-	23,392	23,392
Other comprehensive income/(expense) for the year						
Remeasurements of retirement benefit obligations		-	-	-	10,328	10,328
Deferred tax arising on pension scheme		-	-	-	(1,756)	(1,756)
Revaluation of property and heritage assets	27	-	-	298	-	298
Deferred tax arising on valuation gains	27	-	-	(51)	-	(51)
Total comprehensive income for the year		-	-	247	31,964	32,211
Dividends		-	-	-	(6)	(6)
Balance as at 31 March 2018		120	21,148	43,122	277,980	342,370
Profit for the financial year		-	-	-	25,277	25,277
Other comprehensive (expense)/income for the year						
Remeasurements of retirement benefit obligations		-	-	-	(9,867)	(9,867)
Deferred tax arising on pension scheme		-	-	-	1,677	1,677
Reclassify property to investment property	27	-	-	(3,750)	3,750	-
Revaluation of property and heritage assets	27	-	-	1,648	-	1,648
Deferred tax arising on valuation gains	27	-	-	(280)	-	(280)
Total comprehensive income for the year		-	-	(2,382)	20,837	18,455
Dividends		-	-	-	(6)	(6)
Balance as at 31 March 2019		120	21,148	40,740	298,811	360,819

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 28 to 74 form an integral part of these Financial Statements.

C. HOARE & Co.
ANNUAL REPORT AND CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED 31 MARCH 2019

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 March 2019

Group	Note	2019 £000	2018 £000
Net cash from operating activities	29	465,462	<i>134,092</i>
Taxation paid		(7,243)	<i>(21,100)</i>
Net cash generated from operating activities		458,219	112,992
Cash flow from investing activities			
Disposal of discontinued operations		-	<i>241</i>
Purchase of investment securities		(2,292,637)	<i>(1,020,422)</i>
Sale and maturity of investment securities		2,194,962	<i>1,309,338</i>
Purchase of tangible fixed assets		(9,451)	<i>(7,203)</i>
Net cash (used in)/generated from investing activities		(107,126)	281,954
Cash flow from financing activities			
Dividend paid		(6)	<i>(6)</i>
Net cash used in financing activities		(6)	<i>(6)</i>
Net increase in cash and cash equivalents		351,087	<i>394,940</i>
Cash and cash equivalents at the beginning of the year		1,246,040	<i>851,100</i>
Cash and cash equivalents at the end of the year		1,597,127	<i>1,246,040</i>
Cash and cash equivalents consists of:			
Cash at bank and in hand		1,525,359	<i>1,153,969</i>
Short term deposits		71,768	<i>92,071</i>
Cash and cash equivalents		1,597,127	<i>1,246,040</i>

The Notes on pages 28 to 74 form an integral part of these Financial Statements.

C. HOARE & CO.
ANNUAL REPORT AND CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED 31 MARCH 2019

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

1. Summary of significant accounting policies

The principal accounting policies 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 designated as 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 2019 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'.

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

(b) Going concern

The going concern of the Company and the Group is dependent on funding their respective balance sheets 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 assessment concludes 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.

(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.

C. HOARE & CO.
ANNUAL REPORT AND CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED 31 MARCH 2019

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019 (CONTINUED)

1. Summary of significant accounting policies (Continued)

(d) Foreign currencies

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

(e) Interest

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

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

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

(f) Fees and commissions

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

Fees and commissions income are recognised when the services are performed.

Loan arrangement fees are amortised over the expected life of the loan.

The bank uses historic data to determine the expected average life of its on demand portfolio, this analysis is performed on an annual basis and for the year ended 31 March 2019 it has been determined to be 3 years.

Fees and commissions expense, when not included in the effective interest rate, relates mainly to transaction and service fees, which are expensed as the services are received.

(g) Exceptional items

The Group classifies certain on-off charges or credits that have a material impact on the Group's financial results as 'exceptional items'. These are disclosed separately to provide further understanding of the financial performance of the Group.

(h) 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 relate to the bank's banking activity as part of the banking book. The bank's policy is not to operate any significant trading (i.e. non-banking) positions.

(i) Dividend income

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

C. HOARE & CO.
ANNUAL REPORT AND CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED 31 MARCH 2019

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019 (CONTINUED)

1. Summary of significant accounting policies (Continued)

(j) 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 liability 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.

(k) Taxation

Taxation expense included in the Consolidated Statement of Comprehensive Income comprises current and deferred tax recognised in the reporting period. Tax is recognised in the Consolidated Statement of Comprehensive Income except to the extent that it relates to items recognised in equity, in which case it is 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 in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

C. HOARE & Co.
ANNUAL REPORT AND CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED 31 MARCH 2019

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019 (CONTINUED)

1. Summary of significant accounting policies (Continued)

(k) Taxation (Continued)

ii) Deferred tax

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

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

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.

(l) Dividends payable

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

(m) 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.

(n) Classification of financial assets and liabilities

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

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

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

(o) Financial assets and liabilities

(i) Recognition

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

(ii) Derecognition

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

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

C. HOARE & Co.
ANNUAL REPORT AND CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED 31 MARCH 2019

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019 (CONTINUED)

1. Summary of significant accounting policies (Continued)

(o) Financial assets and liabilities (continued)

(iii) Offsetting

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

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

(iv) Amortised cost measurement

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

(v) Fair value measurement

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

The bank has 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 30 to the financial statements and are in line with Section 34 of FRS 102.

(vi) Identification and measurement of impairment

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

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

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

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

C. HOARE & CO.
ANNUAL REPORT AND CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED 31 MARCH 2019

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019 (CONTINUED)

1. Summary of significant accounting policies (Continued)

(o) Financial assets and liabilities (continued)

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

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

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

(p) 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.

(q) Derivative financial instruments

(i) Derivative financial instruments

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

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

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

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

(ii) Derivative instruments and 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 left in the profit and loss account.

C. HOARE & CO.
ANNUAL REPORT AND CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED 31 MARCH 2019

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019 (CONTINUED)

1. Summary of significant accounting policies (Continued)

(q) Derivative financial instruments (continued)

At the inception of a hedge transaction, the bank formally documents the hedge relationship and the risk management objective and strategy for undertaking the hedge. This process includes identification of the hedging instrument, hedged item, the risk being hedged and the methodology for measuring effectiveness. In addition, the bank assesses both at the inception of the hedge and on a 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.

(r) Property, equipment and depreciation

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

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

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 determined fair 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.

In accordance with FRS 102 Section 16 'Investment Property', depreciation is not provided on investment properties that are held as freeholds or on leases having more than 20 years unexpired.

This is a departure from the Companies Act 2006 which requires all tangible assets to be depreciated. In the opinion of the Directors, this departure is necessary for the financial statements to give a true and fair view and comply with applicable accounting standards which require properties to be included in the financial statements at market value. The effect of depreciation is implicitly reflected in the valuation of investment properties, and the amount attributable to this factor cannot reasonably be separately identified or quantified by the valuer. Had the provisions of the Act been followed, net assets would not have been affected but profits would have been reduced for this and earlier years and revaluation surpluses/deficits would have correspondingly increased/decreased.

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

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019 (CONTINUED)

1. Summary of significant accounting policies (Continued)

(r) Property, equipment and depreciation (continued)

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 software £50,000 per system and over will be depreciated for four years
- 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.

(s) Investment property

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

(t) Project costs

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

Depreciation begins when the asset is brought into use.

(u) Heritage assets

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

Heritage assets are reported at the current valuation as at the balance sheet date. Individual items in the collection are periodically revalued 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 an impairment review to assess if there is any indication of potential impairment.

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

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

(v) 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.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019 (CONTINUED)

1. Summary of significant accounting policies (Continued)

(w) 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.

(x) 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, subscription monies and other commitments to lend which will remain undrawn or uncalled at year end. These are all disclosed as contingent liabilities and commitments.

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

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

The bank discloses its contingent liabilities and commitments in note 28 to the financial statements and records them at the nominal principal amount.

(y) 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.

(z) 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.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019 (CONTINUED)

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.

Estimates and judgements are continually evaluated 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 best estimate of a variety of inputs. The bank has a significant loan portfolio to customers and the impact of these provisions can be material in preparing the financial statements. The judgements are dependent on whether an impairment is required or not and the level of provision required for loans that are considered impaired.

For individual loan impairment provisions there is a high level of judgement and reliance on relationship managers in ensuring the timely identification subjective indicators of impairment. In determining whether an impairment provision should be recorded, judgement is applied to assess whether there is objective evidence that any loans or securities are impaired at the reporting date.

Once identified there are key judgements around the realisable value of the collateral and timing and extent of cashflows to recover the debt.

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.

(ii) Provisions

Judgement is involved in determining whether a present obligation exists and in estimating the probability, timing and amount of any outflows.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019 (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 debt securities (note 1 (o) (vi), note 13 and note 30 (b))

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 collective impairment allowance is also subject to estimation uncertainty, where this is calculated using the bank's historical experience, the use of management overlays and the emergence period applied in calculating the provision.

(ii) Defined benefit pension scheme (note 1 (j) 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, external independent advice from a qualified actuary in deriving the actuarial assumptions at the balance sheet date and are outlined in Note 4.

(iii) Provisions (note 1 (z) and note 25)

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.

In addition the following are areas of estimated uncertainty:

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

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 positions are adjusted to bid (long positions) or offer (short positions) levels, by marking individual cash positions directly to bid or offer or by taking bid-offer reserves calculated on a portfolio basis for derivatives exposures. The bid-offer approach is based on current market spreads and standard market bucketing of risk.

Valuation techniques applied by the bank include using net asset values for unquoted investments in funds as permitted by FRS 102.

(ii) Loan arrangement fees (note 1 (f) and note 24)

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 are repayable on demand or at short notice, this analysis is performed annually and for the year ended 31 March 2019, it has been determined to be three years. For fixed term customer lending, loan arrangement fees are amortised over the term of the loan.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019 (CONTINUED)

3. Net Interest Income

Group	2019	<i>2018</i>	<i>2018</i>	<i>2018</i>
	Total	<i>Continuing</i>	<i>Discontinued</i>	<i>Total</i>
	£000	<i>£000</i>	<i>£000</i>	<i>£000</i>
Interest receivable and similar income				
Interest on debt securities	15,038	<i>9,909</i>	<i>-</i>	<i>9,909</i>
Loans and advances to customers	76,838	<i>74,835</i>	<i>43</i>	<i>74,878</i>
Loans and advances to banks	11,864	<i>6,638</i>	<i>-</i>	<i>6,638</i>
Total interest receivable and similar income	103,740	<i>91,382</i>	<i>43</i>	<i>91,425</i>
Interest payable and similar charges				
Deposits from banks and customers	(6,669)	<i>(2,888)</i>	<i>-</i>	<i>(2,888)</i>
Derivative liabilities	(2,036)	<i>(4,820)</i>	<i>-</i>	<i>(4,820)</i>
Total interest payable and similar charges	(8,705)	<i>(7,708)</i>	<i>-</i>	<i>(7,708)</i>
Net interest income	95,035	<i>83,674</i>	<i>43</i>	<i>83,717</i>

Included within interest income is £405,852 (2018: £465,093) accrued in respect of impaired financial assets.

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 2019 were £Nil (2018: £Nil). There was no charge (2018: £Nil) to the profit and loss account for past service costs.

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

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	2019	<i>2018</i>
	%	<i>%</i>
Pension increases in payment	3.10	<i>3.10</i>
Discount rate	2.40	<i>2.60</i>
Retail price inflation	3.30	<i>3.20</i>

The actuarial assumptions have been updated to allow for commutation of members' pensions for cash at retirement, where members will commute 10% (2018: 10%) of their pensions at retirement.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019 (CONTINUED)

4. Retirement Benefit Obligations (Continued)

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 2019, the valuation of scheme assets less liabilities showed a surplus of £698,000 (2018: £10,297,000 surplus).

Movement in net defined benefit asset/(liability)

Group	2019	<i>2018</i>
	£000	<i>£000</i>
Opening net defined benefit asset/(liability) at 1 April	10,297	<i>(30)</i>
Other finance income/(expense)	268	<i>(1)</i>
Actuarial (losses)/gains	(9,867)	<i>10,328</i>
Closing net defined benefit asset at 31 March	698	<i>10,297</i>

Purchase of pension buy-in contract

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

The insurance policy is held as an asset in the scheme. The policy pays an income equal to the benefits of the members covered and removes the risk of there being insufficient assets to meet those future liabilities. The benefit of the pension buy-in is the transfer of investment, interest rate, inflation, deflation and longevity risks in respect of the liabilities covered by the buy-in contract. The buy-in does introduce counterparty risk, however, this is minimised, since all insurers who specialise in this market are authorised by the Prudential Regulatory Authority (PRA) and regulated by the Financial Conduct Authority (FCA). In the event that the insurer becomes insolvent, the Financial Services Compensation Scheme (FSCS) would provide compensation of the pension amounts in full. Approximately 60% of the scheme's liabilities are matched by the annuity policy asset, which reduces the funding risk and balance sheet volatility for the Company.

At the date of risk transfer to Canada Life, the premium paid for the annuity exceeded the insured liabilities where the difference was recognised on the balance sheet through Other Comprehensive Income (OCI) as an actuarial loss. The insurance premium was funded through the disposal of assets of the scheme, and as a result, a new investment strategy of the scheme's remaining assets was undertaken to cover the uninsured liabilities post the buy-in.

Future funding obligations

The most recent triennial actuarial valuation was carried out as at 1 April 2016. As the scheme is closed to future accrual there are no further employer contributions 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 stabilise the defined benefit obligation through an investment strategy to minimise the mismatch between the liabilities and assets of the scheme.

The next triennial actuarial valuation is to be carried out as at 1 April 2019 and is expected to be completed by the end of 2019.

Charged assets

The bank and the Trustee have agreed an alternative arrangement in terms of a pledged asset for the benefit of the scheme. A segregated investment account has been established at the bank where certain bank-owned marketable securities are charged to the Trustee. The value of the pledged assets as at 31 March 2019 was £500,000 (2018: £500,000) and is set at least annually by reference to the pension accounting deficit.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019 (CONTINUED)

4. Retirement Benefit Obligations (Continued)

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 manage the scheme's investment portfolio day to day through unitised funds in accordance with the SIP. This 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 and the investment advisers to the scheme monitors the performance of the strategy and associated risks, and each investment manager against its 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	2019	2018
	£000	£000
Global equities	22,361	21,604
Diversified growth funds ("DGF")	8,547	52,905
Liability driven investments ("LDI")	18,118	45,013
Absolute return bonds	-	12,201
Property	4,641	10,879
Cash and other	210	336
Bulk annuity policy	82,100	-
Total fair value of assets	135,977	142,938
Present value of scheme liabilities	(135,279)	(132,641)
Pension scheme asset	698	10,297
Related deferred tax liability (Note 18(b))	(119)	(1,751)
Net pension scheme asset	579	8,546

The fair value of the Scheme's assets is made up of 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	2019	2018
	£000	£000
Opening fair value of scheme assets at 1 April	142,938	155,611
Interest on assets	3,643	3,650
Actual return on assets less interest	(4,514)	(1,456)
Benefits paid	(6,090)	(14,867)
Closing fair value of scheme assets at 31 March	135,977	142,938
Actual return on assets	(871)	2,194

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019 (CONTINUED)

4. Retirement Benefit Obligations (Continued)

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	2019	<i>2018</i>
	£000	<i>£000</i>
Opening defined benefit obligation at 1 April	132,641	<i>155,641</i>
Interest on obligation	3,375	<i>3,651</i>
Actuarial (gain)/loss on liabilities due to experience	(2,828)	<i>715</i>
Actuarial loss/(gain) on liabilities due to assumption changes	8,181	<i>(12,499)</i>
Benefits paid	(6,090)	<i>(14,867)</i>
Closing pension obligation at 31 March	135,279	<i>132,641</i>

The net finance income or expense on the net defined benefit obligation for the year is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the year to the net defined benefit obligation

Analysis of amounts recognised in profit and loss

Group	2019	<i>2018</i>
	£000	<i>£000</i>
Interest on obligation	(3,375)	<i>(3,651)</i>
Interest on assets	3,643	<i>3,650</i>
Total recognised as other finance income/(expense)	268	<i>(1)</i>

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

Remeasurements

Group	2019	<i>2018</i>
	£000	<i>£000</i>
Actual return on assets less interest	(4,514)	<i>(1,456)</i>
Actuarial gains and (losses) due to experience	2,828	<i>(715)</i>
Actuarial (losses) and gains due to assumption changes	(8,181)	<i>12,499</i>
Total recognised in other comprehensive (expense)/income	(9,867)	<i>10,328</i>

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019 (CONTINUED)

4. Retirement Benefit Obligations (Continued)

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

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

% of total scheme assets

Group	2019	2018
Global equities	16.4%	15.1%
UK property	3.4%	7.6%
Liability driven investments	13.3%	31.5%
Absolute return bonds	0.0%	8.6%
Diversified growth funds	6.3%	37.0%
Cash and other	0.2%	0.2%
Bulk annuity policy	60.4%	0.0%
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 their investment adviser.

The scheme has over recent years reduced its interest rate and inflation risks through a significant amount of investment in LDI and bonds whose values increase and decrease in line with 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 (gilts) whereas AA corporate bonds are implicit in the IAS 19 discount rate and so there is some mismatching risk to the bank should yields on gilts and corporate bonds move differently.

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 2019 the charge to the Statement of Comprehensive Income was £4,144,000 (2018: £3,805,000), representing the contributions payable by the employer in accordance with the scheme's rules.

The following items are recognised in the Statement of Comprehensive Income:

Analysis of other pension costs included within the Profit and Loss

Account under Administrative expenses

Group	2019	2018	2018	2018
	Total	<i>Continuing</i>	<i>Discontinued</i>	<i>Total</i>
	£000	<i>Operations</i>	<i>Operations</i>	<i>Total</i>
		<i>£000</i>	<i>£000</i>	<i>£000</i>
In respect of defined contribution scheme				
- Current service cost	4,144	3,796	9	3,805
Included within Administrative expenses (Note 7)	4,144	3,796	9	3,805

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5. Dealing Profits

Group	2019 £000	2018 £000
Dealing profits	12,878	7,514

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

6. Other Operating Income

Group	2019 £000	2018 £000
Rental income	947	638
Gain on sale of financial assets	50	7
Hedging result		
- Gain/(loss) on hedged items attributable to hedged risk on loans	8,952	(12,687)
- Loss on hedged items attributable to hedged risk on debt securities	(47,751)	(11,731)
- Gain on hedged items (swaps)	38,763	24,903
Net hedging (expense)/income	(36)	485
Unrealised losses from financial assets at FVTPL	(111)	(49)
Increase in value of derivative contracts	6	5
Investment property revaluation	975	-
Other operating income	94	241
Total other operating income	1,925	1,327

7. Employee Information and Administrative Expenses

Group	2019 Total £000	2018 Continuing Operations £000	2018 Discontinued Operations £000	2018 Total £000
Staff costs				
- Wages and salaries and other short term benefits	36,027	31,768	381	32,149
- Social security costs	5,468	4,717	59	4,776
- Other pension costs (Note 4)	4,144	3,796	9	3,805
Other administrative expenses	30,890	26,928	2,843	29,771
Total administrative expenses excluding depreciation	76,529	67,209	3,292	70,501

Included in the above table, the 2019 administrative expenses represent £164,000 (2018: £3,292,000) discontinued operations and £76,364,000 (2018: 67,209,000) continuing operations.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019 (CONTINUED)

7. Employee Information and Administrative Expenses (Continued)

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

Group	2019	<i>2018</i>	<i>2018</i>	<i>2018</i>
	Total	<i>Continuing</i>	<i>Discontinued</i>	<i>Total</i>
	FTE	<i>Operations</i>	<i>Operations</i>	<i>Total</i>
	Number	<i>Number</i>	<i>Number</i>	<i>Number</i>
Full time	306.6	<i>241.8</i>	<i>60.4</i>	<i>302.2</i>
Part time	29.1	<i>27.1</i>	<i>1.7</i>	<i>28.8</i>
Contractors and agency staff	50.3	<i>47.2</i>	<i>2.9</i>	<i>50.1</i>
Total average full time equivalent headcount	386.0	<i>316.1</i>	<i>65.0</i>	<i>381.1</i>

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

Auditors’ Remuneration

Group	2019	<i>2018</i>
	£000	<i>£000</i>
Remuneration payable to the auditors in respect of:		
- Statutory audit of the company and consolidated financial statements	177	<i>133</i>
- Statutory audit of the subsidiaries’ financial statements	13	<i>12</i>
- All other assurance services	-	<i>43</i>
- All other non-audit services	4	<i>58</i>
	194	<i>246</i>

8. Emoluments of Directors

Group	2019	<i>2018</i>
	£000	<i>£000</i>
Aggregate emoluments	14,407	<i>9,961</i>
Pension contributions	20	<i>20</i>
	14,427	<i>9,981</i>
Highest paid Director		
- Emoluments	2,411	<i>1,702</i>
- Pension contributions	10	<i>10</i>
	2,421	<i>1,712</i>

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9. Tax on profit

The standard rate of corporation tax in the UK changed from 20% to 19% with effect from 1 April 2017. The bank corporation tax surcharge of 8% took effect from 1 January 2016 and has been applied. Accordingly, the Company's profits for this accounting period are taxed at corporation tax of 19% plus a bank corporation surcharge tax of 8%.

9(a) Analysis of taxation charge

Group	2019	<i>2018</i>	<i>2018</i>	<i>2018</i>
	Total	<i>Continuing</i>	<i>Discontinued</i>	<i>Total</i>
	£000	<i>£000</i>	<i>£000</i>	<i>£000</i>
Current tax				
UK corporation tax on profits for the year at 19% (2018: 19%)	5,998	6,086	(564)	5,522
UK surcharge tax on profits for the year at 8% (2018: 8%)	468	273	-	273
Adjustments in respect of previous years	53	(3,348)	-	(3,348)
Total current tax (Note 9(c))	6,519	<i>3,011</i>	<i>(564)</i>	<i>2,447</i>
Deferred tax				
Origination and reversal of timing differences	195	(523)	-	(523)
Adjustments in respect of previous years	(1)	67	-	67
Total deferred tax	194	<i>(456)</i>	<i>-</i>	<i>(456)</i>
Tax on profit	6,713	<i>2,555</i>	<i>(564)</i>	<i>1,991</i>

The Finance (No.2) Act (the Act) was substantively enacted on 26 October 2015. The Act reduced the main rate of corporation tax to 19% from 1 April 2017 and to 17% from 1 April 2020 (superseding the 18% rate effective from that date). Accordingly, the deferred taxes at the balance sheet date have been measured using these enacted tax rates and reflected in these financial statements.

9(b) Taxation expense included in other comprehensive income

Group	2019	<i>2018</i>
	£000	<i>£000</i>
Deferred tax		
Timing differences on actuarial gains in the pension scheme	(1,677)	<i>1,756</i>
Deferred tax gains arising on land and building valuations	170	<i>-</i>
Deferred tax gains arising on heritage assets valuation	110	<i>51</i>
Total tax (income)/expense included in other comprehensive (expense)/income	(1,397)	<i>1,807</i>

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9. Tax on Profit (Continued)

9(c) Reconciliation of current taxation charge

The tax assessed for the year of £6,519,000 (2018: £2,447,000) is higher (2018: lower) than the result of applying the standard rate of corporation tax in the UK for the year ended 31 March 2019 of 19% (2018: 19%) to profits less than £25m and applying the bank corporation surcharge tax of 8% (2018: 8%) to profits in excess surcharge threshold of £25m to the accounting profit before tax. The reasons for this are shown below:

Group	2019 Total £000	<i>2018 Continuing Operations £000</i>	<i>2018 Discontinued Operations £000</i>	<i>2018 Total £000</i>
Profit before tax	32,473	28,815	(2,884)	25,931
Profit multiplied by standard rate of tax in the UK of 19% (2018: 19%)	6,170	5,475	(548)	4,927
Company profits in excess of surcharge threshold in the UK of 8% (2018: 8%)	545	21	-	21
Effects of:				
- Permanent disallowables	44	23	(16)	7
- Fixed asset timing differences	162	290	-	290
- Other short term timing differences	(328)	298	-	298
- Defined benefit scheme timing differences	(51)	-	-	-
- Adjustments in respect of previous years	53	(3,348)	-	(3,348)
- Surcharge allowance	(76)	252	-	252
Total current tax charge for the year	6,519	3,011	(564)	2,447

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

£25,277,000 (2018: £23,392,000) of the Group profit attributable to shareholders relates to the Company, this includes dividends of £Nil (2018: £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.

11. Dividends

The aggregate of dividends comprises:

Group	2019 £ per share	<i>2018 £ per share</i>	2019 £000	<i>2018 £000</i>
Ordinary shares (declared)	50	50	6	6

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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	2019 Notional amount £000	2019 Fair value £000	2018 Notional amount £000	2018 Fair value £000
Derivative assets				
Exchange rate contracts				
Forward foreign exchange contracts	11,480	33	27,732	61
Interest rate contracts				
Interest rate swaps – hedging instruments	431,213	2,072	815,820	8,361
Total derivative assets	442,693	2,105	843,552	8,422
Derivative liabilities				
Exchange rate contracts				
Forward foreign exchange contracts	12,712	26	25,443	60
Interest rate contracts				
Interest rate swaps – hedging instruments	949,097	80,158	740,162	125,210
Total derivative liabilities	961,809	80,184	765,605	125,270

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

Interest Rate Swaps Notional

Group	2019 £000	2018 £000
Loans and advances to customers		
- Drawn	866,679	816,375
- Undrawn	14,500	31,908
Debt securities	499,131	707,699
	1,380,310	1,555,982

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13. Financial Assets

	Group	Company	<i>Group</i>	<i>Company</i>
	2019	2019	<i>2018</i>	<i>2018</i>
	£000	£000	<i>£000</i>	<i>£000</i>
Financial assets at fair value through profit or loss				
Equity securities at original cost (unlisted)	5,172	5,003	606	1
<i>Less fair value adjustments</i>	(68)	-	(226)	-
	5,104	5,003	380	1
Financial assets at cost less impairment				
Investment in equity shares	1,528	1,528	1,000	1,000
	1,528	1,528	1,000	1,000
Financial assets measured at amortised cost				
Loans and advances to banks (Note 13(a))	217,116	217,116	377,128	377,128
Loans and advances to customers (Note 13(b))	1,709,977	1,709,977	1,669,927	1,669,927
<i>Less specific and collective allowances for impairment</i>	(11,611)	(11,611)	(5,232)	(5,232)
Bank and building society certificates of deposits	519,344	519,344	465,510	465,510
Debt securities	785,740	785,740	783,793	783,793
	3,220,566	3,220,566	3,291,126	3,291,126
Total financial assets	3,227,198	3,227,097	3,292,506	3,292,127

On the 25 June 2018 the bank purchased a further 281,117 fully paid C Ordinary shares in Hambro Perks Limited with a nominal value of £0.001 per share. Total consideration paid was £528,500 being a nominal value of £281.12 plus a share premium of £528,219. The investment has been classified as a financial asset at cost less impairment.

On the 20 March 2019 the bank purchased 889,363 shares in Baillie Gifford Long Term Global Growth Investment Fund at a cost of £5,000,000. 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 £499.1m (2018: £707.7m) and drawn fixed rate loans with a nominal value of £866.7m (2018: £816.4m) 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.

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13. Financial Assets (Continued)

13(a) Loans and advances to banks

Group	2019	<i>2018</i>
	£000	<i>£000</i>
Repayable on demand	71,768	<i>92,071</i>
Other loans and advances:		
Remaining maturity		
- over 5 years	106,981	<i>171,360</i>
- 3 months or less	38,367	<i>113,697</i>
Total loans and advances to banks	217,116	<i>377,128</i>

13(b) Loans and advances to customers

Group	2019	<i>2018</i>
	£000	<i>£000</i>
Remaining maturity		
- over 5 years	131,499	<i>135,355</i>
- 5 years or less but over 1 year	693,904	<i>612,836</i>
- 1 year or less but over 3 months	107,713	<i>99,129</i>
- 3 months or less	776,861	<i>822,607</i>
Allowance for impairment losses (Note 14)	(11,611)	<i>(5,232)</i>
Total loans and advances to customers	1,698,366	<i>1,664,695</i>
Of which repayable on demand or short notice	729,741	<i>770,785</i>

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 2019 was £881.2m (2018: £848.3m).

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14. Allowance for Impairment Losses

Debt and equity securities

Group	2019	<i>2018</i>
	£000	<i>£000</i>
Fair value adjustments		
Balance at 1 April	226	261
Loss for the year		
- Charge for the year	20	-
- Recoveries for the year	(78)	(35)
Net recovery	(58)	(35)
Write-offs	(100)	-
Balance at 31 March	68	<i>226</i>

Loans and advances to customers

Group	2019	<i>2018</i>
	£000	<i>£000</i>
Specific allowances for impairment		
Balance at 1 April	3,225	3,939
Impairment loss for the year		
- Charge for the year	6,448	1,193
- Recoveries for the year	(34)	(137)
Net charge	6,414	1,056
Write-offs	(1,165)	(1,770)
Balance at 31 March	8,474	<i>3,225</i>

Collective allowance for impairment

Balance at 1 April	2,007	320
Impairment loss for the year		
- charge for the year	1,130	1,687
Balance at 31 March	3,137	<i>2,007</i>
Total specific and collective impairment allowances	11,611	<i>5,232</i>

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15. Shares in Group Undertakings

The Company has the following investments in subsidiaries:

Shares at cost	Principal Activity	2019	2018
		£	£
Messrs Hoare Trustees	20 shares of no par value	-	-
Hoare's Bank Pension Trustees Limited	1 Ordinary £1 share	1	1
Hoares Bank Nominees Limited	72 Ordinary £1 shares	72	72
C. Hoare & Co. EIG Management Limited	1 Ordinary £1 share	1	1
Mitre Court Property Holding Company	10,000 Ordinary £1 shares partly paid	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.

16. Property and Equipment

Group	Land and Buildings	Investment Properties	Equipment	Software	Total
<i>At 1 April 2018</i>					
<i>Cost</i>	12,221	1,728	15,054	35,255	64,258
<i>Revaluation</i>	43,479	747	-	-	44,226
<i>Accumulated depreciation and impairment</i>	-	-	(8,509)	(20,680)	(29,189)
<i>Net book amount</i>	55,700	2,475	6,545	14,575	79,295
Year ended 31 March 2019					
Opening net book amount	55,700	2,475	6,545	14,575	79,295
Additions	-	-	1,209	8,207	9,416
Transfers	(7,150)	7,150	-	-	-
Revaluation movement	1,000	975	-	-	1,975
Depreciation	-	-	(1,836)	(5,182)	(7,018)
Closing net book amount	49,550	10,600	5,918	17,600	83,668
At 31 March 2019					
Cost	5,071	8,878	16,263	43,462	73,674
Revaluation	44,479	1,722	-	-	46,201
Accumulated depreciation and impairment	-	-	(10,345)	(25,862)	(36,207)
Net book amount	49,550	10,600	5,918	17,600	83,668

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16. Property and Equipment (Continued)

Group	2019	<i>2018</i>
	£000	<i>£000</i>
Land and buildings occupied for own activities		
- Net book value	40,542	<i>42,485</i>
At cost		
- Land and buildings	5,071	<i>12,221</i>
- Investment properties	8,878	<i>1,728</i>

13,949 *13,949*

The bank's land, buildings and investment properties were valued as at 31 March 2019 by AGL, Chartered Surveyors. The Royal Albert Hall Box (included within land and buildings) was valued as at 31 March 2019 by Harrods Estates Luxury Property Agents.

Group	2019	<i>2018</i>
	£000	<i>£000</i>
Future capital expenditure		
Contracted but not provided in the Financial Statements	1,670	<i>1,018</i>

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17. Heritage Assets

Group	2019					2018
	Paintings £000	Artefacts £000	Total £000	<i>Paintings £000</i>	<i>Artefacts £000</i>	<i>Total £000</i>
Valuation 1 April	6,429	2,326	8,755	<i>6,264</i>	<i>2,171</i>	<i>8,435</i>
Movements - additions	35	-	35	<i>18</i>	<i>4</i>	<i>22</i>
Movements - valuation	375	273	648	<i>147</i>	<i>151</i>	<i>298</i>
Valuation 31 March	6,839	2,599	9,438	<i>6,429</i>	<i>2,326</i>	<i>8,755</i>

The bank has accumulated a collection of a number of artefacts largely in the form of paintings, an extensive coin collection and the bank's own ledgers during the bank's history of over 300 years. These are regarded as heritage assets due to its historical importance 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 library at the same address. At any time, approximately 50 per cent of the collections are on display. The remaining items are held in storage that is not open to the public, although access is permitted to historians and others providing valuable research to 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 collection as at 31 March 2017.

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 amount attributable to the valuation movement was £648,000.

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18. Deferred Tax

18(a) Analysis of Deferred Taxation

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

Group	2019	<i>2018</i>
	£000	<i>£000</i>
Deferred tax asset		
Fixed assets timing differences	853	<i>708</i>
Short term timing differences	-	<i>274</i>
Provision on loan fees	3	<i>4</i>
Total deferred tax asset	856	<i>986</i>
Deferred tax liability		
Timing differences on valuations		
- Land and buildings	6,793	<i>7,391</i>
- Investment properties	1,061	<i>127</i>
- Heritage assets	1,551	<i>1,441</i>
Short term timing differences	20	<i>-</i>
Total deferred tax liability	9,425	<i>8,959</i>

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

Group	2019	<i>2018</i>
	£000	<i>£000</i>
Deferred tax asset		
Balance at 1 April	986	<i>535</i>
Capital allowances on fixed asset additions	144	<i>256</i>
Short term timing difference	(273)	<i>266</i>
Prior year adjustment	1	<i>(67)</i>
Timing differences on loan fees	(2)	<i>(4)</i>
Balance at 31 March	856	<i>986</i>
Deferred tax liability		
Balance at 1 April	8,959	<i>8,909</i>
Timing differences on valuations		
- Land and buildings	(598)	<i>-</i>
- Investment properties	934	<i>-</i>
- Heritage assets	110	<i>50</i>
Short term timing difference	20	<i>-</i>
Balance at 31 March	9,425	<i>8,959</i>

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18. Deferred Tax (Continued)

18(b). Deferred Tax on the defined benefit pension scheme

The deferred tax asset and liability balances at 31 March 2019 do not include any amounts in respect of the bank's defined benefit pension scheme liability, which is shown on the balance sheet after deduction of a deferred tax liability of £119,000 (2018: £1,751,000 asset) – see Note 4. The movement in this balance is shown below:

Defined benefit pension scheme liability	2019	<i>2018</i>
Group	£000	<i>£000</i>
Balance at 1 April	(1,751)	5
Movement relating to:		
- Past service cost	£000	£000
- Other finance expense	(45)	-
- Actuarial gains/(losses)	1,677	(1,756)
Balance at 31 March	(119)	<i>(1,751)</i>

19. Other Assets

	Group	Company	<i>Group</i>	<i>Company</i>
	2019	2019	<i>2018</i>	<i>2018</i>
	£000	£000	<i>£000</i>	<i>£000</i>
Settlement balances	343	321	405	326
	343	321	<i>405</i>	<i>326</i>

Settlement balances relate to unsettled transactions at the year end.

20. Prepayments and Accrued Income

	Group	Company	<i>Group</i>	<i>Company</i>
	2019	2019	<i>2018</i>	<i>2018</i>
	£000	£000	<i>£000</i>	<i>£000</i>
Interest receivable	7,579	7,580	10,735	10,735
Other debtors and prepayments	4,890	4,711	7,386	7,302
	12,469	12,291	<i>18,121</i>	<i>18,037</i>

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21. Deposits by Banks

Group	2019	<i>2018</i>
	£000	<i>£000</i>
Repayable on demand	60	<i>586</i>

22. Customer Accounts

Group	2019	<i>2018</i>
	£000	<i>£000</i>
With agreed maturity date or notice period, by remaining maturity:		
- 2 years or less but over 1 year	16,945	<i>26,388</i>
- 1 year or less but over 3 months	381,444	<i>247,322</i>
- 3 months or less but not repayable on demand	832,406	<i>734,464</i>
	1,230,795	<i>1,008,174</i>
Repayable on demand	3,134,138	<i>3,040,715</i>
	4,364,933	<i>4,048,889</i>
Amount due to Subsidiary Companies	10,616	<i>9,854</i>

23. Other Liabilities

	Group	Company	<i>Group</i>	<i>Company</i>
	2019	2019	<i>2018</i>	<i>2018</i>
	£000	£000	<i>£000</i>	<i>£000</i>
Corporation tax	357	147	<i>1,251</i>	<i>1,090</i>
Settlement balances	2,498	2,498	<i>657</i>	<i>657</i>
Other liabilities	135	(1)	<i>207</i>	<i>59</i>
	2,990	2,644	<i>2,115</i>	<i>1,806</i>

Settlement balances relate to unsettled transactions at the year end.

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24. Accruals and Deferred Income

Group	2019	<i>2018</i>
	£000	<i>£000</i>
Interest payable	5,124	<i>8,137</i>
Other creditors and accruals	25,614	<i>23,330</i>
	30,738	<i>31,467</i>

25. Provision for Other Liabilities

(a) FSCS Levy

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

The bank accrued £120,000 at 31 March 2019 (*2018: £120,000*) in respect of its estimated share of the levies that will be raised by FSCS. The amount of future levies payable depends on a number of uncertain factors, including: the value of potential recoveries of assets by the FSCS; the level of protected deposits and the population of FSCS members at the time.

(b) 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, (*2018: £1.5m*) in respect of legal provision and related costs with no change in provision required for 2019 £Nil (*2018: £1.8m increase*) during the year resulting with the bank carrying a closing provision of £3.3m at 31 March 2019 (*2018: £3.3m*).

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26. Called up Share Capital

Group	2019	<i>2018</i>
	£000	<i>£000</i>
Authorised, allotted and fully paid: 120 (2018: 120) Ordinary shares of £1,000	120	<i>120</i>

27. Revaluation reserves

Group	Property	Heritage	Total
	£000	Assets	£000
	£000	£000	£000
Balance as at 1 April 2017	36,087	6,788	42,875
Revaluation of property and heritage assets	-	298	298
Deferred tax charge on property and heritage assets	-	(51)	(51)
Balance as at 31 March 2018	36,087	7,035	43,122
Revaluation of property and heritage assets	1,000	648	1,648
Deferred tax charge on property and heritage assets	(170)	(110)	(280)
Reclassify property to investment property	(3,750)	-	(3,750)
Balance as at 31 March 2019	33,167	7,573	40,740

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

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28. 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 2019.

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	2019	<i>2018</i>
	£000	<i>£000</i>
Contingent liabilities:		
- Performance bonds and other transaction-related contingencies	517	<i>686</i>
- Guarantees	19,759	<i>20,273</i>
Total contingent liabilities	20,276	<i>20,959</i>
Commitments:		
- Undrawn formal standby facilities, credit lines and other commitments to lend (Less than 1 year maturity)	362,624	<i>320,620</i>
Commitments on equity investments	4,604	<i>-</i>
Total commitments	367,228	<i>320,620</i>

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29. Notes to the statement of cash flows

Group	2019	<i>2018</i>
	£000	<i>£000</i>
Profit for the financial year	25,760	<i>23,940</i>
Tax on profit on ordinary activities	6,713	<i>1,991</i>
Operating profit	32,473	<i>25,931</i>
Impairment charge	7,386	<i>2,708</i>
Loans and advances written off	1,165	<i>1,770</i>
Depreciation of tangible fixed assets	7,018	<i>6,763</i>
Loss on disposal of discontinued operations	-	<i>634</i>
Net (income)/expense in respect of defined benefit scheme	(222)	<i>1</i>
profit on sale of investment securities	(50)	<i>(7)</i>
Gain on revaluation of investment property	(975)	<i>-</i>
Fair value movements on financial assets	(1,968)	<i>(7,953)</i>
Working capital movements:		
- Decrease/(increase) in loans and advances	98,363	<i>(61,681)</i>
- Decrease in debtors	5,714	<i>299</i>
- Increase in payables	316,558	<i>165,627</i>
Cash flow generated from operating activities	465,462	<i>134,092</i>

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30. Financial Risk Management

(a) Overview

The Board has ultimate responsibility for the management of risk within the bank. The ARCCo provide oversight and monitor the effectiveness of internal control and risk management processes and reports to the Board. Further details of the bank's risk management and governance structure are described in the Directors' Report on pages 7 to 15.

The principal risks affecting the bank are explained in the Strategic Report on pages 2 to 6. A fuller description of the bank's principal risks can be found in the bank's Pillar 3 disclosures, which are 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 and foreign exchange risk and capital risk.

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

(b) Credit risk

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

Management of credit risk

Responsibility for credit risk on customer loans and advances resides with the Credit Risk department, monitored by the Banking Committee. Responsibility for credit risk relating to bank counterparties and treasury investments is managed by the Treasury department and monitored by the ALCO and the ARCCo.

Credit risk arising from loans and advances to customers are managed in accordance with lending policies and procedures aligned to the bank's risk appetite. The bank seeks to mitigate credit risk by focusing on sectors with 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. Limits are placed on the aggregate lending to any one customer in accordance with both internal and regulatory guidelines. Lending is monitored closely against individual credit limits. All significant exposures are subject to an annual review.

Interest payments and any capital repayments are generally serviced through a related current account with the bank

These are closely monitored for adequate funds such that past due events such as late payment or missed interest rarely occur.

Credit risk arising from loans and advances to banks is managed through restricting lending to a selection of financial institutions with selection criteria being 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.

As part of an ongoing risk and capital management programme, the bank's legacy investment portfolio held in Messrs Hoare Trustees is being wound down under the direction of the ALCO.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019 (CONTINUED)

30. 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	2019	2018
	£000	£000
Balance Sheet items		
Cash and balances at central banks	1,525,359	1,153,969
Derivative financial instruments	2,105	8,422
Loans and advances to banks (Note 13(a))	217,116	377,128
Loans and advances to customers (Note 13(b))	1,698,366	1,664,695
Bank and building society certificates of deposits	519,344	465,510
Debt securities	785,740	783,793
Equity securities (unlisted)	6,632	1,380
Maximum credit exposure from Balance Sheet items	4,754,662	4,454,897
Off balance sheet items		
Contingent liabilities	20,276	20,959
Commitments	367,228	320,620
Maximum credit exposure from off Balance Sheet items	387,504	341,579
Maximum credit exposure	5,142,166	4,796,476

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 is assessed at regular intervals in the lending life cycle. At 31 March 2019, the value of property collateral recorded against customer facilities was £4,484m (2018: £4,254m). The estimated value of collateral against the impaired customer loans and advances was £61.1m (2018: £3.8m).

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

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30. Financial Risk Management (Continued)

(b) Credit risk (continued)

Concentration risk

Additional credit risk can result from high or excessive exposure to certain clients, regions or industry sectors.

The bank's activities are concentrated on serving high net worth individuals within the UK and operating primarily in the South of England, where a significant proportion of the bank's lending activities are to residential properties. The bank mitigates the potential concentration risk by establishing a range of limits and trigger thresholds that are regularly monitored and reported to ALCO.

At 31 March the bank's exposure to UK retail customers (personal and business) were 91% (2018:91%), of total loans and advances to customers.

At 31 March the bank's exposure to UK financial institutions and central bank/government were 78% (2018:83%), of total loans and advances to banks and investment securities held.

Credit quality of assets

The credit quality of assets is shown below.

Analysis of loans and advances to customers by impairment status

Group	2019	2018
	£000	£000
Neither on the watch list nor non performing	1,528,711	<i>1,512,981</i>
Watch list		
High risk	32,099	<i>73,249</i>
Medium risk	85,586	<i>77,770</i>
Non performing debt (NPD)	63,581	<i>5,927</i>
- of which are specific allowances for impairment	(8,474)	<i>(3,225)</i>
Collective allowance for impairment	(3,137)	<i>(2,007)</i>
Total loans and advances to customers	1,698,366	<i>1,664,695</i>

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 an estimate of the amount expected to be recovered when collateral is liquidated in order 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 has been made for loans where the property held as security is in a niche segment of the market. There are therefore no generic indicators that can be used to quantify or stress test the impact of a change in the environment on the provision level.

Watch list loans

Watch list loans are those where there is some concern about the performance of the loan, however there has not yet been a credit risk event. These are assessed by the relationship managers and graded high and medium to highlight exposures which require closer management attention because of their relative greater probability of default and potential loss.

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30. Financial Risk Management (Continued)

(b) Credit risk (continued)

Allowances for impairment

The bank establishes an allowance for impairment losses that represents its estimate of incurred losses within its loan portfolio. The main components of this allowance are a specific loss component that relates to identified exposures and a collective loan impairment allowance in respect of losses that have been incurred but have not been identified at the reporting date. Impairment losses on loans to banks and the securities portfolio are established when there has been a sustained decrease in value over an extended period, or if it is expected that a fixed income investment will not meet its future cash flow obligations. Given the bank's general policy is 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 bankruptcy or insolvency of a customer. However, as it is always possible that a customer may acquire assets in the future, debts are often left, fully provisioned, as an aide memoire of the position. Bad debts will be written off only when there is absolute certainty that the residual sums are uncollectable.

Renegotiated lending

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

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

Group	2019	<i>2018</i>
	£000	<i>£000</i>
Loans and advances to banks, by rating:		
- Aaa to Aa3	102,256	<i>97,660</i>
- A1 to A3	114,860	<i>279,445</i>
- Baa1 to Baa3	-	<i>23</i>
Total unimpaired loans and advances to banks	217,116	<i>377,128</i>
Debt and equity security financial assets, by rating:		
- Aaa to Aa3	1,122,500	<i>1,098,936</i>
- A1 to A3	182,500	<i>150,098</i>
- Not rated	6,632	<i>1,380</i>
Total unimpaired debt and equity securities	1,311,632	<i>1,250,414</i>
Non performing debt (NPD)	84	<i>269</i>
Total debt and equity securities	1,311,716	<i>1,250,683</i>

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30. Financial Risk Management (Continued)

(c) Liquidity risk

Liquidity risk is the risk that the bank is unable to meet 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.

CRD IV introduced two new liquidity standards, the short term Liquidity Coverage Requirement (LCR) and the longer term Net Stable Funding Requirement (NSFR). The LCR became the Pillar 1 standard for liquidity in the UK in October 2015. The bank continues to monitor the NSFR requirements and expects to meet them once confirmed by the regulator.

The bank's Treasury department has responsibility for the day to day liquidity management and continuously monitors deposit activity so to predict expected maturity flows. The ALCO oversees the management of the bank's balance sheet within the Board approved policies.

The bank assesses the adequacy of its liquidity through the annual update and more frequently in the event of a material change in capital, of the ILAAP. 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, ARCCo and the Management Team for review and challenge, eventually leading to challenge and approval by the Board.

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30. 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, undiscounted cash flows are shown, including interest cash flows. For all other products the balance sheet amounts are shown.

Group	Carrying Amount	Next day	Less than 1 month	1 to 3 months	3 months to 1 year	Over 1 year
At 31 March 2019	£000	£000	£000	£000	£000	£000
Balance sheet						
Deposits from banks	60	60	-	-	-	-
Deposits from customers	4,366,482	3,503,664	319,806	143,795	382,224	16,993
Derivative liabilities	80,184	5	1	6	297	79,875
Off balance sheet						
Guarantees, letters of credit and performance bonds	20,276	20,276	-	-	-	-
Undrawn customer facilities	367,228	367,228	-	-	-	-
Total liabilities	4,834,230	3,891,233	319,807	143,801	382,521	96,868

<i>Group</i>	<i>Carrying Amount</i>	<i>Next day</i>	<i>Less than 1 month</i>	<i>1 to 3 months</i>	<i>3 months to 1 year</i>	<i>Over 1 year</i>
<i>At 31 March 2018</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Balance sheet						
<i>Deposits from banks</i>	586	586	-	-	-	-
<i>Deposits from customers</i>	4,049,479	3,040,716	585,160	149,667	247,562	26,374
<i>Derivative liabilities</i>	125,270	-	42	11	176	125,041
Off balance sheet						
<i>Guarantees, letters of credit and performance bonds</i>	20,959	20,959	-	-	-	-
<i>Undrawn customer facilities</i>	320,620	320,620	-	-	-	-
Total liabilities	4,516,914	3,382,881	585,202	149,678	247,738	151,415

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019 (CONTINUED)

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

(d) Market risk

Market risk is the risk that changes in market prices, such as interest 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 only arises materially in the banking book, since the bank does not operate a trading book. Only a small component of the banking book is recorded at fair value and all fixed rate financial instruments are hedged such that the main exposure to market risk is credit and basis risk.

Management of market risk

Interest rate risk could arise from the mismatch between the bank's lending and deposit rates and is actively managed. Advances and deposits which are priced off base rate with margins are closely monitored and evaluated. The sensitivity to interest rate changes in terms of interest cash flows and their effect on fixed interest instruments are computed and reported monthly to the ALCO.

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

Interest rate risk is managed by the bank's Treasury department principally through monitoring interest rate gaps between assets and liabilities based upon the next interest 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.

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30. Financial Risk Management (Continued)

(d) Market risk (Continued)

Exposure to market risks: interest rate risk

The following table summarises the repricing periods for the bank's assets and liabilities. Items are allocated to time bands by reference to the earlier of the next contractual interest rate change and the maturity date.

Group	Carrying Amount	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Over 5 years
At 31 March 2019	£000	£000	£000	£000	£000	£000
Assets						
Loans and advances to banks and central banks	1,734,116	1,734,116	-	-	-	-
Loans and advances to customers	1,693,340	765,247	37,060	70,650	691,426	128,957
Debt security financial assets	1,231,579	308,777	153,367	215,638	311,247	242,550
Total assets	4,659,035	2,808,140	190,427	286,288	1,002,673	371,507
Liabilities						
Deposits by banks	60	60	-	-	-	-
Customer accounts	4,364,933	3,966,544	237,066	144,378	16,945	-
Total liabilities	4,364,993	3,966,604	237,066	144,378	16,945	-
Net derivatives	-	1,238,195	(66,671)	(85,048)	(714,231)	(372,245)
Interest rate gap	294,042	79,731	(113,310)	56,862	271,497	(738)
At 31 March 2018						
Group	Carrying Amount	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Over 5 years
At 31 March 2018	£000	£000	£000	£000	£000	£000
Assets						
Loans and advances to banks and central banks	1,526,128	1,526,128	-	-	-	-
Loans and advances to customers	1,668,621	817,373	21,265	77,882	616,885	135,216
Debt security financial assets	1,128,048	278,435	135,000	236,748	79,002	398,863
Total assets	4,322,797	2,621,936	156,265	314,630	695,887	534,079
Liabilities						
Deposits by banks	586	586	-	-	-	-
Customer accounts	4,048,889	3,775,180	178,373	68,948	26,388	-
Total liabilities	4,049,475	3,775,766	178,373	68,948	26,388	-
Net derivatives	-	1,428,136	(60,265)	(191,270)	(639,434)	(537,167)
Interest rate gap	273,322	274,306	(82,373)	54,412	30,065	(3,088)

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30. Financial Risk Management (Continued)

(d) Market risk (Continued)

Exposure to market risk: interest rate risk (continued)

Interest rate risk arises on loans, deposits and 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 monitors its exposure to interest rate risk. Consistent with the financial regulator's requirements, the impact of a potential 2% shift, both increase and decrease, in the yield curve against the bank's interest bearing assets are computed back to a net present value. This value is monitored and calculated weekly and reported to the ALCO monthly against a Board approved policy limit. The reported interest rate sensitivity as at 31 March 2019 is shown in the table below.

Group	2019	2018
	£000	£000
Net present value sensitivity to:		
Positive shift	70	<i>(27)</i>
Negative shift	19	<i>120</i>

The interest rate sensitivities set out above are illustrative only and are based on simplified scenarios. The figures represent the effect on net interest income and fixed interest security values arising from a parallel fall or rise in the yield curve and do not take into account the effect of any further actions to mitigate the effect. The bank aims to minimise interest rate risk and uses interest rate swaps to hedge exposures on fixed rate loans and investments and this is factored into the interest rate sensitivity calculation and this is factored into the interest rate sensitivity calculation. Give the bank's approach to managing interest rate risk, as outlined in the Strategic report section 3d), the net exposure to this risk after hedging is minimal.

Exposure to market risk: 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, limits are placed on the bank's foreign exchange dealers for intraday and end of day positions. The bank's Treasury department is responsible for managing currency risk within intra-day and overnight limits established by ALCO and the ARCCo..

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

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019 (CONTINUED)

30. Financial Risk Management (Continued)

(d) Market risk (Continued)

Exposure to market risk: interest rate risk (continued)

The tables below summarise the sensitivity of the bank's monetary assets and liabilities to changes in foreign exchange movements at 31 March 2019 and 31 March 2018. The analysis is based on the assumptions that the relevant foreign exchange rate increased/decreased by the percentage disclosed in the table below, with all other variables held constant.

Net currency exposure Group	2019 £000	Reasonable possible shift in rate	Sensitivity +/-
	Net Exposure		
US dollar	941	+/-2%	(19)
Euro	458	+/-2%	(9)
Other	45	+/-2%	(1)
Total	1,444		(29)
<hr/>			
<i>Net currency exposure Group</i>	<i>2018 £000</i>	<i>Reasonable possible shift in rate</i>	<i>Sensitivity +/-</i>
	<i>Net Exposure</i>		
<i>US dollar</i>	<i>172</i>	<i>+/-2%</i>	<i>(3)</i>
<i>Euro</i>	<i>312</i>	<i>+/-2%</i>	<i>(6)</i>
<i>Other</i>	<i>62</i>	<i>+/-2%</i>	<i>(1)</i>
<i>Total</i>	<i>546</i>		<i>(11)</i>

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

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019 (CONTINUED)

30. 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 fair value is the carrying value.
- Treasury bills and other eligible bills: the fair value is determined using market prices.
- Derivatives: the fair value is the carrying value. For interest rate swaps, market valuations are used in determining the fair value. For forward exchange contracts, the fair value is estimated by discounting the contractual forward price and deducting the current spot rate.
- Loans and advances to banks: the fair value of floating rate placements and overnight deposits is the carrying value.
- Loans and advances to customers: 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.
- Debt and equity securities: the carrying value is a proxy for the fair value of listed investment securities and are based upon quoted market prices where available. Unlisted investment securities are based upon net asset valuations provided by the fund managers.
- Investment in equity shares: no market value is readily available and therefore the cost is the carrying value which is also a proxy for the fair value.
- Deposits from banks and customers: the fair value of 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	Level 2	Level 3	2019
	£000	£000	£000	Total
				£000
Equity securities (unlisted)	-	-	5,104	5,104
Derivative financial assets	-	2,105	-	2,105
	-	2,105	5,104	7,209
Derivative financial liabilities	-	80,184	-	80,184

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019 (CONTINUED)

30. Financial Risk Management (Continued)

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

Valuation Hierarchy

<i>Group</i>	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>2018</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>Total</i>
				<i>£000</i>
<i>Equity securities (unlisted)</i>	-	-	380	380
<i>Derivative financial assets</i>	-	8,422	-	8,422
	-	8,422	380	8,802
<i>Derivative financial liabilities</i>	-	125,270	-	125,270

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

The equity securities (unlisted) 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 £101,000 (2018: £380,000).

During the year the bank invested in a long term global growth investment fund at a cost of £5,000,000, which had a market value of £5,002,668 at 31 March 2019.

By the end of the year, the aggregate value of the investment portfolio reported in the above table had risen to £5,104,000 (2018: £380,000). These are measured at the values provided by fund managers.

(f) Capital management

The bank's capital management for regulatory purposes (unaudited) is detailed in the Directors' Report on pages 12 and 13.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019 (CONTINUED)

31. Segmental Information

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

32. 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 are considered to be key management personnel with significant influence for the purposes of FRS 102.

Related Party Transactions

Group	2019	<i>2018</i>
	£000	<i>£000</i>
Loans and advances	8,544	<i>8,874</i>
Customer deposits	9,628	<i>8,461</i>
Total income	10	<i>11</i>
Operating expenses	66	<i>61</i>

The bank included related party transactions with key management personnel as at 31 March 2019 for loans and advances of £8.5m (2018: £8.9m) and deposits of £9.6m (2018: £8.5m).

The bank provides banking services to the bank's charitable trust, The Golden Bottle Trust, and made charitable donations of £3.5m (2018: £3.0m) during the year.

In addition, the bank provided tax and trustees services to key management personnel and their close family members. The fees from these services amounted in aggregate to £10.4k (2018: £10.5k).

During the year, the bank received rental income of £66.0k (2018: £60.6k) from a related party, where the lease was subject to formal contract terms and conditions.

33. Ultimate Controlling Party

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

34. Charged Assets

As at 31 March 2019 £0.5m (2018: £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.

In addition, as at 31 March 2019, £Nil (2018: £10.0m) of collateral was charged to Royal Bank of Scotland Plc ("RBS") in relation to RBS providing guarantees jointly, with the bank, to Lloyd's of London on behalf of the bank's customers. See Note 28 for more detail on the guarantees provided by the bank.