Cheltenham & Gloucester

Cheltenham & Gloucester plc
Annual Report and Accounts 2004

Member of Lloyds TSB Group

2004 HIGHLIGHTS

- Gross mortgage lending up 6% to £22,840 million
- Net mortgage lending up 4% to £7,636 million
- Mortgage assets at the year end of £71.7 billion
- Profit before tax of £458 million

DIRECTORS' REPORT

The Directors have pleasure in presenting their report for Cheltenham & Gloucester plc for the year ended 31 December 2004.

Principal activities

The principal activities of Cheltenham & Gloucester plc (the "Company") and its subsidiaries are UK residential mortgage lending and retail deposit taking. The Company and its subsidiaries are referred to in these accounts as "C&G" or the "Group".

Results and dividends

The profit on ordinary activities before tax for the year ended 31 December 2004 was £457.7 million (2003 - £485.3 million).

An interim dividend of £88.4 million was paid during the year (2003 - £114.0 million).

The Directors propose a final dividend for the year of £105.0 million (2003 - £110.3 million).

Business review and future developments

The UK mortgage market enjoyed another year of exceptional activity and once again exceeded analysts' growth predictions, with the total value of UK mortgage market stock rising by an estimated 13%. However, UK net lending in 'pound note' terms remained at approximately the same level as 2003, with remortgage activity once again strong.

Competition remained focused on price and this, combined with bank base rate rises totalling 1%, put pressure on profits in the battle for market share. C&G continues its strategy of balancing market share aspirations against profitability.

Gross lending completed during the year was £22,840 million, an increase of 6% on 2003's figure of £21,544 million. Net lending of £7,636 million was up 4% on the previous year and gave C&G a 7.6% share of UK net lending compared with 7.3% in 2003. Total mortgage assets at the year end stood at £71,777 million, up 12% during the year, giving C&G an 8.2% share of UK residential mortgage assets compared with 8.4% at the end of 2003.

Pre-tax profits, at £457.7 million, were down slightly on last year's figure of £485.3 million resulting in a post-tax return on equity of 13.6% compared with 15.5% in 2003.

On 31 October 2004, the mortgage assets of Lloyds TSB Mortgages Ltd, a wholly owned subsidiary of C&G, were transferred to Cheltenham & Gloucester plc to assist with the implementation of mortgage regulation.

For the whole industry, 2004 was defined by mortgage regulation. The preparations, and associated costs, were more extensive than anything we have undertaken before, so it is particularly pleasing to report that regulatory requirements were successfully implemented on time in all lending channels

Despite the demands of regulation, C&G retained its focus on service as a cornerstone of its competitive proposition and was rewarded with a tenth consecutive Five-Star Award in the Financial Adviser magazine service awards. This is a record unequalled by any other UK financial service provider and, with intermediary sales accounting for the majority of new mortgage business, one to which we attach enormous importance.

The outlook for 2005 is one of marginal slowdown, with recent years' market growth rates no longer sustainable. As house price growth stagnates we expect interest rates to remain stable and the mortgage market to remain subdued over the full year.

Directors and Directors' interests

The Directors of the Company at the end of the year were as follows:

DP Pritchard	Chairman (Non-Executive)
JC Pain	Managing Director
MJ Gibbard	Finance Director
NJW Hale	Sales Director
MF Mitchell	Mortgage Director
RD Hunkin	Savings Director

Mr RF Burden retired from the Board on 25 October 2004 after serving as Chairman since June 2003.

The Board wishes to record its appreciation of the retiring Chairman's services to C&G throughout his period of office.

Mr DP Pritchard was appointed as Chairman on 25 October 2004. He is currently a Director and Deputy Chairman of Lloyds TSB Group plc.

Mr MF Mitchell was appointed to the Board as Mortgage Director on 1 January 2004. He joined C&G from Lloyds TSB General Insurance where he was Distribution Director.

Mr RD Hunkin was appointed to the Board as Savings Director on 2 April 2004. He joined C&G on 1 October 2003 from Goldfish Bank Ltd where he was Risk and Insight Director.

Brief details of current Directors are shown on page 41.

The interests of the Directors in shares of the ultimate parent company, Lloyds TSB Group plc, are shown on page 32 in note 26 to the accounts. No Directors have any interest in shares of the Company or other Group companies.

Policy and practice on payment of creditors

The Company follows "The Better Payment Practice Code", published by the Department of Trade and Industry, regarding payments to suppliers. A copy of the code and information about it may be obtained from the Department of Trade and Industry, No. 1 Victoria Street, London, SW1H 0ET.

The Company's policy is to agree terms of payment with suppliers and these normally provide for settlement within 30 days after the date of the invoice, except where other arrangements have been negotiated. It is the policy of the Company to abide by the agreed terms of payment, provided the supplier performs according to the terms of the contract.

The number of days required to be shown in this report, to comply with the provisions of the Companies Act 1985, is 29. This bears the same proportion to the number of days in the year as the aggregate of the amounts owed to trade creditors at 31 December 2004 bears to the aggregate of the amounts invoiced by suppliers during the year.

Auditors

PricewaterhouseCoopers LLP have indicated their willingness to continue in office and a resolution re-appointing them as auditors and authorising the Directors to set their remuneration will be proposed at the annual general meeting.

Employees

It is C&G's policy to recruit the best people regardless of sex, race, national origin, religion, colour, disability, sexual orientation, age or marital status and to encourage them to develop their skills and fulfil their career potential. It is also our policy to provide equality of opportunity for any disabled employee or applicant.

At C&G it has long been held that the dissemination of information is a vital contribution to staff motivation and Group cohesion. To this end, structures are in place to ensure that important information is communicated to staff at all levels quickly and effectively.

We also recognise the valuable contribution of the C&G Staff Association (C&GSA) in providing a channel of communication through which the views and opinions of staff can be gathered and taken into account. Work done by the C&GSA since its foundation in 1972 shows the importance of talking to a representative body within the business which has a feel and understanding for the business and employee issues that arise from time to time. We already recognise C&GSA for negotiating purposes – they also provide representative support to groups and individual members of staff on grievance and other issues. During the year an agreement was signed which recognises C&GSA and UNIFI (a Trade Union already representing some staff of Lloyds TSB) for consultation and collective bargaining purposes. This agreement also recognises that UNIFI can campaign for membership in C&G.

The Lloyds TSB Group Shareplan scheme and the opportunity to participate in savings-related Lloyds TSB Group plc share option schemes, enabling eligible employees to become shareholders, encourage involvement in the Company's performance.

On behalf of the Board

CM Smyth
Secretary

10 February 2005

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law requires the Directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Company and the Group at the balance sheet date and of the profit or loss of the Group for that period.

The Directors confirm that suitable accounting policies have been used and applied consistently in the year. They also confirm that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the year ended 31 December 2004 and that applicable accounting standards have been followed.

The Directors are responsible for keeping proper accounting records that 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 1985. 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.

STATEMENT OF GOING CONCERN

The Directors are satisfied that the Company and the Group have adequate resources to continue to operate for the foreseeable future and are financially sound. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

INDEPENDENT AUDITORS' REPORT
To the members of Cheltenham & Gloucester plc

We have audited the financial statements which comprise the consolidated profit and loss account, the balance sheets, and the related notes, which have been prepared under the historical cost convention and the accounting policies set out in note 1.

Respective responsibilities of Directors and Auditors

The Directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the Statement of Directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or in to whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and transactions is not disclosed.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information only comprises the Directors' report, the Statement of Director's Responsibilities and the Statement of Going Concern.

Basis of audit opinion

We conducted our audit in accordance with auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group at 31 December 2004 and the profit of the Group of the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Bristol

17 February 2005

CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2004

	Note	2004 £m	2003 £m
Interest receivable		3,630.4	3,148.5
Interest payable		(2,947.7)	(2,441.9)
Net interest income		682.7	706.6
Other income			
Fees & commissions receivable		142.9	137.9
Fees & commissions payable		(88.8)	(62.1)
Other operating income		6.5	11.5
		60.6	87.3
Total income		743.3	793.9
Operating expenses			
Administrative expenses	2	280.6	292.2
Amortisation of intangible fixed assets	12	25.8	25.8
Depreciation of tangible fixed assets	13	11.4	12.1
Depreciation and amortisation		37.2	37.9
		317.8	330.1
Operating profit before provisions		425.5	463.8
Provisions for bad & doubtful debts	9		
Specific		(1.9)	(20.3)
General		(30.3)	(1.2)
		(32.2)	(21.5)
Profit on ordinary activities before tax	3	457.7	485.3
Tax on profit on ordinary activities	4	145.3	148.8
Profit for the financial year attributable to shareholders	5	312.4	336.5
Dividends	6	193.4	224.3
Transfer to reserves	25	119.0	112.2

All operations of the Group are regarded as continuing.
There are no recognised gains and losses other than the profit for the current and previous year.

BALANCE SHEETS
AT 31 DECEMBER 2004

		Group		Company	
	Note	2004 £m	2003 £m	2004 £m	2003 £m
Assets					
Cash & balances at central banks		3.2	2.5	3.2	2.5
Loans & advances to banks	7	157.2	145.2	117.4	103.4
Loans & advances to customers	8	71,776.6	64,120.8	71,784.1	64,116.6
Shares in group undertakings	11	-	-	18.8	18.8
Intangible fixed assets	12	273.5	299.3	273.5	299.3
Tangible fixed assets	13	113.1	117.2	102.1	106.0
Prepayments & accrued income	16	161.9	178.9	161.5	174.3
Total assets		72,485.5	64,863.9	72,460.6	64,820.9

BALANCE SHEETS
AT 31 DECEMBER 2004

		Group		Company	
	Note	2004 £m	2003 £m	2004 £m	2003 £m
Liabilities					
Deposits by banks	17	53,113.4	45,806.4	53,112.5	45,805.7
Customer accounts	18	15,037.7	15,180.8	15,045.2	15,187.0
Other liabilities	19	174.2	179.7	174.0	151.6
Accruals and deferred income	20	569.1	518.1	562.5	535.1
Provisions for liabilities and charges:					
- Deferred tax	21	1.7	-	-	-
- Other provisions for liabilities and charges	22	11.4	14.9	11.4	14.9
Subordinated liabilities:					
Undated loan capital	23	250.0	100.0	250.0	100.0
Dated loan capital	23	975.0	830.0	975.0	830.0
		1,225.0	930.0	1,225.0	930.0
Called up share capital	24	508.3	508.3	508.3	508.3
Share premium account	25	1,084.6	1,084.6	1,084.6	1,084.6
Profit and loss account	25	760.1	641.1	737.1	603.7
Equity shareholders' funds		2,353.0	2,234.0	2,330.0	2,196.6
Total liabilities		72,485.5	64,863.9	72,460.6	64,820.9

These accounts were approved by the Board of Directors on 10 February 2005 and signed on its behalf by:

DPritchard

DP Pritchard
Chairman

JC Pain
Managing Director

~~**MJ Gibbard**~~
Finance Director

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS
FOR THE YEAR ENDED 31 DECEMBER 2004

	Group		Company	
	2004 £m	2003 £m	2004 £m	2003 £m
Profit for the financial year attributable to shareholders	312.4	336.5	326.8	336.1
Dividends	(193.4)	(224.3)	(193.4)	(224.3)
Net increase in shareholders' funds	119.0	112.2	133.4	111.8
Shareholders' funds at beginning of year	2,234.0	2,121.8	2,196.6	2,084.8
Shareholders' funds at end of year	2,353.0	2,234.0	2,330.0	2,196.6

NOTES TO THE ACCOUNTS

1. ACCOUNTING POLICIES

Accounting policies are unchanged from 2003.

Accounting convention

The financial statements have been prepared under the historical cost convention and in compliance with sections 255 and 255A, Schedule 9 and other requirements of the Companies Act 1985 and in accordance with applicable accounting standards, pronouncements of the Urgent Issues Task Force and Statements of Recommended Accounting Practice issued by the British Bankers' Association.

In accordance with the provisions of FRS 1 (revised) the Group is exempt from preparing a cash flow statement as it is a wholly owned subsidiary of Lloyds TSB Group plc, which produces such a statement in its own accounts. In addition, we elected to use the exemption available under FRS 8 not to disclose details of transactions with Lloyds TSB Group plc or other wholly owned subsidiary undertakings of that company, as the consolidated accounts of Lloyds TSB Group plc, in which the Company is included, are publicly available.

Basis of consolidation

The Group accounts consolidate the accounts of the Company and its subsidiary undertakings, all of which have accounting periods ending 31 December. The results of companies or businesses acquired or disposed of during the year are included from the date of acquisition or up to the date of disposal.

Income recognition

Interest income is recognised in the profit and loss account as it accrues, with the exception of interest on non-performing lending, which is taken to income when received or when its recovery is no longer subject to significant doubt.

Fees receivable from customers to reimburse the Group for costs incurred are taken to income when due. Fees relating to the ongoing provision of a service or risk borne for a customer are taken to income in proportion to the service provided or risk borne in each accounting period. Other fees receivable are accounted for as they fall due.

Early redemption charges on fixed rate mortgages are amortised to the profit and loss account over the average residual length (currently estimated at 18 months) of the lock-in period on redeemed mortgages.

Deferred Taxation

Full provision is made for deferred tax liabilities arising from timing differences between the recognition of gains and losses in the financial statements and their recognition in a tax computation. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted. Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Tangible fixed assets

The cost of all additions and major alterations to office premises and all additions to office and computer equipment and motor vehicles is capitalised.

Depreciation is provided so as to write off the cost, less the estimated residual value, of tangible fixed assets over their useful economic lives. Land is not depreciated. Leasehold premises with unexpired lease terms of 50 years or less are depreciated by equal annual instalments over the remaining period of the lease. The cost of freehold, after deducting the value of land, and long leasehold properties is depreciated over 50 years. The costs of adapting premises for the use of the Group are separately identified and depreciated over 10 years or over the term of the lease, if less; such costs are included within premises in the balance sheet total of tangible fixed assets. Equipment is depreciated by equal annual instalments over the estimated useful life of the assets, which for fixtures and furnishings is 10 years and for computers, motor vehicles and other equipment 3-8 years.

Derivatives

Profits and losses on instruments which are being used to hedge exposures are recognised in a manner that reflects the accounting treatment of the assets or liabilities being hedged. See note 29.

Leasing

All payments under operating lease contracts are charged to administrative expenses on a straight line basis over the period of the lease.

Pensions

Contributions to pension schemes are charged to the profit and loss account in the period in which they fall due. See note 2.

Mortgage incentives

The costs of incentives under C&G's Cash Gift, cash back and discount mortgage schemes which are recoverable from the customer in the event of early redemption are amortised as an adjustment to net interest income over the early redemption charge period, which is a maximum of five years. Such costs cease to be deferred and are charged to the profit and loss account in the event that the related loan is redeemed.

Provision for bad and doubtful debts

It is the Group's policy to make provision for bad and doubtful debts, by way of a charge to the profit and loss account, to reflect losses inherent in the loan portfolio at the balance sheet date. There are two types of provision, specific and general, and these are explained further below.

Specific Provision

Specific provisions relate to identified impaired advances and are raised when the Group considers that recovery of the whole of the outstanding balance is in serious doubt. The amount of the provision is equivalent to the amount necessary to reduce the carrying value of the advance to its expected ultimate net realisable value.

As the Group's loan portfolio consists of a large number of homogeneous loans, specific provisions are calculated using a formulae-driven approach. Such formulae take into account factors such as the extent to which payments from the customers are overdue, the value of security held, the level of past losses, and the credit experience of the borrowers, in order to derive an appropriate provision.

General Provision

General provisions are raised to cover latent bad and doubtful debts which are present in any portfolio of advances but have not been specifically identified. The level of general provision held is reviewed on a regular basis to ensure that it remains appropriate in the context of the perceived risk inherent in the related portfolio and the prevailing economic climate.

Goodwill

Goodwill arising on the acquisition of group undertakings or businesses is capitalised as an intangible fixed asset and amortised on a straight line basis over its estimated useful life, which will not exceed 20 years.

Shares in Group undertakings

Shares in Group undertakings are stated in the balance sheet of the Company at cost less any provision for impairment in value.

2. ADMINISTRATIVE EXPENSES

	2004 £m	2003 £m
Salaries and profit sharing	88.4	83.1
Social security costs	5.6	4.9
Other pension costs:		
Defined benefit scheme	32.1	9.3
Defined contribution scheme	1.0	0.4
Staff costs	127.1	97.7
Other administrative expenses	153.5	194.5
	280.6	292.2

The average number of persons on a headcount basis employed by the Group during the year was as follows:

	2004	2003
UK	4,211	4,215

The auditors' remuneration in respect of the statutory audit was £205,000 (2003 - £205,000). Fees paid to the auditors during the year in respect of audit-related regulatory reporting were £24,030 (2003 - £8,200).

Pensions

The majority of the company's employees are members of the defined benefit section of Lloyds TSB Group Pension Scheme No. 1 along with employees of a number of the Lloyds TSB Group's subsidiaries. Because it is not possible to separately identify the amount of any surpluses or deficits in these schemes relating to each employing company, in the accounts of the company this scheme is accounted for as a defined contribution scheme; the company charges contributions to the scheme to its profit and loss account as and when they fall due. During the year ended 31 December 2004 the company made contributions of £33.1 million to the scheme (2003 – £9.7 million). Since the defined benefit section of this scheme is now closed to new members and the age profile of the active members is increasing, under the projected unit method, the current service cost will increase as the members of the scheme approach retirement. The latest full valuation of the scheme was carried out as at 30 June 2002; this has been updated to 31 December 2004 by qualified independent actuaries.

The following disclosures relate to the Lloyds TSB Group Pension Scheme No.1 in full:

The principal assumptions used in the scheme valuations were as follows:

	31 December 2004 %	**31 December 2003** %	**31 December 2002** %
Rate of inflation	2.60	2.50	2.30
Rate of salary increases	4.14	4.04	3.83
Rate of increase for pensions in payment and *deferred pensions*	2.60	2.50	2.30
Discount rate	5.30	5.40	5.60

The assets of the scheme and the expected rates of return are summarised as follows:

	Fair value at 31 December 2004 £m	**Expected long-term rate of return at 31 December 2004** %	**Fair value at 31 December 2003** £m	**Expected long-term rate of return at 31 December 2003** %	**Fair Value at 31 December 2002** £m	**Expected long-term rate of return at 31 December 2002** %
Market values of scheme assets:						
Equities	4,814	8.2	4,359	8.1	4,368	8.4
Fixed interest securities	289	4.6	313	4.8	294	4.5
UK index linked gilts	326	4.3	326	4.4	-	-
Sterling non-Government bonds	577	5.3	627	5.4	294	5.6
Property	583	6.9	457	7.1	479	6.9
Other	407	3.6	175	3.5	48	3.8
Total fair value of scheme assets	6,996		6,257		5,483	

The experience gains and losses arising in respect of the scheme were as follows:

	2004 £m	**2003** £m
Actual return less expected return on pension scheme assets	233	524
Experience gains and losses arising on scheme liabilities	(163)	132
Effect of changes in demographic and financial assumptions	(282)	(547)
Total experience (losses) gains	(212)	109

The experience gains and losses recognised can also be analysed as follows:

	2004 £m	2003 £m	2002 £m	2001 £m
Actual return less expected return on pension scheme assets				
Amount	233	524	(1,757)	(1,156)
Percentage of scheme assets at balance sheet date	3.3%	8.4%	32.0%	16.5%
Experience gains and losses arising on scheme liabilities				
Amount	(163)	132	101	(96)
Percentage of scheme liabilities at balance sheet date	1.8%	1.6%	1.3%	1.4%
Total amount recognised				
Amount	(212)	109	(1,933)	(1,780)
Percentage of scheme liabilities at balance sheet date	2.4%	1.3%	25.8%	25.6%

The deficit in the scheme is comprised as follows:

	2004 £m	2003 £m
Market value of assets	6,996	6,257
Present value of scheme liabilities	(9,009)	(8,225)
(Deficit) surplus in the scheme	(2,013)	(1,968)

The movements in the deficit in the scheme over the year have been as follows:

	2004 £m	2003 £m
Deficit at beginning of year	(1,968)	(2007)
Contributions paid	334	100
Expected return on pension scheme assets	452	422
Interest cost of pension scheme liabilities	(437)	(413)
Current service costs	(163)	(159)
Past service costs	(19)	(20)
Actuarial (loss) gain	(212)	109
Deficit at end of year	(2,013)	(1,968)

3. PROFIT ON ORDINARY ACTIVITIES BEFORE TAX

Profit on ordinary activities before tax is stated after taking account of:

	2004 £m	2003 £m
Profit on disposal of premises	2.5	-
Charges:		
Rental of premises	8.2	8.4
Interest on subordinated liabilities (loan capital)	62.0	44.9

4. TAX ON PROFIT ON ORDINARY ACTIVITIES

(a) *Analysis of charge in period*

	2004 £m	2003 £m
UK corporation tax		
Current tax on profits for the year	135.4	148.4
Adjustments in respect of prior years	(0.6)	(4.3)
	134.8	144.1
Overseas tax		
Current tax on profits for the year	0.1	0.4
Adjustments in respect of prior years	-	-
Current tax charge	134.9	144.5
Deferred tax (note 21)		
Current year	9.8	4.3
Prior year	0.6	-
	145.3	148.8

The charge for tax on the profit for the year is based on a UK corporation tax rate of 30 per cent (2003: 30 per cent).

(b) Factors affecting tax charge for the period

A reconciliation of the current tax charge for the year to the charge that would result from applying the standard UK corporation tax rate to profit before tax is given below:

	2004 **£m**	**2003** **£m**
Tax charge at UK corporation tax rate of 30%	137.3	145.6
Goodwill amortisation	7.7	7.7
Overseas tax rate differences	(0.8)	(0.4)
Non-allowable items	1.1	0.9
Capital allowances in excess of depreciation	(0.4)	0.1
Other deferred tax timing differences	(9.4)	(5.1)
Adjustments in respect of prior years	(0.6)	(4.3)
Current tax charge	134.9	144.5

5. PROFIT FOR THE FINANCIAL YEAR ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders includes a profit of £326.8 million (2003- £336.1 million) dealt with in the accounts of the parent company, for which no profit and loss account is presented as permitted by section 230 of the Companies Act 1985.

6. DIVIDENDS

	2004 £m	2003 £m
Interim	88.4	114.0
Final - proposed	105.0	110.3
	193.4	224.3

7. LOANS AND ADVANCES TO BANKS

	Group		Company	
	2004 £m	2003 £m	2004 £m	2003 £m
Repayable on demand	21.0	21.0	19.1	16.2
Other loans and advances by residual maturity repayable:				
3 months or less	37.9	37.0	-	-
Over 5 years	98.3	87.2	98.3	87.2
	157.2	145.2	117.4	103.4
Included above:				
Due from Lloyds TSB Group subsidiary undertakings				
All unsubordinated	9.3	4.8	7.4	-

8. LOANS AND ADVANCES TO CUSTOMERS

	Group		Company	
	2004 £m	2003 £m	2004 £m	2003 £m
Advances secured on residential property	71,736.9	64,100.8	71,736.9	57,212.6
Other secured advances	53.0	64.7	53.0	64.7
Amounts due from subsidiaries	-	-	7.5	6,879.7
Total loans and advances to customers	71,789.9	64,165.5	71,797.4	64,157.0
Provision for bad and doubtful debts	(13.3)	(44.7)	(13.3)	(40.4)
	71,776.6	64,120.8	71,784.1	64,116.6
Loans and advances by residual maturity repayable:				
3 months or less	477.3	445.3	484.8	7,250.0
1year or less but over 3 months	1,481.2	1,398.9	1,481.2	1,164.4
5 years or less but over 1 year	9,852.9	9,112.7	9,852.9	7,595.4
Over 5 years	59,978.5	53,208.6	59,978.5	48,147.2
Provision for bad and doubtful debts	(13.3)	(44.7)	(13.3)	(40.4)
	71,776.6	64,120.8	71,784.1	64,116.6
Of which repayable on demand or at short notice	10.4	5.4	10.4	4.5
Included above:				
Due from Group subsidiary undertakings				
All unsubordinated	-	-	7.5	6,879.7

9. PROVISIONS FOR BAD AND DOUBTFUL DEBTS

	2004 Specific £m	2004 General £m	2003 Specific £m	2003 General £m
Group				
At 1 January	6.8	37.9	27.0	39.1
Advances written off	(1.2)	-	(1.7)	-
Recoveries of advances written off in previous years	2.0	-	1.8	-
(Release)/charge to profit and loss account	(1.9)	(30.3)	(20.3)	(1.2)
At 31 December	5.7	7.6	6.8	37.9
	13.3		44.7	

All of the above are in respect of loans and advances to customers.

	2004 Specific £m	2004 General £m	2003 Specific £m	2003 General £m
Company				
At 1 January	6.6	33.8	24.4	33.7
Advances written off	(1.0)	-	(1.8)	-
Recoveries of advances written off in previous years	1.3	-	2.4	-
(Release)/charge to profit and loss account	(1.5)	(28.6)	(18.4)	0.1
On inter-group transfers during the year	0.3	2.4	-	-
At 31 December	5.7	7.6	6.6	33.8
	13.3		40.4	

All of the above are in respect of loans and advances to customers.

10. CONCENTRATION OF EXPOSURE

The Group's exposure is concentrated in UK residential mortgage lending.

11. SHARES IN GROUP UNDERTAKINGS

	Company £m
Cost	
At 1 January 2004 and at 31 December 2004	18.8

The principal Group undertakings, all of which prepare accounts to 31 December and whose results are included in the consolidated accounts of Cheltenham & Gloucester plc, are:

	Country of registration/ incorporation	Nature of business
C&G Channel Islands Limited	Guernsey	Offshore licensed deposit taker
C&G Property Holdings Limited	England and Wales	Property developments and holding
Lloyds TSB Mortgages Limited	England and Wales	Trading in existing mortgage debts and lending money on mortgages

The Company holds 100% of the issued ordinary share capital of each of the above companies.

On 31 October 2004, the mortgage assets of Lloyds TSB Mortgages Ltd, a wholly owned subsidiary of C&G, were transferred to Cheltenham & Gloucester plc. Lloyds TSB Mortgages Ltd ceased trading from this date.

12. INTANGIBLE FIXED ASSETS

	Group and Company £m
Goodwill	
Cost	
At 1 January 2004	516.5
At 31 December 2004	516.5
Amortisation	
At 1 January 2004	217.2
Amortisation	25.8
At 31 December 2004	243.0
Net book value at 31 December 2004	273.5
Net book value at 31 December 2003	299.3

Goodwill is amortised over a period of 20 years.

13. TANGIBLE FIXED ASSETS

	Group			Company		
	Premises £m	Equipment £m	Total £m	Premises £m	Equipment £m	Total £m
Cost:						
At 1 January 2004	98.6	123.1	221.7	86.6	123.1	209.7
Additions	3.3	7.4	10.7	3.4	7.4	10.8
Disposals	(2.9)	(1.6)	(4.5)	(2.9)	(1.6)	(4.5)
At 31 December 2004	99.0	128.9	227.9	87.1	128.9	216.0
Depreciation:						
At 1 January 2004	10.0	94.5	104.5	9.2	94.5	103.7
Charge for the year	2.8	8.6	11.4	2.7	8.6	11.3
Disposals	(0.2)	(0.9)	(1.1)	(0.2)	(0.9)	(1.1)
At 31 December 2004	12.6	102.2	114.8	11.7	102.2	113.9
Net book value:						
31 December 2004	86.4	26.7	113.1	75.4	26.7	102.1
31 December 2003	88.6	28.6	117.2	77.4	28.6	106.0

	Group		Company	
	2004 £m	2003 £m	2004 £m	2003 £m
Net book value of premises comprises:				
Freeholds	66.0	69.4	54.9	58.2
Leaseholds 50 years and over unexpired	9.2	9.6	9.2	9.6
Leaseholds less than 50 years unexpired	1.2	1.1	1.2	1.1
Adaptation costs	10.0	8.5	10.0	8.5
	86.4	88.6	75.3	77.4

	Group		Company	
	2004 £m	2003 £m	2004 £m	2003 £m
Premises occupied for own activities	74.8	77.1	63.7	65.9

14. LEASE COMMITMENTS

At 31 December, commitments under non-cancellable operating leases, in respect of payments due to be made in the following year, were:

	2004 Premises £m	2003 Premises £m
Group		
Leases on which the commitment is due to expire in:		
1 year or less	0.5	0.5
5 years or less but over 1 year	1.4	1.0
Over 5 years	7.0	6.7
	8.9	8.2
Company		
Leases on which the commitment is due to expire in:		
1 year or less	0.5	0.5
5 years or less but over 1 year	1.4	1.0
Over 5 years	7.8	7.5
	9.7	9.0

15. CAPITAL COMMITMENTS

Capital expenditure contracted but not provided for at 31 December 2004 amounted to £0.6 million for the Group and for the Company (2003 - Group and Company £0.8 million).

16. PREPAYMENTS AND ACCRUED INCOME

	Group		Company	
	2004	2003	2004	2003
	£m	£m	£m	£m
Other debtors and prepayments	161.9	170.2	161.5	165.3
Deferred tax asset (see note 21)	-	8.7	-	9.0
	161.9	178.9	161.5	174.3

Included within other debtors and prepayments for the Group is £62.0 million (2003: £109.6 million) and for the Company £62.0 million (2003: £102.6 million) relating to the deferred element of the costs incurred under discount mortgage, Cash Gift and similar incentive schemes. If these incentives had been written off when incurred, net interest income for the year for the Group would have been £47.6 million higher (2003: £73.8 million higher) and for the Company £40.6 million higher (2003: £69.0 million higher).

17. DEPOSITS BY BANKS

	Group		Company	
	2004	2003	2004	2003
	£m	£m	£m	£m
Repayable on demand	23,126.8	20,614.2	23,125.9	20,613.5
Other deposits by banks with agreed maturity dates or periods of notice by residual maturity repayable:				
3 months or less	1,035.0	970.1	1,035.0	970.1
1 year or less but over 3 months	6,959.2	4,690.5	6,959.2	4,690.5
5 years or less but over 1 year	20,381.0	17,365.8	20,381.0	17,365.8
Over 5 years	1,611.4	2,165.8	1,611.4	2,165.8
	53,113.4	45,806.4	53,112.5	45,805.7
Included above:				
Due to Lloyds TSB Group undertakings	53,084.0	45,761.0	53,084.0	45,761.0

18. CUSTOMER ACCOUNTS

	Group		Company	
	2004	2003	2004	2003
	£m	£m	£m	£m
Repayable on demand	15,037.7	15,180.8	15,045.2	15,187.0
Included above:				
Due to Group subsidiary undertakings			470.0	547.1

19. OTHER LIABILITIES

	Group		Company	
	2004	2003	2004	2003
	£m	£m	£m	£m
Corporation tax	69.2	69.4	69.0	41.3
Dividends	105.0	110.3	105.0	110.3
	174.2	179.7	174.0	151.6

20. ACCRUALS AND DEFERRED INCOME

	Group		Company	
	2004	2003	2004	2003
	£m	£m	£m	£m
Interest payable	456.2	357.2	449.6	351.2
Other creditors and accruals	112.9	160.9	112.9	183.9
	569.1	518.1	562.5	535.1
Included above:				
Due to Lloyds TSB Group undertakings	252.9	212.2	252.9	212.2

21. DEFERRED TAX

	Group 2004 £m	Group 2003 £m	Company 2004 £m	Company 2003 £m
Provided at 30%:				
Accelerated capital allowances	(5.5)	(4.3)	(3.9)	(2.7)
Other timing differences	3.8	13.0	3.9	11.7
	(1.7)	8.7	-	9.0

	Group	Company
Asset at 1 January 2004 (see note 16)	(8.7)	(9.0)
Movement	10.4	9.8
Inter-group transfer	-	(0.8)
Liability at 31 December 2004	1.7	-

22. OTHER PROVISIONS FOR LIABILITIES AND CHARGES

	Group and Company £m
At 1 January 2004	14.9
Charged to profit and loss account	-
Utilised in year	(3.5)
At 31 December 2004	11.4

This provision relates to the cost of investigating and resolving current and future complaints arising in respect of endowment mortgage policies. The key assumptions are the expected volume of complaints and expected redress amount. Whilst this has been based on recent actual experience, uncertainty relating to the ultimate cost remains. It is expected that the majority of this expenditure will be incurred over the next three years.

23. SUBORDINATED LIABILITIES

	Group and Company 2004 £m	2003 £m
Undated loan capital:		
11.75% Perpetual Subordinated Bonds	100.0	100.0
Undated subordinated loan	150.0	-
	250.0	100.0
Dated loan capital:		
Floating rate subordinated notes 2004	-	5.0
Floating rate subordinated notes 2008	-	150.0
Floating rate subordinated notes 2010	75.0	75.0
Floating rate subordinated notes 2011	250.0	250.0
Floating rate subordinated notes 2012	200.0	200.0
Floating rate subordinated notes 2013	300.0	150.0
Floating rate subordinated notes 2014	150.0	-
	975.0	830.0
Included above:		
Subordinated liabilities due to Lloyds TSB Group undertakings	1,125.0	825.0

The £150 million subordinated notes 2008 were extended to 2013. The £150 million subordinated notes 2014 and £150 million undated subordinated loan were issued during the year to finance the general business of the Group.

Interest on the floating rate subordinated notes is payable at rates in the range 0-80 basis points over the 3 month or 6 month London Inter-Bank Offer Rate.

These liabilities are all denominated in sterling and will, in the event of the winding-up of the issuer, be subordinated to the claims of depositors and all other creditors of the issuer.

The total dated subordinated liabilities of the Group are repayable as follows:

	2004 £m	2003 £m
1 year or less	-	5.0
2 years or less but over 1 year	-	-
5 years or less but over 2 years	-	150.0
Over 5 years	975.0	675.0
	975.0	830.0

24. CALLED UP SHARE CAPITAL

	2004 £m	2003 £m
Authorised: ordinary shares of £1 each	750.0	750.0
Issued and fully paid: ordinary shares of £1 each	508.3	508.3

25. RESERVES

	Group £m	Company £m
Share premium account:		
At 1 January 2004 and 31 December 2004	1,084.6	1,084.6
Profit and loss account		
At 1 January 2004	641.1	603.7
Retained profit for the financial year	119.0	133.4
At 31 December 2004	760.1	737.1

26. DIRECTORS' INTERESTS

The interests, all beneficial, of those who were Directors of the Company at the end of the year, but who were not also Directors of Lloyds TSB Group plc, in the capital of Lloyds TSB Group plc, were:

Shares

	At 31 December 2004	At 1 January 2004 (or date of appointment if later)
JC Pain	15,803	14,884
MJ Gibbard	8,703	7,466
NJW Hale	10,361	9,232
MFMitchell	21,061	24,401
RD Hunkin	4,676	4,880

Options to acquire shares

	At 1 January 2004 (or date of appointment if later)	Granted during the year	Exercised during the year	Surrendered during the year	At 31 December 2004
JC Pain	375,664	186,046	-	-	561,710
MJ Gibbard	74,347	23,852	-	-	98,199
NJW Hale	65,956	19,081	-	-	85,037
MF Mitchell	43,515	16,696	-	-	60,211
RD Hunkin	38,394	10,733	-	-	49,127

Options are exercisable between 2005 and 2014.

No Director had an interest at the beginning or end of the year in the loan capital of Lloyds TSB Group plc or its subsidiaries.

The interests of the Director who is also a Director of Lloyds TSB Group plc are shown in the annual report and accounts of that company.

27. DIRECTORS' EMOLUMENTS

The aggregate of the emoluments of the Directors for their services to the Company was £1,272,232 (2003 - £1,362,100).

There were no gains made by Directors on the exercise of Lloyds TSB Group plc share options during the year (2003 - nil).

The number of Directors to whom retirement benefits are accruing under defined benefit pension schemes is 5 (2003 - 3).

The total for the highest paid Director (JC Pain) was £443,088, all of which arose from his services to the Company. The total for the highest paid Director in 2003 (JC Pain) was £282,435, all of which arose from his services to the Company.

The amount of the highest paid Director's accrued pension at the year end was £136,880, being his pension entitlement based on pensionable service with the Company to 31 December 2004, but payable at normal retirement age. In 2003, the amount of the highest paid Director's accrued pension from the Company at the year-end was £127,240.

28. TRANSACTIONS, ARRANGEMENTS AND AGREEMENTS INVOLVING DIRECTORS AND OTHERS

At 31 December 2004, the aggregate amount of mortgage loans outstanding to Directors and connected persons and Officers of the Company and its holding company were:

	2004		2003	
	Number of persons	**Total £000**	**Number of persons**	**Total £000**
Directors and connected persons	5	3,600	4	3,474
Officers	25	6,103	30	5,699

29. MANAGEMENT OF RISK

The Directors are responsible for establishing a framework for evaluating, measuring, monitoring and controlling risk. They are responsible for ensuring that the risks within the business are identified, assessed, monitored and controlled. These controls and procedures where relevant comply with Lloyds TSB Group policies and standards.

Credit risk

Credit risk arises where there is a possibility that a counterparty may default. C&G is committed to a strong credit culture that recognises the need to ensure that risk assets are of high quality.

C&G has in place a detailed lending policy which provides lending officers with defined responsibilities as well as a disciplined and focused benchmark for sound credit decision making. C&G, following Lloyds TSB Group policy, has introduced the use of credit scoring to support the credit decision and to support account management throughout the life of the mortgage.

C&G adopts a prudent approach to the identification, definition and control of bad and doubtful debts. Specific provisions are raised where there is clear evidence that debt is not being serviced and interest is suspended on accounts where the property has been repossessed.

All derivatives activity is subject to the same credit approvals, limits and monitoring procedures used for other credit transactions, all of which are aggregated to measure total counterparty risk. All derivatives exposures are with Lloyds TSB Group and are calculated daily as the sum of the mark-to-market values and conservative add-ons for potential future exposure.

Interest rate risk

Mortgage assets are financed through a mix of shareholders' funds, retail deposits and wholesale funding (sourced from Lloyds TSB Bank). As the balance sheet grows, it is likely that an increasing proportion of mortgage balances will be funded from wholesale sources.

The principal objective in the management of interest rate risk is to reduce C&G's exposure to an unacceptable reduction in its profit before tax resulting from movements in interest rates. Interest rate risk arises from the impact of interest rate changes stemming from the balance sheet mismatch positions inherent in the balance sheet structure. These mismatches occur through differences in maturities or repricing intervals and differences in rate determination.

Responsibility for the monitoring and management of the Group's exposure to interest rate fluctuations is delegated to the Asset and Liability Committee (ALCO). The ALCO uses several tools to assess the exposure to risk, including gap analysis, sensitivity analysis (see note 31) and sophisticated modelling techniques. The ALCO authorises the use of derivatives to reduce interest rate risks (see note 30).

Liquidity risk

Liquidity to support C&G's operations is held and managed by the parent, Lloyds TSB Group plc (apart from a small amount of liquidity required to be held by C&G's Channel Islands operation and managed locally). Responsibility to ensure Lloyds TSB Group holds sufficient liquidity rests with Lloyds TSB Group Treasury, who comply with the Sterling Stock Liquidity requirements of the Financial Services Authority. C&G Treasury report to Lloyds TSB Group Treasury all relevant balance sheet items enabling them to fully comply with Lloyds TSB Group liquidity requirements.

Operational risk

Operational risk represents exposure to financial loss or reputational damage inherent in all business activities that might arise from system failures, inadequate internal controls and procedures, human error or deliberate malicious acts including fraud.

All areas of the business are responsible for identifying risks, via a dedicated team in the Operational Risk Department. Their role is to define, promote and implement a policy framework for operational risk management which is consistent with the approach, aims and strategic goals of C&G, and is designed to safeguard the Group's assets while allowing sufficient operational freedom to earn a satisfactory return to shareholders. This is monitored by Lloyds TSB Group Audit within group-wide standards of control. Internal control techniques cover segregation of duties, exception and exposure reporting, business continuity planning, reconciliations and delegation of authority and are based on submission of timely and reliable management information. Where appropriate, risk is mitigated by way of insurance with third parties.

Currency risk

All C&G's exposures are sterling denominated and therefore no currency risk exists.

30. DERIVATIVES

The Group uses derivatives to hedge its exposure to fluctuations in interest rates. The underlying principal amounts are not included in the balance sheet (and consequently derivatives are often referred to as off-balance sheet items). All contracts are entered into as hedges and are accounted for in the same way as the underlying items being hedged. Any gains or losses that would occur if these instruments were carried at market value are therefore not recognised.

At 31 December 2004 the notional principal amounts of instruments entered into with third parties were as follows:

	2004 Notional principal amounts £m	2003 Notional principal amounts £m
Group and Company		
Interest rate contracts:		
Interest rate swaps	1,245.0	585.0
Replacement cost	0.8	2.6

The residual maturity of the notional principal amount and replacement cost of instruments entered into was:

	1 year or less £m	1 to 5 years £m	Total £m
Group and Company			
31 December 2004:			
Interest rate contracts:			
Notional principal amount	1,125.0	120.0	1,245.0
Replacement cost	0.6	0.2	0.8
31 December 2003:			
Interest rate contracts:			
Notional principal amount	500.0	85.0	585.0
Replacement cost	0.8	1.8	2.6

The notional principal amount does not represent the Group's real exposure to credit risk, which is limited to the current cost of replacing contracts at current market rates should the counterparties default. No account is taken of master netting agreements which reduce the gross exposure.

Unrecognised gains and losses on hedging instruments

The Group uses financial instruments to hedge exposures in its banking book; these hedges are accounted for on an accruals basis, in line with the underlying instruments being hedged. Any gains or losses that would occur if these instruments were carried at market value are therefore not recognised.

At 31 December 2004, the unrecognised gains on financial instruments used for hedging were £0.8 million (2003 - £2.2 million) and unrecognised losses were £0.1 million (2003 - £nil).

The net gains arising in 2003 and earlier years and recognised in 2004 amounted to £1.8 million. Net gains of £0.3 million arose in 2004, but were not recognised in the year.

Of the net gains of £0.7 million at 31 December 2004, £0.6 million of gains are expected to be recognised in the year ending 31 December 2005 and £0.1 million of gains in later years.

31. INTEREST RATE SENSITIVITY GAP ANALYSIS

All of C&G's on balance sheet assets and liabilities are non-trading. C&G does not have a trading book.

The table below summarises the repricing mismatches on the Group's non-trading assets and liabilities. Items are allocated to time bands by reference to the earlier of the next contractual interest rate repricing date and the maturity date.

As at 31 December 2004

	3 months or less £m	6 months or less but over 3 months £m	1 year or less but over 6 months £m	5 years or less but over 1 year £m	Over 5 years £m	Non-interest bearing £m	Total £m
Assets:							
Loans and advances to banks	37.9	-	-	-	-	119.3	157.2
Loans and advances to customers	40,694.4	2,214.3	4,170.1	22,750.9	1,960.2	(13.3)	71,776.6
Other assets	-	-	-	-	-	551.7	551.7
Total assets	40,732.3	2,214.3	4,170.1	22,750.9	1,960.2	657.7	72,485.5
Liabilities:							
Deposits by banks	24,034.2	2,373.0	4,499.4	20,381.0	1,796.4	29.4	53,113.4
Customer accounts	14,488.0	77.8	340.1	131.8	-	-	15,037.7
Accruals and other liabilities	-	-	-	-	-	756.4	756.4
Loan capital and other subordinated liabilities	1,125.0	-	-	-	100.0	-	1,225.0
Shareholders' funds	-	-	-	-	-	2,353.0	2,353.0
Total liabilities	39,647.2	2,450.8	4,839.5	20,512.8	1,896.4	3,138.8	72,485.5
Off-balance sheet items	(720.0)	230.0	370.0	120.0	-	-	-
Interest rate repricing gap	365.1	(6.5)	(299.4)	2,358.1	63.8	(2,481.1)	-
Cumulative interest rate repricing gap	365.1	358.6	59.2	2,417.3	2,481.1	-	

As at 31 December 2003

	3 months or less £m	6 months or less but over 3 months £m	1 year or less but over 6 months £m	5 years or less but over 1 year £m	Over 5 years £m	Non-interest bearing £m	Total £m
Assets:							
Loans and advances to banks	37.0	-	-	-	-	108.2	145.2
Loans and advances to customers	38,761.0	1,113.0	2,725.0	19,162.0	2,404.5	(44.7)	64,120.8
Other assets	-	-	-	-	-	597.9	597.9
Total assets	38,798.0	1,113.0	2,725.0	19,162.0	2,404.5	661.4	64,863.9
Liabilities:							
Deposits by banks	21,720.0	1,175.0	3,104.0	17,456.0	2,306.0	45.4	45,806.4
Customer accounts	14,718.8	-	154.0	308.0	-	-	15,180.8
Accruals and other liabilities	-	-	-	-	-	712.7	712.7
Loan capital and other subordinated liabilities	825.0	5.0	-	-	100.0	-	930.0
Shareholders' funds	-	-	-	-	-	2,234.0	2,234.0
Total liabilities	37,263.8	1,180.0	3,258.0	17,764.0	2,406.0	2,992.1	64,863.9
Off-balance sheet items	(285.0)	50.0	150.0	85.0	-	-	-
Interest rate repricing gap	1,249.2	(17.0)	(383.0)	1,483.0	(1.5)	(2,330.7)	-
Cumulative interest rate repricing gap	1,249.2	1,232.2	849.2	2,332.2	2,330.7	-	

32. FAIR VALUE ANALYSIS

The table below shows a comparison by category of book values and fair values of financial assets and liabilities.

	2004		2003	
	Book value	Fair value	Book value	Fair value
	£m	£m	£m	£m
Subordinated debt:				
Undated loan capital	100.00	189.2	100.0	176.5
Interest rate swaps	-	0.7	-	2.2

The disclosures in this note cover all financial instruments for which there is a readily obtainable market price. It excludes those financial assets and liabilities which are not listed or publicly traded or for which an active market does not exist. As a consequence, mortgages, dated subordinated liabilities, funding from Lloyds TSB Group and retail deposits are excluded.

Fair values are determined by reference to quoted market prices.

33. GUARANTEES

Under the Building Societies Act 1986, Cheltenham & Gloucester Building Society had an obligation to discharge the liabilities of its subsidiary companies in so far as they were unable to discharge the liabilities out of their own assets. Under the Building Societies (Transfer of Business) Regulations 1988, any obligations which existed at 31 July 1995 remain as obligations of Cheltenham & Gloucester plc.

34. PARENT COMPANIES

The immediate parent company is Lloyds Bank Financial Services (Holdings) Limited. The company regarded by the Directors as the ultimate parent company is Lloyds TSB Group plc, which is also the parent undertaking of the largest group of undertakings for which group accounts are drawn up and of which the Company is a member. Lloyds TSB Bank plc is the parent undertaking of the smallest such group of undertakings. Lloyds TSB Group plc is registered in Scotland and Lloyds TSB Bank plc is registered in England and Wales. Copies of the group accounts of both may be obtained from the Company Secretary's Office, Lloyds TSB Group plc, 25 Gresham Street, London EC2V 7HN.

BOARD OF DIRECTORS

Non-Executive Director

Chairman
David P Pritchard

Appointed to the Board of C&G in May 2003. Appointed as Chairman 25 October 2004. A Director and Deputy Chairman of Lloyds TSB Group plc. Formerly Group Executive Director, Wholesale and International Banking.

Age - 60

Executive Directors

Managing Director
Jonathan C Pain

Appointed to the Board as Managing Director in May 2003. Formerly Managing Director Lloyds TSB General Insurance and prior to that, Managing Director of Lloyds Private Banking and Lloyds TSB Stockbrokers.

Age - 47

Finance Director
Mark J Gibbard BSc FCA MCT

Joined C&G in 1987. Appointed to the Board as Finance Director in 1997.

Age - 43

Sales Director
Nicholas JW Hale

Joined C&G in 1986. Appointed to the Board as Sales Director in 1997.

Age - 56

Mortgage Director
Michael F Mitchell

Appointed to the Board on 1 January 2004 as Mortgage Director. Formerly Distribution Director, Lloyds TSB General Insurance.

Age – 51

Savings Director
Rick D Hunkin

Joined C&G in 2003. Appointed to the Board on 2 April 2004 as Savings Director. Formerly Risk and Insight Director of Goldfish Bank Ltd.

Age - 42

All Executive Directors are members of the Asset and Liability Committee (ALCO).

C&G above refers to Cheltenham & Gloucester Building Society and/or Cheltenham & Gloucester plc.

Cheltenham & Gloucester plc
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Registered in England No. 2299428