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Cheltenham & Gloucester plc
Annual Report and Accounts 2009

Member of Lloyds Banking Group
(Formerly Lloyds TSB Group)

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DIRECTORS' REPORT

The Directors have pleasure in presenting their report for Cheltenham & Gloucester plc for the year ended 31 December 2009

Principal activities

The principal activities of Cheltenham & Gloucester plc (the "Company") are the arranging and administering of mortgage and savings accounts on behalf of Lloyds TSB Bank plc (the "Bank"), the Immediate Parent Company The Company is the Bank's mortgage expert, designing, marketing and administering mortgages for the Bank, in addition to providing mortgages and savings products with C&G branding

The Company's subsidiaries are dormant with the exception of C&G Property Holdings Limited whose principal activity is that of property leasing to the Company

The Company and its subsidiaries are referred to in these financial statements as "C&G" or the "Group"

Results and dividends

The consolidated profit on ordinary activities before tax for the year ended 31 December 2009 is £75 5 million (2008 £98 million)

Dividends of £65 million (2008 £50 million) were paid during the year The Directors propose payment of a dividend of £50 million for the year ended 31 December 2009

Business review and future developments

The Company's primary objectives are to ensure that mortgages and savings accounts are sold and maintained properly and efficiently and the Company continues to focus on providing quality service to these account holders of the Bank

The Company operates to service standards that have been agreed with the Bank, and is reimbursed for these services by the Bank The Company remains well placed to continue to sell and administer mortgage and savings accounts for the Bank at the current high quality levels

The Company's performance is measured by the Bank using a number of key performance indicators which are monitored and reviewed by the Bank on an on-going basis and are disclosed in the financial statements of Lloyds Banking Group (note 24)

Directors

The Directors of the Company who served in the year were as follows

DS Pope

AB Lenman	(Appointed 1 March 2010)
MJ Kula	(Appointed 1 March 2010)
DJ Watkins	(Appointed 23 November 2009 and resigned 28 February 2010)
JA Griffiths	(Resigned 31 March 2009)
SE Harris	(Resigned 20 May 2009)
PW Baker	(Resigned 1 September 2009)
JN Maltby	(Resigned 23 November 2009)

The Company Secretary who served during the year was CM Smyth

DIRECTORS' REPORT (Continued)

Policy and practice on payment of suppliers

The Company follows "The Better Payment Practice Code" published by the Department for Business Innovation and Skills (BIS) regarding the making of payments to suppliers A copy of the code and information about it may be obtained from the BIS Publications Order Line 0845-0150-010 quoting ref URN 04/606

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 creditor days for 2009 are 9 (2008 16)

Financial risk management

The consideration of risks and uncertainties of the business such as interest rate risk, foreign currency risk, credit risk and liquidity risk are set out in note 21 to the financial statements There are no areas of concern that carry significant risks of causing material adjustments to the carrying value of the Company's assets and liabilities

Auditors and disclosure of information to auditors

Each Director in office at the date of this report confirms that

- so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware, and
- the Director has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information

This confirmation is given, and should be interpreted, in accordance with the provisions of section 418 of the Companies Act 2006

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

C&G and Lloyds Banking Group believe that diversity helps differentiate us from our competitors We are committed to providing employment practices and policies which recognise the diversity of our workforce and ensure equality of opportunity for employees regardless of sex, race, disability, age, sexual orientation or religious belief In the event of members of staff becoming disabled, every effort is made to ensure that their employment with Lloyds Banking Group continues and the appropriate training is arranged

We monitor progress on diversity annually and put in place programmes to improve the career experience of diverse groups We believe that a committed workforce that reflects the diversity of our customers will have a positive impact on our results

In the UK, Lloyds Banking Group belongs to employer groups including Employers' Forum on Disability, Employers' Forum on Age, Stonewall and the Race for Opportunity Our involvement with these organisations enables us to identify and implement best practice for our staff

Employees are kept closely involved in major changes affecting them through such measures as team meetings, briefings, internal communications and opinion surveys There are well established procedures, including regular meetings with recognised unions, to ensure that the views of employees are taken into account in reaching decisions

On behalf of the Board

Company Secretary
CM Smyth

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the annual 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 elected to prepare the Group and Parent Company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union 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 the affairs of the Group and the Company and of the profit or loss of the Group and Company for that period In preparing these financial statements, the Directors are required to

- select suitable accounting policies and then apply them consistently
- make judgments 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 the time of the financial position of the Company and the Group and enable them to ensure that the financial statements comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation 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

Each of the Directors, whose names are listed on page 2 confirm that, to the best of their knowledge

- the Group financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group, and
- the Directors' Report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces

STATEMENT OF GOING CONCERN

The Company is reliant on fee income received from Lloyds TSB Bank plc Owing to uncertainty in financial markets, Lloyds Banking Group plc and Lloyds TSB Bank plc participate in government sponsored measures to improve funding and liquidity The directors are satisfied that it is the intention of Lloyds TSB Bank plc that the Company will continue to receive fee income in the future and, accordingly, the financial statements have been prepared on a going concern basis

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF CHELTENHAM & GLOUCESTER PLC

We have audited the Group and Parent Company financial statements (the "financial statements") of Cheltenham & Gloucester plc for the year ended 31 December 2009 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Group and Parent Company Balance Sheets, the Group and Parent Company Cash Flow Statements, the Group and Parent Company Statements of Changes in Equity and the related notes The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006

Respective responsibilities of directors and auditors
As explained more fully in the Directors' Responsibilities Statement set out on page 4, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

This report, including the opinions, has been prepared for and only for the 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

Scope of the audit of the financial statements
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the Group's and Parent Company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements

Opinion on financial statements
In our opinion
- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2009 and of the Group's profit and Group's and Parent Company's cash flows for the year then ended,
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union,
- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006, and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006
In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion
- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us, or
- the Parent Company financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of Directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

Mark Hannam

Mark Hannam (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Leeds
17 March 2010

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2009

	Note	2009 £m	2008 £m
Interest income		0 1	0 5
Interest expense		(0 2)	(0 4)
Net interest (expense)/income		(0 1)	0 1
Fee and commission income		384 7	440 2
Fee and commission expense		(0 6)	(0 1)
Net fee and commission income		384 1	440 1
Other operating income		0 4	0 6
Other income		384 5	440 7
Total income		384 4	440 8
Operating expenses	2	(308 9)	(342 8)
Profit before tax	3	75 5	98 0
Taxation	4	(21 1)	(31 3)
Profit for the financial year attributable to shareholders	5	54 4	66 7

All of the above activities relate to continuing operations

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2009

	2009 £m	2008 £m
Profit for the year	54 4	66 7
Total comprehensive income for the year	54 4	66 7

The accompanying notes on pages 10 to 29 are an integral part of the financial statements

BALANCE SHEETS
AT 31 DECEMBER 2009

	Note	Group 2009 £m	Group 2008 £m	Company 2009 £m	Company 2008 £m
Assets					
Loans and advances to banks	6	**61 4**	14 0	**61.4**	14 0
Due from Group Companies	7	**323.7**	408 4	**328.7**	414 1
Other assets		**1.0**	1 2	**1.2**	1 2
Tangible fixed assets	8	**45.2**	51 2	**35 9**	41 7
Deferred tax asset	11	**19.2**	20 6	**19 6**	21 1
Shares in subsidiaries	12	**-**	-	**1.3**	1 3
Total assets		**450 5**	495 4	**448.1**	493 4
Equity and liabilities					
Liabilities					
Current tax liabilities		**19.6**	12 7	**19.2**	12 4
Owed to Group Companies		**183.1**	209 6	**183.2**	209 6
Other liabilities		**19.0**	24 4	**19.0**	24 4
Provisions	13	**4.9**	-	**4.9**	-
Retirement benefit obligations	14	**91.1**	105 3	**91 1**	105 3
Other borrowed funds	15	**5.0**	5 0	**5.0**	5 0
Total liabilities		**322.7**	357 0	**322.4**	356 7
Equity					
Share capital	16	**70.0**	70 0	**70.0**	70 0
Retained profits		**57 8**	68 4	**55.7**	66 7
Shareholder's equity		**127 8**	138 4	**125.7**	136 7
Total equity and liabilities		**450 5**	495 4	**448.1**	493 4

The accompanying notes on pages 10 to 29 are an integral part of the financial statements

The Directors approved the financial statements on 17 March 2010

DS Pope
Director

STATEMENTS OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2009

	Note	Share capital and premium £m	Retained profits £m	Total £m
Group				
Balance sheet at 1 January 2009		70 0	68 4	138 4
Profit for the year		-	54 4	54 4
Dividends	17	-	(65 0)	(65 0)
Balance at 31 December 2009		70 0	57 8	127 8
Company				
Balance sheet at 1 January 2009		70 0	66 7	136 7
Profit for the year	5	-	54 0	54 0
Dividends	17	-	(65 0)	(65 0)
Balance at 31 December 2009		70 0	55 7	125 7
Group				
Balance sheet at 1 January 2008		70 0	51 7	121 7
Profit for the year		-	66 7	66 7
Dividends	17	-	(50 0)	(50 0)
Balance at 31 December 2008		70 0	68 4	138 4
Company				
Balance sheet at 1 January 2008		70 0	51 2	121 2
Profit for the year	5	-	65 5	65 5
Dividends	17	-	(50 0)	(50 0)
Balance at 31 December 2008		70 0	66 7	136 7

The accompanying notes on pages 10 to 29 are an integral part of the financial statements

CASH FLOW STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2009

	Note	Group 2009 £m	Group 2008 £m	Company 2009 £m	Company 2008 £m
Profit before tax		75 5	98 0	74 9	97 7
Adjusted for					
Depreciation		4 2	5 1	4 0	5 0
Profit on disposal of fixed assets		(0 1)	(0 3)	(0 1)	(0 3)
Income tax paid		(12 8)	(49 5)	(12 6)	(49 6)
		66 8	53 3	66 2	52 8
Changes in operating assets and liabilities					
Decrease/(increase) in debtors		84 9	(93 7)	85 4	(99 4)
(Decrease)/increase in creditors		(31 9)	110 0	(31 8)	116 2
Increase in provisions		4 9	-	4 9	-
Reduction in retirement obligations		(14 2)	(21 3)	(14 2)	(21 3)
Net cash provided by operating activities		**110.5**	**48.3**	**110.5**	**48 3**
Cash flows from investing activities					
Purchase of fixed assets		(0 2)	(1 5)	(0 2)	(1 5)
Proceeds from sale of fixed assets		2 1	1 4	2 1	1 4
Net cash provided by/(used in) investing activities		**1.9**	**(0 1)**	**1.9**	**(0.1)**
Cash flows from financing activities					
Dividends paid		(65 0)	(50 0)	(65 0)	(50 0)
Net cash used in financing activities		**(65.0)**	**(50.0)**	**(65.0)**	**(50.0)**
Change in cash and cash equivalents		47 4	(1 8)	47 4	(1 8)
Cash and cash equivalents at beginning of year		14 0	15 8	14 0	15 8
Cash and cash equivalents at end of year	6	**61.4**	**14.0**	**61.4**	**14.0**

The accompanying notes on pages 10 to 29 are an integral part of the financial statements

NOTES TO THE FINANCIAL STATEMENTS

1 ACCOUNTING POLICIES

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) IFRS comprises accounting standards prefixed IFRS issued by the International Accounting Standards Board (IASB) and those prefixed IAS issued by the IASB's predecessor body as well as interpretations issued by the International Financial Reporting Interpretations Committee and its predecessor body The EU endorsed version of IAS 39 'Financial Instruments Recognition and Measurement' relaxes some of the hedge accounting requirements, this is not relevant to the Group and therefore there is no difference in application to the Group between IFRS as adopted by the EU and IFRS as issued by the IASB

The following new IFRS pronouncements which are relevant to the Group have been adopted in these financial statements

IAS 1 (revised), 'Presentation of financial statements' The revised standard prohibits the presentation of items of income and expense (that is 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity All non-owner changes in equity are required to be shown in a performance statement Entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income) The Group has elected to present two statements an income statement and a statement of comprehensive income The financial statements have been prepared under the revised disclosure requirements, the application of this revised standard, which affects presentation only, has not had any impact for amounts recognised in these financial statements

IFRS 8 'Operating Segments - This new standard replaces IAS 14 'Segment Reporting' and requires reporting of financial and descriptive information about operating segments which are based on how financial information is reported and evaluated internally The Company operates in one business and geographical segment As a result, no further analysis is required under IFRS 8 Operating Segments

Details of those IFRS pronouncements which will be relevant to the Group but which were not effective at 31 December 2009 and which have not been applied in preparing these financial statements are given in note 22

The financial information has been prepared under the historical cost convention as modified by the revaluation of land and buildings

The Group's accounting policies are set out below

Consolidation

The assets, liabilities and results of Group undertakings are included in the financial statements on the basis of accounts made up to the reporting date

Subsidiaries

Subsidiaries include entities over which the Group has the power to govern the financial and operating policies which generally accompanies a shareholding of more than one half of the voting rights The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity Subsidiaries are fully consolidated from the date on which control is transferred to the Group, they are de-consolidated from the date that control ceases Details of the principal subsidiaries are given in note 12

Intercompany transactions, balances and transactions between Group companies are eliminated

Revenue recognition

Fees and commissions are generally recognised when the service has been provided

1. ACCOUNTING POLICIES (continued)

Loans and receivables

Loans and receivables include loans and advances to banks and customers and eligible assets Loans and receivables are initially recognised when cash is advanced to the borrowers at fair value inclusive of transaction costs or, for eligible assets transferred into this category, their fair value at the date of transfer

Borrowings

Borrowings are recognised initially at fair value, being their issue proceeds net of transaction costs incurred Borrowings are subsequently stated at amortised cost using the effective interest method

Preference shares and other instruments which carry a mandatory coupon or are redeemable on a specific date are classified as financial liabilities The coupon on these instruments is recognised in the income statement as interest expense

Tangible fixed assets

Tangible fixed assets are included at cost less accumulated depreciation The value of land (included in premises) is not depreciated Depreciation on other assets is calculated using the straight-line method to allocate the difference between the cost and the residual value over their estimated useful lives, as follows

Premises (excluding land)

- Freehold/long and short leasehold premises shorter of 50 years or the remaining period of the lease
- Leasehold improvements shorter of 10 years or, if lease renewal is not likely, the remaining period of the lease

Equipment

- Fixtures and furnishings 10-20 years
- Other equipment and motor vehicles 3-8 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable In the event that an asset's carrying amount 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

Leases

Operating lease rentals payable are charged to the income statement on a straight-line basis over the period of the lease

When an operating lease is terminated before the end of the lease period, any payment made to the lessor by way of penalty is recognised as an expense in the period of termination

1. ACCOUNTING POLICIES (Continued)

Pensions and other post-retirement benefits

The Company's Immediate Parent Company operates a number of post-retirement benefit schemes for its employees including both defined benefit and defined contribution pension plans for employees including those employees of the Company A defined benefit scheme is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, dependent on one or more factors such as age, years of service and salary A defined contribution plan is a pension plan into which the Group pays fixed contributions, there is no legal or constructive obligation to pay further contributions

Full actuarial valuations of the principal defined benefit schemes are carried out every three years with interim reviews in the intervening years, these valuations are updated to 31 December each year by qualified independent actuaries For the purposes of these annual updates scheme assets are included at their fair value and scheme liabilities are measured on an actuarial basis using the projected unit credit method adjusted for unrecognised actuarial gains and losses The defined benefit scheme liabilities are discounted using rates equivalent to the market yields at the balance sheet date on high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability

The Group's income statement charge includes the current service cost of providing pension benefits, the expected return on the schemes' assets, net of expected administration costs, and the interest cost on the schemes' liabilities Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are not recognised unless the cumulative unrecognised gain or loss at the end of the previous reporting period exceeds the greater of 10 per cent of the scheme assets or liabilities ('the corridor approach') In these circumstances the excess is charged or credited to the income statement over the employees' expected average remaining working lives Past service costs are charged immediately to the income statement, unless the charges are conditional on the employees remaining in service for a specified period of time (the vesting period) In this case, the past service costs are amortised on a straight-line basis over the vesting period

The Group's balance sheet includes the net surplus or deficit, being the difference between the fair value of scheme assets and the discounted value of scheme liabilities at the balance sheet date adjusted for any cumulative unrecognised actuarial gains or losses Surpluses are only recognised to the extent that they are recoverable through reduced contributions in the future or through refunds from the schemes

The Group recognises the effect of material changes to the terms of its defined benefit pension plans which reduce future benefits as curtailments, gains and losses are recognised in the income statement when the curtailments occur

The costs of the Group's defined contribution plans are charged to the income statement in the period in which they fall due

Share-based compensation

The Company's Ultimate Parent Company operates a number of equity-settled, share-based compensation plans in respect of services received from certain of its employees including those employed by the Company The value of the employee services received in exchange for equity instruments granted under these plans is recognised as an expense over the vesting period of the instruments, with a corresponding increase in equity This expense is determined by reference to the fair value of the number of equity instruments that are expected to vest The fair value of equity instruments granted is based on market prices, if available, at the date of grant In the absence of market prices, the fair value of the instruments at the date of grant is estimated using an appropriate valuation technique, such as a Black-Scholes option pricing model The determination of fair values excludes the impact of any non-market vesting conditions, which are included in the assumptions used to estimate the number of options that are expected to vest At each balance sheet date, this estimate is reassessed and if necessary revised Any revision of the original estimate is recognised in the income statement over the remaining vesting period, together with a corresponding adjustment to equity Cancellations by employees of contributions to the Group's Save As You Earn plans are treated as non-vesting conditions and in accordance with the revised IFRS 2 (see page 10) the Group recognises, in the year of cancellation, the amount of the expense that would have otherwise been recognised over the remainder of the vesting period Modifications are assessed at the date of modification and any incremental charges are charged to the income statement over any remaining vesting period

1. ACCOUNTING POLICIES (Continued)

Taxation

Current income tax which is payable on taxable profits is recognised as an expense in the period in which the profits arise

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements However, deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss Deferred tax is determined using tax rates that have been enacted or substantially enacted by the balance sheet date which are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled

Deferred tax assets are recognised where it is probable that future taxable profit will be available against which the temporary differences can be utilised Deferred tax is provided on temporary differences arising from investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the difference will not reverse in the foreseeable future Income tax payable on profits is recognised as an expense in the period in which those profits arise The tax effects of losses available for carry forward are recognised as an asset when it is probable that future taxable profits will be available against which these losses can be utilised

Deferred and current tax assets and liabilities are offset when they arise in the same tax reporting group and where there is both a legal right of offset and the intention to settle on a net basis or to realise the asset and settle the liability simultaneously

Provisions

Provisions are recognised in respect of present obligations arising from past events where it is probable that outflows of resources will be required to settle the obligations and they can be reliably estimated

The Group recognises provisions in respect of vacant leasehold property where the unavoidable costs of the present obligations exceed anticipated rental income

Contingent liabilities are possible obligations whose existence depends on the outcome of uncertain future events or those present obligations where the outflows of resources are uncertain or cannot be measured reliably Contingent liabilities are not recognised in the financial statements but are disclosed unless they are remote

Dividends

Dividends on the ordinary shares are recognised as a reduction in equity in the period in which they are paid

Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash with central banks and amounts due from banks with a maturity of less than three months

Critical accounting estimates and judgments

The preparation of financial statements requires management to make judgments, estimates and assumptions 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, judgments and assumptions 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 Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected

The Group makes judgments and estimates in the preparation of the results and financial position however none of these are deemed to be critical

2 OPERATING EXPENSES

	Note	2009 £m	2008 £m
Salanes and profit sharing		69 4	72 1
Social security costs		4 1	4 2
Pension costs	14		
Defined benefit scheme		8 9	4 9
Defined contribution scheme		2 0	1 8
Staff costs		84 4	83 0
Other administrative expenses		224 5	259 8
		308 9	342 8

The average number of persons employed by the Group and the Company during the year was as follows

	Group 2009	Group 2008	Company 2009	Company 2008
UK	2,101	2,324	2,101	2,324
Non-UK	-	-	-	-
	2,101	2,324	2,101	2,324

Auditors' remuneration:

	2009 £'000	2008 £'000
Fees payable to the Company's Auditor for the audit of the Company's annual accounts	20	20
Fees payable to the Company's Auditor and its associates for other services		
- The audit of the Company's subsidiaries, pursuant to legislation	2	2
- All other services	-	-

It is the Group's policy to use the auditors on assignments in cases where their knowledge of the Group means that it is neither efficient nor cost effective to employ another firm of accountants Such assignments typically relate to the provision of advice on tax issues, assistance in transactions involving the acquisition and disposal of businesses, and accounting advice The auditors are not permitted to provide management consultancy services to the Group

The Group has procedures to ensure that fees for audit and non-audit services are approved in advance

3. PROFIT BEFORE TAX

Profit before tax is stated after taking account of

	2009 £m	2008 £m
Profit on disposal of premises	0 2	0 4
Loss on disposal of equipment	0 1	0 1
Depreciation	4 2	5 1
Operating lease rental charges paid	12 6	13 0

4. TAXATION

(a) Analysis of charge in period

	Note	2009 £m	2008 £m
UK corporation tax			
Current tax on profits for the year		18 1	21 5
Adjustments in respect of prior years		1 6	2 7
Corporation tax charge		19 7	24 2
Deferred tax	11		
Current year		3 0	6 8
Prior year		(1 6)	0 3
Total tax charge		21 1	31 3

The standard corporation tax rate for the year was 28% (2008 the tax rate changed from 30% to 28% effective 1 April 2008 therefore giving rise to an average (blended) corporation tax rate of 28 5% for the prior year)

(b) Factors affecting tax charge for the period

A reconciliation of the total 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

	2009 £m	2008 £m
Tax charge at UK corporation tax rate of 28% (2008 28 5%)	21 1	27 9
Non-allowable items	0 6	(0 3)
Non chargeable gains	(0 1)	(0 1)
Effect of reduction in deferred tax rate to 28%	-	(0 1)
Deferred tax on business combination	(0 2)	(0 2)
IFRS 2 Deferred tax release	(0 3)	1 1
Adjustment to tax credit in respect of prior years	-	3 0
Total tax charge	21 1	31 3

5 PROFIT FOR THE FINANCIAL YEAR ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders includes a profit of £54 0 million (2008 £65 5 million) dealt with in the financial statements of the Parent Company, for which no income statement is presented as permitted of section 400 of the Companies Act 2006

6. LOANS AND ADVANCES TO BANKS

	Group 2009 £m	Group 2008 £m	Company 2009 £m	Company 2008 £m
Loans and advances to banks	61 4	14 0	61 4	14 0
Included above				
Due from Lloyds Banking Group subsidiary Undertakings				
All unsubordinated	61 4	14 0	61 4	14 0

At 31 December 2009, £nil (2008 £nil) of loans and advances to banks of the Group and Company had a contractual residual maturity of greater than one year

7. DUE FROM GROUP COMPANIES

	Group 2009 £m	Group 2008 £m	Company 2009 £m	Company 2008 £m
Due from Lloyds Banking Group subsidiary undertakings				
All unsubordinated	323 7	408 4	328 7	414 1

At 31 December 2009, £nil (2008 £nil) of intercompany debtors had a contractual residual maturity of greater than one year

8. TANGIBLE FIXED ASSETS

	Group Premises £m	Group Equipment £m	Group Total £m	Company Premises £m	Company Equipment £m	Company Total £m
Cost						
At 1 January 2008	59 8	79 6	139 4	47 9	79 6	127 5
Additions	0 3	1 2	1 5	0 3	1 2	1 5
Disposals	(0 5)	(32 3)	(32 8)	(0 5)	(32 3)	(32 8)
At 31 December 2008	59 6	48 5	108 1	47 7	48 5	96 2
Additions	-	0 2	0 2	-	0 2	0 2
Disposals	(0 3)	(2 8)	(3 1)	(0 3)	(2 8)	(3 1)
At 31 December 2009	59 3	45 9	105 2	47 4	45 9	93 3
Depreciation						
At 1 January 2008	17 0	66 5	83 5	14 8	66 4	81 2
Charge for the year	1 8	3 3	5 1	1 7	3 3	5 0
Disposals	(0 2)	(31 5)	(31 7)	(0 2)	(31 5)	(31 7)
At 31 December 2008	18 6	38 3	56 9	16 3	38 2	54 5
Charge for the year	1 8	2 4	4 2	1 6	2 4	4 0
Disposals	(0 2)	(0 9)	(1 1)	(0 2)	(0 9)	(1 1)
At 31 December 2009	20 2	39 8	60 0	17 7	39 7	57 4
Net book value						
31 December 2009	39 1	6 1	45 2	29 7	6 2	35 9
31 December 2008	41 0	10 2	51 2	31 4	10 3	41 7

	Group 2009 £m	Group 2008 £m	Company 2009 £m	Company 2008 £m
Net book value of premises comprises				
Freeholds	27 2	27 9	17 8	18 3
Leaseholds 50 years and over unexpired	7 3	7 4	7 3	7 4
Leaseholds less than 50 years unexpired	1 1	1 1	1 1	1 1
Adaptation costs	3 5	4 6	3 5	4 6
	39 1	41 0	29 7	31 4

9 OPERATING LEASE COMMITMENTS

At 31 December, the future minimum lease payments under non-cancellable building operating leases are as follows

	Group 2009 £m	Group 2008 £m	Company 2009 £m	Company 2008 £m
Not later than 1 year	11 7	11 9	12 5	12 0
Later than 1 year and not later than 5 years	41 1	40 8	44 3	41 1
Later than 5 years	48 1	56 3	71 0	58 7
	100 9	109 0	127 8	111 8

10 CAPITAL COMMITMENTS

Capital expenditure contracted, but not provided for, at 31 December 2009 amounted to nil for the Group and the Company (2008 Group and Company nil)

11. DEFERRED TAX ASSET

	Group 2009 £m	Group 2008 £m	Company 2009 £m	Company 2008 £m
At 1 January	20 6	27 7	21 1	29 2
Income statement debit	(1 4)	(7 1)	(1 5)	(8 1)
At 31 December	19 2	20 6	19 6	21 1
Of which				
Within 1 year	(2 7)	1 4	(2 6)	1 5
More than 1 year	21 9	19 2	22 2	19 6
	19 2	20 6	19 6	21 1

The deferred tax charge in the income statement comprised the following temporary differences

	Group 2009 £m	Group 2008 £m	Company 2009 £m	Company 2008 £m
Accelerated depreciation allowances	1 6	1 0	1 6	-
Retirement benefit obligations	(3 2)	(5 9)	(3 2)	(5 9)
Other temporary differences	0 2	(2 2)	0 1	(2 2)
Total movement in deferred tax	(1 4)	(7 1)	(1 5)	(8 1)

The net deferred tax asset is comprised as follows

	Group 2009 £m	Group 2008 £m	Company 2009 £m	Company 2008 £m
Deferred tax assets				
Retirement benefit obligations	26 3	29 5	26 3	29 5
Deferred tax liabilities				
Accelerated capital allowances	(1 9)	(3 5)	(1 4)	(3 0)
Other temporary differences	(5 2)	(5 4)	(5 3)	(5 4)
	(7 1)	(8 9)	(6 7)	(8 4)
	19 2	20 6	19 6	21 1

12. SHARES IN SUBSIDIARIES

	Company 2009 £m	Company 2008 £m
Cost		
At 1 January	1 3	1 3
Disposals	-	-
At 31 December	1 3	1 3

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

	Country of registration / incorporation	Nature of business	Ownership
C&G Property Holdings Limited	England and Wales	Property holding and leasing	100%
C&G Estate Agents Limited	England and Wales	Dormant	100%
C&G Financial Services Limited	England and Wales	Dormant	100%
C&G Homes Limited	England and Wales	Dormant	100%
Central Mortgage Finance Limited	England and Wales	Dormant	100%
Lloyds TSB Mortgages Limited	England and Wales	Dormant	100%

13. PROVISIONS

	Group 2009 £m	Group 2008 £m	Company 2009 £m	Company 2008 £m
Restructuring provision	4 9	-	4 9	-
Total provision charge	4 9	-	4 9	-
Current	4 9	-	4 9	-
Non current	-	-	-	-
Total provision charge	4 9	-	4 9	-

Provisions are made for staff and other costs related to Group restructuring initiatives at the point at which the Group becomes irrevocably committed to the expenditure

14. RETIREMENT BENEFIT OBLIGATIONS

Defined contribution schemes

The Company's Ultimate Parent Company operates a number of defined contribution pension schemes, principally the defined contribution sections of the Lloyds TSB Group Pension Schemes No's 1 and 2, new employees are offered membership of the defined contribution section of the Lloyds TSB Group Pension Scheme No 1

During the year ended 31 December 2009 the charge to the income statement in respect of these schemes was £2m (2008 £1 8m), representing the contributions payable by the Company in accordance with each scheme's rules There are no outstanding or prepaid contributions at 31 December 2009

Defined benefit schemes

The Company's Ultimate Parent Company has established a number of defined benefit pension schemes in the UK and overseas The majority of the Company's employees are members of the defined benefit sections of the Lloyds TSB Group Pension Schemes No's 1 and 2 These are funded schemes providing retirement benefits calculated as a percentage of final salary depending upon the length of service, the minimum retirement age under the rules of the schemes is 50

The latest full valuations of the two main schemes were carried out as at 30 June 2008, these have been updated to 31 December 2009 by qualified independent actuaries

The amounts shown below relate to the Company's share of obligations arising from membership by the Company's employees of the defined benefit schemes operated by the Company's Ultimate Parent Company

Amount included in the balance sheet

	2009 £m	2008 £m
Company's share of present value of funded obligations	**1,061.9**	923 0
Company's share of fair value of scheme assets	**(858 3)**	(800 8)
	203 6	122 2
Company's share of unrecognised actuarial losses	**(112.5)**	(16 9)
Liability in the balance sheet	**91.1**	105 3

The movements in the liability recognised in the balance sheet are as follows

	2009 £m	2008 £m
At 1 January	**105 3**	126 6
Net charge to the income statement	**8 9**	4 9
Contributions paid	**(23.1)**	(26 2)
At 31 December	**91 1**	105 3

The expense recognised in the income statement comprises

	2009 £m	2008 £m
Current service cost	**8.4**	11 6
Interest cost	**42.9**	49 3
Expected return on scheme assets	**(42.4)**	(56 0)
Past service cost	**-**	-
	8.9	4 9

14 RETIREMENT BENEFIT OBLIGATIONS (Continued)

The following information relates to Lloyds TSB Group Pension Schemes No's 1 and 2 as at 31 December 2009.

In accordance with IAS 19, the remaining information below relates to the No's 1 and 2 schemes operated by the Company's Ultimate Parent Company and amounts are shown in £ millions unless otherwise stated

The Company's Ultimate Parent Company expects to pay contributions of approximately £204 million in respect of the No's 1 and 2 schemes in 2010

Movements in the defined benefit obligation

	2009 £m	2008 £m
At 1 January	14,089	15,303
Current service cost	177	213
Interest cost	871	872
Actuarial gains	2,369	(1,776)
Benefits paid	(585)	(545)
Past service cost	41	22
At 31 December	16,962	14,089

Changes in the fair value of scheme assets

	2009 £m	2008 £m
At 1 January	12,433	14,746
Expected return	860	993
Employer contributions	1,514	466
Actuarial gains/(losses)	440	(3,227)
Benefits paid	(585)	(545)
At 31 December	14,662	12,433
Actual return on scheme assets	1,300	(2,234)

The principal actuarial and financial assumptions used in valuations of the pension schemes were as follows

	2009 %	2008 %
Discount rate	5 70	6 30
Rate of inflation	3 40	3 00
Rate of salary increases	3 75	3 75
Rate of increase for pensions in payment and deferred pensions	3 20	2 80
	Years	**Years**
Life expectancy for member aged 60, on the valuation date		
- Men	27 1	26 4
- Women	28 2	27 2
Life expectancy for member aged 60, 15 years after the valuation date		
- Men	28 7	27 3
- Women	29 8	28 1

The mortality assumptions used in the scheme valuations are based on standard tables published by the Institute and Faculty of Actuaries which were adjusted in line with both current industry experience and the actual experience of the relevant schemes

An analysis of the impact of a reasonable change in these assumptions is provided in the 2009 annual report and financial statements of the Company's Ultimate Parent Company (note 24)

14. RETIREMENT BENEFIT OBLIGATIONS (Continued)

The expected return on scheme assets for the No 1 and 2 pension schemes is based on the following assumptions

	2009 %	2008 %
Equities	8 4	8 2
Fixed interest gilts	3 7	4 5
Index linked gilts	4 0	4 4
Non-government bonds	6 7	6 0
Property	6 4	6 7
Cash	3 8	4 8

The expected return on scheme assets in 2010 for the No 1 and 2 pension schemes will be calculated using the following assumptions

	2010 %
Equities	8 3
Fixed interest gilts	4 5
Index linked gilts	4 1
Non-government bonds	6 0
Property	7 5
Cash	4 3

Composition of scheme assets

	2009 £m	2008 £m
Equities	6,995	6,517
UK fixed interest gilts	1,269	1,387
UK index linked gilts	1,199	1,073
Sterling non-government bonds	1,727	1,536
Property	1,327	1,421
Derivative assets	1,019	623
Cash, and other assets and liabilities	1,126	(124)
At 31 December	14,662	12,433

The assets of all the funded plans are held independently of the Lloyds Banking Group's assets in separate trustee administered funds

The expected return on plan assets was determined by considering the expected returns available on the assets underlying the current investment policy Expected yields on fixed interest investments are based on gross redemption yields at the balance sheet date Expected returns on equity and property investments reflect long-term real rates of return experienced in the respective markets

Experience adjustments history (since the date of adoption of IAS 19)

	2009 £m	2008 £m	2007 £m	2006 £m	2005 £m
Present value of defined benefit obligation	16,962	14,089	15,303	15,637	15,610
Fair value of scheme assets	(14,662)	(12,433)	(14,746)	(13,768)	(12,634)
	2,300	1,656	557	1,869	2,976
Unrecognised actuarial gains/(losses)	(2,146)	(217)	1,234	200	(478)
Liability in the balance sheet	154	1,439	1,791	2,069	2,498
Experience losses on scheme liabilities	(3)	(29)	(180)	(50)	(65)
Experience (losses)/gains on scheme assets	440	(3,227)	147	297	1,400

14. RETIREMENT BENEFIT OBLIGATIONS (Continued)

The expense recognised in the Ultimate Parent Company's income statement comprises

	2009 £m	2008 £m
Current service cost	177	213
Interest cost	871	872
Expected return on scheme assets	(860)	(993)
Past service cost	41	22
Total pension expense	229	114

15 OTHER BORROWED FUNDS

	2009 £m	2008 £m
Preference shares	5 0	5 0

	2009 Number (m) and £m	2008 Number (m) and £m
Authorised		
Preference shares of £1 each	10	10
'B' preference shares of £1 each	10	10
Issued and fully paid		
Preference shares of £1 each	3 8	3 8
'B' preference shares of £1 each	1 2	1 2

The terms of the preference shares require the Company to pay a non-cumulative dividend at the rate of LIBOR plus 75 basis points per cent per annum on the amount for the time being paid up on each preference share This is paid annually on 30 June

16. CALLED UP SHARE CAPITAL

	2009 Number in millions	2008 Number in millions	2009 £m	2008 £m
Authorised ordinary shares of £1 each				
At 1 January and 31 December	311 7	311 7	311 7	311 7
Issued and fully paid ordinary shares of £1 each				
At 1 January and 31 December	70 0	70 0	70 0	70 0

The company has one class of ordinary voting shares which carry no right to fixed income

17 ORDINARY DIVIDENDS

The dividends paid in the year were as follows

	2009 £m	2008 £m
Final dividend in respect of preceding year	65 0	50 0
At 31 December	65 0	50 0
Dividend per share	92 9p	71 4p

18. SHARE BASED PAYMENTS

Share based payments

During the year ended 31 December 2009, the Company's Ultimate Parent Company operated the following share based payment schemes, all of which are equity settled

Executive schemes

The Executive share option schemes are long-term incentive schemes and are available to certain senior executives of the Group, with grants usually made annually Options are granted within limits set by the rules of the schemes These limits relate to the number of shares under option and the price payable on the exercise of options The last grant of executive options was made in August 2005 These options were granted without a performance multiplier and the maximum limit for the grant of options in normal circumstances was three times annual salary Between April 2001 and August 2004, the aggregate value of the award based upon the market price at the date of grant could not exceed four times the executive's annual remuneration and, normally, the limit for the grant of options to an executive in any one year would be equal to 1 5 times annual salary with a maximum performance multiplier of 3 5 Prior to 18 April 2001, the normal limit was equal to one year's remuneration and no performance multiplier was applied

Performance conditions for executive options

For options granted up to March 2001

Options granted	Performance conditions
March 1999 – August 1999	Growth in earnings per share which is equal to the aggregate percentage change in the Retail Price Index plus two percentage points for each complete year of the relevant period together with a further condition that Lloyds Banking Group plc's ranking based on total shareholder return (calculated by reference to both dividends and growth in share price) over the relevant period should be in the top fifty companies of the FTSE 100
March 2000 – March 2001	As for March 1999 – August 1999 except that there must have been growth in the earnings per share equal to the change in the Retail Price Index plus three percentage points for each complete year of the relevant period

In respect of options granted between March 1999 and March 2001, the relevant period for the performance conditions begins at the end of the financial year preceding the date of grant and will continue until the end of the third subsequent year or, if not met, the end of such later year in which the conditions are met Once the conditions have been satisfied the options will remain exercisable without further conditions If they are not satisfied by the tenth anniversary of the grant the option will lapse

For options granted from August 2001 to August 2004

The performance condition is linked to the performance of Lloyds Banking Group plc's total shareholder return (calculated by reference to both dividends and growth in share price) against a comparator group of 17 companies including Lloyds TSB Group plc

The performance condition is measured over a three year period commencing at the end of the financial year preceding the grant of the option and continuing until the end of the third subsequent year If the performance condition is not then met, it will be measured at the end of the fourth financial year If the condition has not then been met, the options will lapse

To meet the performance conditions, the Group's ranking against the comparator group must be at least ninth The full grant of options will only become exercisable if the Group is ranked first A performance multiplier (of between nil and 100 per cent) will be applied below this level to calculate the number of shares in respect of which options granted to executive directors will become exercisable, and will be calculated on a sliding scale If of Lloyds Banking Group plc is ranked below median the options will not be exercisable

18. SHARE BASED PAYMENTS (Continued)

For options granted from August 2001 to August 2004 (Continued)

Options granted to senior executives other than executive directors are not so highly leveraged and as a result, different performance multipliers are applied to their options For the majority of executives, options are granted with the performance condition but no performance multiplier

For options granted in 2005

The same conditions apply as for grants made up to August 2004, except that

- the performance condition is linked to the performance of Lloyds Banking Group plc's total shareholder return (calculated by reference to both dividends and growth in share price) against a comparator group of 15 companies including of Lloyds Banking Group plc,
- if the performance condition has not been met at the end of the third subsequent year, the options will lapse, and
- the full grant of options becomes exercisable only if the Ultimate Parent Company is ranked in the top four places of the comparator group A sliding scale applies between fourth and eighth positions If of Lloyds Banking Group is ranked below the median (ninth or below) the options will not be exercisable and will lapse

Options granted in 2005 became exercisable as the performance condition was met when tested The performance condition vested at 82 5 per cent or all options granted

Save-As-You-Earn schemes

Eligible employees may enter into contracts through the Save-As-You-Earn (SAYE) schemes to save up to £250 per month and, at the expiry of a fixed term of three, five or seven years, have the option to use these savings within six months of the expiry of the fixed term to acquire shares in the Group at a discounted price of no less than 80 per cent of the market price at the date the options were granted

Other share option plans

Long-Term Incentive Plan

The Long-Term Incentive Plan introduced in 2006 is aimed at delivering shareholder value by linking the receipt of shares to an improvement in the performance of Lloyds Banking Group over a three year period Awards are made within limits set by the rules of the plan, with the limits determining the maximum number of shares that can be awarded equating to three times annual salary In exceptional circumstances this may increase to four times annual salary

The performance conditions for awards made in May and August 2006 are as follows

(i) For 50 per cent of the award (the 'EPS Award') – the percentage increase in earnings per share of Lloyds Banking Group (on a compound annualised basis) over the relevant period must be at least an average of 6 percentage points per annum greater than the percentage increase (if any) in the Retail Price Index over the same period If it is less than 3 per cent per annum the EPS Award will lapse If the increase is more than 3 per cent but less than 6 per cent per annum then the proportion of shares released will be on a straight line basis between 17 5 per cent and 100 per cent The relevant period commenced on 1 January 2006 and ends on 31 December 2008

(ii) For the other 50 per cent of the award (the 'TSR Award') – it will be necessary for Lloyds Banking Group's total shareholder return (calculated by reference to both dividends and growth in share price) to exceed the median of a comparator group (14 companies) over the relevant period by an average of 7 5 per cent per annum for the TSR Award to vest in full 17 5 per cent of the TSR Award will vest where the Group's total shareholder return is equal to median and vesting will occur on a straight line basis in between these points Where the Group's total shareholder return is below the median of the comparator group, the TSR Award will lapse The relevant period commenced on 1 January 2006 and ends on 31 December 2008

18. SHARE BASED PAYMENTS (Continued)

Long-Term Incentive Plan (Continued)

The performance conditions for awards made in March and August 2007 are as follows

(i) For 50 per cent of the award (the 'EPS Award') – the performance condition is as described for May 2006 with the relevant performance period commencing on 1 January 2007 and ending on 31 December 2009

(ii) For the other 50 per cent of the award (the 'TSR Award') – the performance condition is as described for May 2006 with the relevant performance period commencing on 8 March 2007 (the date of the first award) and ending on 7 March 2010

The performance conditions for awards made in March, April, August and September 2008 are as follows

(i) For 50 per cent of the award (the EPS Award) – the performance condition is as described for May 2006 with the relevant performance period commencing on 1 January 2008 and ending on 31 December 2010

(ii) For the other 50 per cent of the award (the TSR Award) – the performance condition is as described for May 2006, except that the comparator group comprises of 13 companies, with the relevant performance period commencing on 6 March 2008 (the date of the first award) and ending on 5 March 2011

Performance share plan

Under the performance share plan, introduced during 2005, participating executives will be eligible for an award of free shares, known as performance shares, to match the bonus shares awarded as part of their 2004 and 2005 bonus The maximum match will be two performance shares for each bonus share, awarded at the end of a three year period The actual number of shares awarded will depend on the Group's total shareholder return performance measured over a three year period, compared to other companies in the comparator group The maximum of two performance shares for each bonus share will be awarded only if the Group's total shareholder return performance places it first in the comparator group, one performance share for each bonus share will be granted if the Group is placed fifth, and one performance share for every two bonus shares if the Group is placed eighth (median) Between first and fifth, and fifth and eighth, sliding scales will apply If the total shareholder return performance is below median, no performance shares will be awarded There will be no retest Whilst income tax is deducted from the bonus before deferral into the plan, where a match of performance shares is justified, these shares will be awarded as if income tax had not been deducted

Share incentive plan

Free shares

An award of shares may be made annually to employees based on a percentage of the employees' salary in the preceding year up to maximum of £3,000, any excess is awarded as cash The percentage is normally announced concurrently with the Group's annual results and the price of the shares awarded in announced at the time of grant The shares awarded are held in trust for a mandatory period of three years on the employees' behalf The award is subject to a non-market based condition if an employee leaves the Group within this three year period for other than a 'good' reason, a portion of the shares awarded will be forfeited (for awards made up to April 2005, only a portion of the shares would be forfeited 75% within one year of the award, 50% within two years and 25% within three years)

The Group did not award any free shares in 2009 (2008 free shares were issued at an average fair value of £4 38 based on the market price at the date of award)

Matching shares

Lloyds Banking Group plc undertakes to match shares purchased by employees up to the value of £30 per month These shares are held in trust for a mandatory period of three years on the employees' behalf The award is subject to a non-market based condition, if an employee leaves within this three year period for other than a 'good' reason or the accompanying partnership shares are sold within that time, 100% of the matching shares are forfeited (or the portion relating to the shares sold)

The shares awarded relating to matching shares in 2009 had an average fair value of £0 69 (2008 £2 56), based on market prices at the date of award

18. SHARE BASED PAYMENTS (Continued)

Other information

Full details of the ranges of exercise prices, weighted average exercise prices, weighted average remaining contractual life information and number of options outstanding for the above schemes overall can be found in the 2009 annual report and accounts of the Company's Ultimate Parent Company (note 24)

A charge is made to the income statement which represents the Company's share of the cost of the above schemes This charge has been allocated to the Company based on the number of the Company's employees who participate in the above schemes It is not practicable for the Company to provide information regarding the ranges of exercise prices, weighted average exercise prices, weighted average remaining contractual life information and the number of options outstanding that is specific to the Company's employees without incurring significant additional cost

19. DIRECTORS' EMOLUMENTS

The Directors are employed by other companies in the Lloyds Banking Group and consider that their services to the company are incidental to their other activities within the Group and therefore their emoluments have not been disclosed

20. RELATED PARTY TRANSACTIONS

There are a number of transactions with Lloyds Banking Group plc and its subsidiary companies Where applicable the transactions have been disclosed in the notes to the financial statements.

The following table details the impact of transactions with Lloyds Banking Group companies through the income statement

	2009 £m	2008 £m
Interest income	-	0 5
Preference share interest expense	0 2	0 4
Commission receivable	380 3	436 2
Fees payable	-	0 1
Administrative expenses	199 5	222 9

The Company leases a property from its subsidiary C&G Property Holdings Limited for which it paid rental charges of £0 8m during the year (2008 £0 8m) In addition, the Company receives interest on a loan outstanding from the subsidiary which was £0 1m for the year (2008 £0 3m) The principal amount of the loan outstanding at 31 December 2009 was £5.1m (2008. £5 9m)

In addition, there are amounts due to the Company from C&G's dormant subsidiary companies which have been written off in these consolidated financial statements as the amounts are not deemed to be recoverable, given the dormant nature of the entities The amounts which have been included in the subsidiary company financial statements but have previously been written off by C&G are C&G Estate Agents Limited of £1 9m, C&G Homes Limited of £13 6m, and Central Mortgage Finance Limited of £4 3m

The Group's related parties also include key management personnel Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, which for the Group is the board of Directors of C&G

A number of banking transactions were entered into with key management in the normal course of business These included loans and deposits The Directors of C&G who hold C&G products ceased to have a related party relationship in relation to these mortgages and savings balances on transfer of the balances to the Bank in 2007

21. FINANCIAL RISK MANAGEMENT POLICIES

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 Banking Group policies and standards

Interest Rate Risk

The Company has no interest-bearing assets from third parties and no deposits are placed outside of the Lloyds Banking Group Assets due from Lloyds Banking Group Companies are subject to variable interest rates Interest is received on a loan from a subsidiary company at the Bank of England base rate As such, this represents exposure to fluctuations in interest rates If interest rates for the year ended 31 December 2009 had been 150 basis points higher with all other variables held constant, post-tax profits for the year would have been £59k (2008 £66k) higher respectively, as a result of increased interest income on the Company's loan from the subsidiary company

Currency Risk

The Company holds no foreign currency assets or liabilities and transacts all business in GBP and therefore has no significant exposure to currency risks

Credit Risk

The majority of income received by the Company is from Lloyds Banking Group companies Hence, as there is no direct third party income, credit risk is capable of close monitoring and control All loans and advances are neither past due nor impaired

Liquidity risk

The table below analyses liabilities of the Group on an undiscounted future cash flows basis according to contractual maturity into relevant maturity groupings based on the remaining period at the balance sheet date Balances with no fixed maturity are included in the over 5 years category

As at 31 December 2009	Up to 1 month £m	1-3 months £m	3-12 months £m	1-5 years £m	Over 5 years £m	Total £m
Liabilities						
Current tax	-	-	19 6	-	-	19 6
Owed to Group Companies	183 1	-	-	-	-	183 1
Other liabilities	19 0	-	5 0	-	91 1	115 1
Provisions	-	4 9	-	-	-	4 9
Total	202 1	4 9	24 6	-	91 1	322 7

As at 31 December 2008	Up to 1 month £m	1-3 months £m	3-12 months £m	1-5 years £m	Over 5 years £m	Total £m
Liabilities						
Current tax	-	-	12 7	-	-	12 7
Owed to Group Companies	209 6	-	-	-	-	209 6
Other liabilities	24 4	-	5 0	-	105 3	134 7
Provisions	-	-	-	-	-	-
Total	234 0	-	17 7	-	105 3	357 0

21. FINANCIAL RISK MANAGEMENT POLICIES (Continued)

Capital

The managed capital of the Company constitutes total shareholder's funds These consist entirely of issued ordinary share capital and retained profit and loss

The Company is authorised and regulated by the Financial Services Authority ('FSA') and is subject to the FSA's capital resource requirements per the FSA IPRU(Inv) and MIPRU Rulebooks Capital is actively managed at an appropriate level of frequency and regulatory capital levels are a key factor in the Group's budgeting and planning processes All FSA capital requirements imposed on the Company during the year were met

22. FUTURE ACCOUNTING DEVELOPMENTS

The following pronouncements will be relevant to the Group but were not effective at 31 December 2009 and have not been applied in preparing these financial statements The full impact of these accounting changes is being assessed by Lloyds Banking Group, however, the initial view is that none of these pronouncements are expected to cause any material adjustments to reported numbers in the financial statements

Pronouncement	Nature of change	IASB effective date
IAS 27 Consolidated and Separate Financial Statements	Requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control, any remaining interest in an investee is re-measured to fair value in determining the gain or loss recognised in profit or loss where control over the investee is lost	Annual periods beginning on or after 1 July 2009
IFRIC 17 Distributions of Non-cash Assets to Owners[1]	Provides accounting guidance for non-reciprocal distributions of non-cash assets to owners (and those in which owners may elect to receive a cash alternative)	Annual periods beginning on or after 1 July 2009
Improvements to IFRSs[1] (issued April 2009)	Sets out minor amendments to IFRS standards as part of annual improvements process	Dealt with on a standard by standard basis but not earlier than annual periods beginning on or after 1 January 2010
Amendments to IFRS 2 Group Cash-settled Share-based Payment Transactions[1]	Clarifies that an entity that receives goods or services in a share-based payment arrangement must account for those goods or services no matter which entity in the group settles the transaction, whether or not settled in shares or cash	Annual periods beginning on or after 1 January 2010
IAS24 Related Party Disclosures[1]	Simplifies the definition of a related party and provides a partial exemption from the disclosure requirements for government related entities	Annual periods beginning on or after 1 January 2011

[1] At the date of this report, these pronouncements are awaiting EU endorsement

23 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

24 PARENT COMPANIES

The Company's Immediate Parent Company is Lloyds TSB Bank plc The company regarded by the Directors as the Ultimate Parent Company is Lloyds Banking Group plc, a limited liability company incorporated and domiciled in Scotland, 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 The Bank is the parent undertaking of the smallest such group of undertakings Copies of the group accounts of both companies may be obtained from Group Secretariat, Lloyds Banking Group plc, 25 Gresham Street, London EC2V 7HN

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