

Cheltenham & Gloucester plc

Annual Report and financial statements

For the year ended 31 December 2015

Company Registration Number: 2299428

Registered Office:
Cheltenham & Gloucester plc
Chief Office and Registered Office
Barnett Way
Gloucester
GL4 3RL

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Member of Lloyds Banking Group plc

Cheltenham & Gloucester plc

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

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STRATEGIC REPORT

The Directors present their strategic report for Cheltenham & Gloucester plc for the year ended 31 December 2015.

Review of the business

The principal activities of Cheltenham & Gloucester plc, ("C&G plc" / the "Company") are the arranging and administering of mortgage and savings accounts on behalf of Lloyds Bank plc (the "Bank"), the immediate parent company.

The Company's remaining subsidiaries are all dormant. One subsidiary, C&G Property Holdings Limited, was under liquidation in the period which has meant that the financial statements are no longer prepared on a consolidated basis for the Group.

In the current year the Company made a profit before tax of £51.7m (2014 restated: £80.3m). The decrease was driven by a reduction in fee & commission income of £16.5m and increased operating expenses of £11.3m. The Company operates as a service charge company to the Bank and the key driver in the reduction of fee & commission income was a pension benefit in 2014 which did not incur a cost in the operating expenses.

The Directors have approved an interim dividend of £190.5m which was paid during the year (2014: £nil). There are no plans to pay a final dividend for 2015 (2014: £nil).

Review of strategy and business model

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 arrange 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 plc.

Principal risks and uncertainties

From the perspective of the Company, the principal risks and uncertainties are managed within the framework established for the Group and are not managed separately for the Company. Further details of the Company's and Group's risk management policy are contained in note 19 to the financial statements.

Gender of directors and employees

The Directors of the Company, as listed on page 3, are all male.

The employees of the Company as at the end of the financial year were split: Female 391, Male 300 (2014: Female 467, Male 325).

General

The Directors do not consider there to be any further material issues which need to be included in this Strategic Report.

On behalf of the board



C Gowland

Director

29th April 2016

DIRECTORS' REPORT

The Directors present the audited financial statements for Cheltenham & Gloucester plc for the year ended 31 December 2015.

Cheltenham & Gloucester plc is a public limited company domiciled in the UK.

Results and dividends

Results and dividends are discussed in Strategic report on page 2.

Future developments

Future developments are discussed in Strategic report on page 2 – see review of strategy and business model.

Directors

The Directors of the Company who were in office during the year and up to the date of signing the financial statements were as follows:

AR Brindley (Appointed 13th August 2015)

C Gowland (Appointed 30th October 2015)

SJ Noakes (Resigned 30th October 2015)

RW Fletcher

The Company Secretary who served during the year was P Gittins.

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.

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 19 to the financial statements. There are no areas of concern that carry significant risks of causing material changes to the carrying value of the Company's assets and liabilities.

Independent 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.

DIRECTORS' REPORT (continued)

Employees

C&G plc and Lloyds Banking Group plc 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 plc 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 plc 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.

Lloyds Banking Group plc operates a number of employee share schemes details of which are set out in note 16.

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.

Lloyds Banking Group plc is committed to providing employees with comprehensive coverage of the economic and financial issues affecting the Group. We have established a full suite of communication channels, including an extensive face-to face briefing programme which allows us to update our employees on our performance and any financial issues throughout the year.

Directors' indemnities

Lloyds Banking Group plc has granted to the Directors of the Company, including former directors who retired during the year, a deed of indemnity through deed poll which constituted 'qualifying third party indemnity provisions' for the purposes of the Companies Act 2006. The deed was in force during the whole of the financial year and at the date of approval of the financial statements or from the date of appointment in respect of the Director who joined the Board of the Company during the financial year. Directors no longer in office but who served on the Board of the Company at any time in the financial year had the benefit of this contract of indemnity during that period of service. The indemnity remains in force for the duration of a Director's period of office. The deed indemnifies the Directors to the maximum extent permitted by law. The Deed for existing Directors is available for inspection at the registered office of Lloyds Banking Group plc. In addition, the Group has in place appropriate Directors and Officers Liability Insurance cover which was in place throughout the financial year.

Statement On Going Concern

The Company is reliant on fee income provided by Lloyds Bank plc which is a subsidiary of Lloyds Banking Group plc. The Directors are satisfied that it is the intention of Lloyds Banking Group plc that its subsidiaries including the Company will continue to have access to adequate liquidity and capital resources for the foreseeable future and, accordingly, the financial statements have been prepared on a going concern basis.

DIRECTORS' REPORT (continued)

DIRECTORS' RESPONSIBILITIES STATEMENT

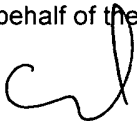
The Directors are responsible for preparing the Strategic Report, Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the Directors have prepared the 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 affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable International Financial Reporting Standards as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

On behalf of the Board



C Gowland
Director
29th April 2016

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

REPORT ON THE FINANCIAL STATEMENTS

Our opinion

In our opinion, Cheltenham & Gloucester Plc's financial statements (the "financial statements"):

- give a true and fair view of the state of the company's affairs as at 31 December 2015 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

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

- the Statement of Financial Position as at 31 December 2015;
- the Income Statement for the year then ended;
- the Cash Flow Statement for the year then ended;
- the Statement of Changes in Equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is IFRSs as adopted by the European Union, and applicable law.

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

OPINION ON OTHER MATTER PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion, the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

OTHER MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

Adequacy of accounting records and information and explanations received

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

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

We have no exceptions to report arising from this responsibility.

Directors' remuneration

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

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

RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS AND THE AUDIT

Our responsibilities and those of the directors

As explained more fully in the Directors' Responsibilities Statement set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

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

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

What an audit of financial statements involves

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

- whether the accounting policies are appropriate to the 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.

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

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

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.



Daniel Brydon (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
29th April 2016

**INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2015**

	Note	2015 £m	Restated 2014 £m
Interest receivable		0.6	1.4
Net interest receivable		<u>0.6</u>	<u>1.4</u>
Fee and commission income		120.0	136.5
Total net income		<u>120.6</u>	<u>137.9</u>
Operating expenses	2	(68.9)	(57.6)
Profit before tax	3	<u>51.7</u>	<u>80.3</u>
Taxation	4	(10.1)	(16.4)
Profit for the year		<u><u>41.6</u></u>	<u><u>63.9</u></u>

**STATEMENT OF COMPREHENSIVE INCOME
FOR YEAR ENDED 31 DECEMBER 2015**

- Profit for year	41.6	63.9
Other Comprehensive income:		
Items that will not subsequently be reclassified to profit or loss		
- Remeasurement of post employment benefit obligations:		
- Remeasurements before taxation	(0.8)	34.3
- Taxation	0.0	(6.9)
Total Comprehensive income for the year	<u><u>40.8</u></u>	<u><u>91.3</u></u>

The accompanying notes on pages 12 to 29 are an integral part of the financial statements.

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2015

	Note	2015 £m	Restated 31 December 2014 £m	Reclassified 1 January 2014 £m
Current assets				
Loans and advances to banks	6	8.8	78.2	40.6
Due from Group Companies	7	238.9	280.4	273.1
Other assets		0.3	0.8	1.0
Total current assets		<u>248.0</u>	<u>359.4</u>	<u>314.7</u>
Non-current assets				
Property, plant & equipment	8	14.6	14.5	14.2
Deferred tax asset	10	5.7	6.0	19.1
Total non-current assets		<u>20.3</u>	<u>20.5</u>	<u>33.3</u>
Total assets		<u>268.3</u>	<u>379.9</u>	<u>348.0</u>
Equity and liabilities				
Current liabilities				
Current tax liabilities		20.3	20.4	22.9
Owed to Group Companies	12	78.1	27.6	22.7
Other liabilities	13	22.1	35.2	34.0
Total current liabilities		<u>120.5</u>	<u>83.2</u>	<u>79.6</u>
Non-current liabilities				
Retirement benefit obligations	14	36.4	35.6	98.6
Total non-current liabilities		<u>36.4</u>	<u>35.6</u>	<u>98.6</u>
Total liabilities		<u>156.9</u>	<u>118.8</u>	<u>178.2</u>
Equity				
Called up share capital	15	70.0	70.0	70.0
Retained earnings		41.4	191.1	99.8
Total equity		<u>111.4</u>	<u>261.1</u>	<u>169.8</u>
Total equity and liabilities		<u>268.3</u>	<u>379.9</u>	<u>348.0</u>

The accompanying notes on pages 12 to 29 are an integral part of the financial statements.

The financial statements on pages 8 to 29 were approved by the Board of Directors on 29th April 2016 and signed on its behalf by:



C Gowland
Director

**STATEMENTS OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2015**

	Called up share capital £m	Retained earnings £m	Total £m
Balance sheet at 1 January 2015	70.0	191.1	261.1
Profit for the year	-	41.6	41.6
Other Comprehensive Income	-	(0.8)	(0.8)
Dividends	-	(190.5)	(190.5)
Balance at 31 December 2015	<u>70.0</u>	<u>41.4</u>	<u>111.4</u>
Reclassified balance sheet at 1 January 2014	70.0	99.8	169.8
Profit for the year	-	63.9	63.9
Other Comprehensive Income	-	27.4	27.4
Restated balance at 31 December 2014	<u>70.0</u>	<u>191.1</u>	<u>261.1</u>

The accompanying notes on pages 12 to 29 are an integral part of the financial statements.

**CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2015**

	Note	2015 £m	Restated 2014 £m
Profit before tax		51.7	80.3
Adjusted for:			
Depreciation & impairment of Property Plant and Equipment	8	0.5	0.6
Reversal of impairment	8	(0.9)	(0.8)
Income taxes		(10.2)	(12.7)
Remeasurement of Pension Asset		(0.8)	34.3
		<u>40.3</u>	<u>101.7</u>
Changes in operating assets and liabilities			
decrease \ (Increase) in debtors		42.3	(7.1)
Increase in creditors		37.4	6.1
Increase \ (decrease) in retirement obligations	14	0.8	(63.0)
Net cash generated from operating activities		<u>120.8</u>	<u>37.7</u>
Cash flows from investing activities			
Purchase of fixed assets		-	(0.1)
Disposal of fixed assets		-	-
Sale of plant, property and equipment		0.3	-
Net cash generated from \ (used in) investing activities		<u>0.3</u>	<u>(0.1)</u>
Cash flows from financing activities			
Dividends paid	20	(190.5)	-
Net cash used in financing activities		<u>(190.5)</u>	<u>-</u>
Change in cash and cash equivalents		(69.4)	37.6
Cash and cash equivalents at beginning of year		78.2	40.6
Cash and cash equivalents at end of year	6	<u>8.8</u>	<u>78.2</u>

The accompanying notes on pages 12 to 29 are an integral part of the financial statements.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

1. ACCOUNTING POLICIES

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and the Companies Act 2006, applicable to companies reporting under IFRS. The Company is incorporated and domiciled in England and Wales.

There are no new or amended accounting standards that have required a change to accounting policies for the 2015 financial year.

Details of those IFRS pronouncements which will be relevant to the Company but which were not effective at 31 December 2015 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

These separate financial statements contain information about the Company and do not contain consolidated financial information as the parent of a group. The Company has taken advantage of the exemption under IFRS10 Consolidated Financial Statements and Section 400 of Companies Act 2006 from the requirement to prepare consolidated financial statements. The Company and its subsidiaries are included in the consolidated financial statements of the Company's ultimate parent.

The financial statements have been prepared on a going concern basis.

The Company's accounting policies are set out below.

Subsidiaries

Subsidiaries include entities over which the Company 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 Company controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Company; they are de-consolidated from the date that control ceases. Details of the principal subsidiaries are given in note 11.

Intercompany transactions, balances and unrealised gains and losses on transactions between Group companies are eliminated on consolidation.

Revenue recognition

Fees and commissions are generally recognised when the service has been provided, the income arises from the administration of mortgage and savings on behalf of Lloyds Bank plc.

Interest income and expense are recognised in the income statement for all interest-bearing financial instruments using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset or liability and of allocating the interest income or interest expense over the expected life of the financial instrument. The effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts over the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability.

The effective interest rate is calculated on initial recognition of the financial asset or liability, estimating the future cash flows after considering all the contractual terms of the instrument but not future credit losses. The calculation includes amounts expected to be paid or received by the Company including expected early redemption fees and related penalties and premiums and discounts that are an integral part of the overall return. Direct incremental transaction costs related to the acquisition, issue or disposal of a financial instrument are also taken into account in the calculation.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015 (CONTINUED)**

1. ACCOUNTING POLICIES (continued)

Loans and receivables

Loans and receivables include loans and advances to banks and customers and eligible 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. Loans and receivables are initially recognised at fair value and subsequently held at amortised cost.

Borrowings

Borrowings are recognised initially at fair value, being their issue proceeds net of transaction costs incurred. These instruments 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.

Property, plant & equipment

Property, plant & equipment 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: 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

The leases entered into by the Company are primarily operating 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.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015 (CONTINUED)**

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 the employees of the Company, including both defined benefit and defined contribution pension plans. 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 Company 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. 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 Company's income statement charge includes the current service cost of providing pension benefits, past service costs, net interest expense (income) and plan administration costs that are not deducted from the return on plan assets. Past service costs, which represents the change in the present value of the defined benefit obligation resulting from a plan amendment or curtailment, are recognised when the plan amendment or curtailment occurs. Net interest expense (income) is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset.

Remeasurements, comprising actuarial gains and losses, the return on plan assets (excluding amounts included in net interest expense (income) and net of the cost of managing the plan assets), and the effect of changes to the asset ceiling (if applicable) are reflected immediately in the balance sheet with a charge or credit recognised in other comprehensive income in the period in which they occur. Remeasurements recognised in other comprehensive income are reflected immediately in retained profits and will not subsequently be reclassified to profit or loss.

The Company'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. A surplus is only recognised to the extent that they are recoverable through reduced contributions in the future or through refunds from the schemes.

The costs of the Company'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.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015 (CONTINUED)**

1. ACCOUNTING POLICIES (continued)

Share-based compensation (continued)

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 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.

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 substantively 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 Company 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 Company 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 Company 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 paid on the Company's ordinary shares are recognised as a reduction in equity in the period in which they are paid.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015 (CONTINUED)**

1. ACCOUNTING POLICIES (continued)

Cash and cash equivalents

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

Critical accounting estimates and judgements

The preparation of financial statements requires management to make judgements, 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, judgements 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 Company makes judgements and estimates in the preparation of the results and financial position however none of these are deemed to be critical.

2. OPERATING EXPENSES

	Note	2015 £m	Restated 2014 £m
Wages and salaries		5.1	15.1
Share-based payments		0.1	0.4
Social security costs		0.5	1.4
Other pension costs:	14		
Defined benefit scheme		0.3	(16.6)
Defined contribution scheme		0.3	2.3
Staff costs		6.3	2.6
Other administrative expenses		62.6	55.1
		68.9	57.7

The monthly average number of persons employed by the Company during the year was as follows:

	2015	2014
Persons employed and paid directly by the company – all UK	180	418
Persons employed and recharged to other group companies – all UK	633	413
	713	831

The data for employee numbers is based on headcount of employees, rather than Full Time Equivalents. Employees include persons paid directly by the Company and reported in staff costs and persons recharged to other group companies, the costs of which are excluded from staff costs. Costs incurred by the parent in performance of work on behalf of the Company are recharged to the Company and are reported in administrative expenses.

No compensation has been paid or is payable to key management personnel in the year (2014: £nil).

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015 (CONTINUED)**

2. OPERATING EXPENSES (continued)

Auditors' remuneration:

	2015 £'000	2014 £'000
Fees payable to the Company's Auditors for the audit of the Company's annual financial statements	15	15

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 Group has procedures to ensure that fees for audit and non-audit services are approved in advance of the service being provided.

3. PROFIT BEFORE TAX

Profit before tax is stated after taking account of:

	2015 £m	Restated 2014 £m
Depreciation	0.5	0.6
Reversal of impairment	(0.9)	(0.8)
Operating lease rental charges paid	0.4	0.5
PPI charges	25.8	22.5

4. TAXATION

(a) Analysis of charge in year:

	Note	2015 £m	2014 £m
UK corporation tax			
Current tax on profits for the year		9.9	10.5
Adjustments in respect of prior years		(0.1)	(0.5)
Corporation tax charge		<u>9.8</u>	<u>10.0</u>
Deferred tax	10		
Current year		0.2	6.0
Adjustments in respect of prior years		0.1	0.4
Total tax charge		<u>10.1</u>	<u>16.4</u>

(b) Factors affecting tax charge for the year

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:

	2015 £m	2014 £m
Profit before taxation	51.7	80.3
Tax charge at UK corporation tax rate of 20.25% (2014: 21.5%)	10.5	17.3
Non-allowable items	0.1	(0.2)
Effect of rate change and related impacts	0.2	(0.4)
Other items	(0.2)	-
Adjustment to tax charge in respect of prior years	(0.3)	(0.1)
Gains exempted / covered by capital losses	(0.2)	(0.2)
Total tax charge	<u>10.1</u>	<u>16.4</u>

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015 (CONTINUED)**

4. TAXATION (continued)

The Finance Act 2013 was substantively enacted on 2 July 2013. The Act further reduced the main rate of corporation tax to 21 per cent with effect from 1 April 2014 and 20 per cent with effect from 1 April 2015.

The Finance Act 2015 which was substantively enacted on 26 October 2015 included legislation to reduce the corporation tax rate applicable from 1 April 2017 to 19 per cent and from 1 April 2020 to 18 per cent.

5. CONTINGENT TAX LIABILITY

The Company provides for potential tax liabilities that may arise on the basis of the amounts expected to be paid to tax authorities. This includes open matters where Her Majesty's Revenue and Customs ('HMRC') adopt a different interpretation and application of tax law which might lead to additional tax. A number of Group companies, including the Company, have an open matter in relation to a claim for group relief of losses incurred in a former Irish banking subsidiary of the Lloyds Banking Group plc, which ceased trading on 31 December 2010. In the second half of 2013 HMRC informed the Lloyds Banking Group plc that their interpretation of the UK rules, permitting the offset of such losses, denies these claims; if HMRC's position is found to be correct, management estimate that this would result in an increase in the Company's current tax liability of approximately £20.2m. The Lloyds Banking Group plc does not agree with HMRC's position and, having taken appropriate advice, does not consider that this is a case where additional tax will ultimately fall due on the Company.

6. LOANS AND ADVANCES TO BANKS

	2015 £m	2014 £m
Loans and advances to banks	<u>8.8</u>	<u>78.2</u>
Included above:		
Due from Lloyds Banking Group plc subsidiary undertakings		
All unsubordinated	<u>8.8</u>	<u>78.2</u>

Interest earned on these amounts is variable and based on a 60 month rolling average of the 5 year swap rate.

At 31 December 2015, £nil (2014: £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

	2015 £m	Restated 2014 £m
Due from Lloyds Banking Group plc subsidiary undertakings		
All unsubordinated	<u>238.9</u>	<u>280.4</u>

At 31 December 2015, £nil (2014: £nil) of intercompany debtors had a contractual residual maturity of greater than one year.

The fall in amounts from group companies is driven by the dividend payment (£90.5m reduction), offset by the settlement of a cash balance (£38.8m increase).

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015 (CONTINUED)**

8. Property, plant & equipment

	Premises £m	Equipment £m	Total £m
Cost:			
At 1 January 2014	25.3	0.6	25.9
Additions	-	0.1	0.1
Reversal of Impairment	0.8	-	0.8
At 31 December 2014	26.1	0.7	26.8
Disposals	(0.4)	-	(0.4)
Reversal of impairment	0.9	-	0.9
At 31 December 2015	26.6	0.7	27.3
Accumulated depreciation:			
At 1 January 2014	11.3	0.4	11.7
Charge for the year	0.5	0.1	0.6
At 31 December 2014	11.8	0.5	12.3
Charge for the year	0.4	0.1	0.6
Disposals	(0.1)	-	(0.1)
At 31 December 2015	12.1	0.6	12.7
Net book value:			
31 December 2015	14.5	0.1	14.6
31 December 2014	14.3	0.2	14.5

	2015 £m	2014 £m
Net book value of premises comprises:		
Freeholds	10.4	11.6
Leaseholds 50 years and over unexpired	4.1	2.7
	<u>14.5</u>	<u>14.3</u>

A valuation of the land and buildings at 31 December 2015 was undertaken by Jones Lang LaSalle, independent valuers not connected with the Company, on the basis of market valuation. The valuation conforms to International Valuation Standards and was based on recent market transactions on arm's length terms for similar properties. The market valuation of the land and buildings was deemed to be higher than the current net book value and a reversal of impairment £0.9m is recorded the financial financial statements.

9. OPERATING LEASE COMMITMENTS

At the balance sheet date, the Company had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2015 £m	2014 £m
Not later than 1 year	0.3	0.4
Later than 1 year and not later than 5 years	0.5	0.7
Later than 5 years	0.7	0.8
	<u>1.5</u>	<u>1.9</u>

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015 (CONTINUED)**

10. DEFERRED TAX ASSET

	2015	2014
	£m	£m
At 1 January	6.0	19.1
Restatement	-	-
Income statement debit	(0.3)	(6.3)
SOCI debit	0.0	(6.9)
At 31 December	<u>5.7</u>	<u>6.0</u>

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

	2015	2014
	£m	£m
Accelerated depreciation allowances	(0.2)	(0.2)
Retirement benefit obligations	(0.2)	(6.2)
Other provisions	(0.1)	0.1
Other temporary differences	0.2	-
Total movement in deferred tax	<u>(0.3)</u>	<u>(6.3)</u>

The net deferred tax asset is comprised as follows:

	2015	2014
	£m	£m
Deferred tax assets:		
Retirement benefit obligations	6.9	7.1
Deferred tax liabilities:		
Accelerated capital allowances	(0.1)	0.1
Other temporary differences	(1.1)	(1.2)
	<u>(1.2)</u>	<u>(1.1)</u>
	<u>5.7</u>	<u>6.0</u>

The Finance Act 2013 was substantively enacted on 2 July 2013. The Act further reduced the main rate of corporation tax to 21% with effect from 1 April 2014 and 20% with effect from 1 April 2015.

The Finance Act 2015 which was substantively enacted on 26 October 2015 included legislation to reduce the corporation tax rate applicable from 1 April 2017 to 19% and from 1 April 2020 to 18%.

11. SHARES IN SUBSIDIARIES

The principal Company 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	Dormant	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%
Barnwood Mortgages Limited	England and Wales	Dormant	100%

In 2013, C&G Property Holdings Limited disposed of all its remaining interest in properties and its principal activity ceased. The subsidiary has become dormant in 2014 and proceedings for a Members Voluntary Liquidation have initiated. On 17 November 2014 a Joint Liquidator was appointed by the company.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015 (CONTINUED)**

12. OWED TO GROUP COMPANIES

	2015 £m	2014 £m
Due to Lloyds Banking Group plc subsidiary undertakings	78.1	27.6

At 31 December 2015, £Nil (2014: £nil) of intercompany creditors had a contractual residual maturity of greater than one year.

13. OTHER LIABILITIES

	2015 £m	Restated 2014 £m
Accruals and deferred income	10.9	16.5
Other liabilities	11.2	18.7
	22.1	35.2

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 Bank Pension Schemes No's 1 and 2; new employees are offered membership of the defined contribution section of the Lloyds Bank Pension Scheme No. 1.

During the year ended 31 December 2015 the charge to the income statement in respect of these schemes was £0.3m (2014: £2.3 million), representing the contributions payable by the Company in accordance with each scheme's rules. There are no outstanding or prepaid contributions at 31 December 2015.

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 Bank Pension Schemes No's 1 and 2. These are funded schemes in the UK 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 at 31 December 2015 is generally 55 although certain categories of member are deemed to have a contractual right to retire at 50. All schemes are operated as separate legal entities under trust law by the trustees and the responsibility for their governance lies with the Pension Trustees.

The latest full valuations of the two main schemes were carried out as at 30 June 2014; these have been updated to 31 December 2015 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:

	2015 £m	2014 £m
Company's share of present value of funded obligations	1,368.1	1,367.9
Company's share of fair value of scheme assets	(1,331.7)	(1,332.3)
Liability in the balance sheet	36.4	35.6

All actuarial losses are recognised and expensed through Other Comprehensive Income.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015 (CONTINUED)**

14. RETIREMENT BENEFIT OBLIGATIONS (continued)

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

	2015	2014
	£m	£m
At 1 January	35.6	98.6
Net charge to the income statement	0.4	(16.6)
Remeasurements of obligation	0.7	(34.3)
Contributions paid	(0.3)	(12.1)
At 31 December	<u>36.4</u>	<u>35.6</u>

The expense recognised in the income statement comprises:

	2015	2014
	£m	£m
Current service cost	0.3	9.0
Interest cost	0.0	0.3
Past service cost	0.0	(25.9)
	<u>0.3</u>	<u>(16.6)</u>

The following information relates to Lloyds Group Pension Schemes No's 1 and 2 as at 31 December 2015.

In accordance with IAS 19R, 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 £420 million in respect of the No's 1 and 2 schemes in 2015.

Movements in the defined benefit obligation:

	2015	2014
	£m	£m
At 1 January	23,256	20,889
Current service cost	148	131
Interest cost	839	931
Actuarial (losses)/gains	(336)	2,475
Benefits paid	(828)	(764)
Past service cost	4	11
Curtailment	-	-
Exchange and other adjustments	-	(417)
At 31 December	<u>23,083</u>	<u>23,256</u>

Changes in the fair value of scheme assets:

	2015	2014
	£m	£m
At 1 January	23,505	20,268
Expected return	(412)	2,926
Interest income	852	920
Employer contributions	231	177
Benefits paid	(828)	(764)
Administrative costs paid	(18)	(22)
At 31 December	<u>23,330</u>	<u>23,505</u>
Actual return on scheme assets	<u>(412)</u>	<u>2,926</u>

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015 (CONTINUED)**

14. RETIREMENT BENEFIT OBLIGATIONS (continued)

Composition of scheme assets:

	2015		
	Quoted £m	Unquoted £m	Total £m
Equity instruments	314	-	314
Debt instruments	12,265	-	12,265
Property	-	942	942
Pooled investment vehicles	2,555	6,287	8,842
Derivatives	215	-	215
Money market instruments, cash and other assets and liabilities	-	752	752
At 31 December	<u>15,349</u>	<u>7,981</u>	<u>23,330</u>

	2014		
	Quoted £m	Unquoted £m	Total £m
Equity instruments	335	-	335
Debt instruments	12,233	-	12,233
Property	-	856	856
Pooled investment vehicles	2,532	6,705	9,237
Derivatives	663	-	663
Money market instruments, cash and other assets and liabilities	-	181	181
At 31 December	<u>15,763</u>	<u>7,742</u>	<u>23,505</u>

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

	2015	2014
	%	%
Discount rate	3.87	3.67
Rate of inflation:		
Retail Prices Index	2.99	2.95
Consumer Price Index	1.99	1.95
Rate of salary increases	0.00	0.00
Weighted-average rate of increase for pensions in payment	2.58	2.59

	Years	Years
Life expectancy for member aged 60, on the valuation date:		
- Men	28.1	27.5
- Women	30.4	29.8
Life expectancy for member aged 60, 15 years after the valuation date:		
- Men	29.5	28.7
- Women	31.9	31.1

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 2015 annual report and financial statements of the Company's ultimate parent company (note 37). 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.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015 (CONTINUED)**

14. RETIREMENT BENEFIT OBLIGATIONS (continued)

The expense recognised in the ultimate parent company's income statement comprises:

	2015	2014
	£m	£m
Current service cost	317	93
Interest cost	(105)	3
Past service cost	120	6
Settlements	(323)	0
Curtailments	58	(289)
Plan administration costs	0	15
Total pension expense	<u>67</u>	<u>(172)</u>

15. CALLED UP SHARE CAPITAL

	2015	2014	2015	2014
	Number in	Number in	£m	£m
	millions	millions		
Authorised: ordinary shares of £1 each At 1 January and 31 December	<u>311.7</u>	<u>311.7</u>	<u>311.7</u>	<u>311.7</u>
Issued and fully paid: ordinary shares of £1 each At 1 January and 31 December	<u>70.0</u>	<u>70.0</u>	<u>70.0</u>	<u>70.0</u>

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

16. SHARE BASED PAYMENTS

During the year ended 31 December 2015 the Company's ultimate parent company operated the following share-based payment schemes, all of which are equity settled.

Save-As-You-Earn schemes

Eligible employees may enter into contracts through the Save-As-You-Earn schemes to save up to £500 per month and, at the expiry of a fixed term of three or five years, have the option to use these savings within six months of the expiry of the fixed term to acquire shares in Lloyds Banking Group plc at a discounted price of no less than 80 per cent of the market price at the start of the invitation.

Other share option plans

Lloyds Banking Group Executive Share Plan 2003

The Plan was adopted in December 2003 and under the Plan share options may be granted to senior employees. Options under this plan have been granted specifically to facilitate recruitment and as such were not subject to any performance conditions. The Plan is used not only to compensate new recruits for any lost share awards but also to make grants to key individuals for retention purposes with, in some instances, the grant being made subject to individual performance conditions.

Other share plans

Lloyds Banking Group Long-Term Incentive Plan

The Long-Term Incentive Plan (LTIP) 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 plc 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.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015 (CONTINUED)**

16. SHARE BASED PAYMENTS (continued)

Matching shares

Lloyds Banking Group plc undertakes to match shares purchased by employees up to the value of £30 per month; these matching shares are held in trust for a mandatory period of three years on the employee's behalf, during which period the employee is entitled to any dividends paid on such shares. 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, 100 per cent of the matching shares are forfeited. Similarly if the employees sell their purchased shares within three years, their matching shares are forfeited.

Fixed Share Awards

Fixed share awards were introduced in 2014 in order to ensure that total fixed remuneration is commensurate with role and to provide a competitive reward package for certain Lloyds Banking Group plc employees, with an appropriate balance of fixed and variable remuneration, in line with regulatory requirements. The Fixed Share Awards are delivered in Lloyds Banking Group plc shares, released over five years with 20 per cent being released each year following the year of award.

The Fixed Share Award is not subject to any performance conditions, performance adjustment or clawback. On an employee leaving the Group, there is no change to the timeline for which shares will become unrestricted.

Other information

The charge made to the income statement 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.

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 2015 annual report and financial statements of the Company's ultimate parent company. Copies of the ultimate parent company's 2015 annual report and financial statements may be obtained from the Company Secretary's Department, Lloyds Banking Group plc, 25 Gresham Street, London, EC2V 7HN.

17. DIRECTORS' EMOLUMENTS

The Directors are employed by other companies in the Lloyds Banking Group plc 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.

18. 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 plc companies through the income statement:

	2015	Restated
	£m	2014
		£m
Interest income	0.6	1.4
Preference share interest expense	-	-
Commission receivable	116.3	136.5
Administrative expenses	34.3	26.8

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015 (CONTINUED)**

18. RELATED PARTY TRANSACTIONS (continued)

There are amounts due to the Company from its dormant subsidiary companies which have been written off in these 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 plc are C&G Estate Agents Limited of £1.9m, C&G Homes Limited of £13.6m, and Central Mortgage Finance Limited of £4.3m. In 2012 an amount totalling £1.3m was written off in C&G plc company financial statements. This amount was the investment in C&G Property Holdings Limited.

The Company'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 Company, which for the Company is the board of Directors of C&G plc.

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 plc who hold C&G plc 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.

19. 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 plc 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 plc. The Company also has no interest-bearing assets nor deposits placed within the Lloyds Banking Group plc.

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

All material financial assets of the Company are amounts due from Group Companies, none of which are past due but not impaired or impaired. As such, the Directors are of the opinion that the carrying value of these assets are the best representation of the maximum exposure to credit risk.

Liquidity risk

The Company is deemed to have low exposure to the risk of being unable to meet its financial obligations as they fall due or only being able to do so at an unacceptably high cost. This is because the Company is funded by companies within Lloyds Banking Group plc and, as a result, liquidity risk is managed within the Lloyds Banking Group plc.

The table below analyses liabilities of the Company 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 2015	Up to 1 month £m	1-3 months £m	3-12 months £m	1-5 years £m	Over 5 years £m	Total £m
Liabilities						
Owed to Group Companies	78.1	-	-	-	-	78.1
Other liabilities	22.1	-	-	-	36.4	58.5
Total	100.2	-	-	-	36.4	136.6

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015 (CONTINUED)**

19. FINANCIAL RISK MANAGEMENT POLICIES (continued)

Restated As at 31 December 2014	Up to 1 month £m	1-3 months £m	3-12 months £m	1-5 years £m	Over 5 years £m	Total £m
Liabilities						
Owed to Group Companies	27.6	-	-	-	-	27.6
Other liabilities	35.2	-	-	-	35.6	70.8
Total	62.8	-	-	-	35.6	98.4

Fair value of financial instruments

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

There are no significant differences between the carrying amounts and the fair value of financial instruments included in these financial statements, as the majority of financial instruments are held at variable rates.

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 Conduct Authority ('FCA') and is subject to the FCA's capital resource requirements per the FCA IPRU(Invt) 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 FCA capital requirements imposed on the Company during the year were met.

20. DIVIDENDS

A dividend was agreed by the directors and paid in 2015 as follows:

	2015 £m	2014 £m
Equity – ordinary		
Final paid (2015): 272.1p (2014:nil) per £1 share	190.5	-
	<u>190.5</u>	<u>-</u>

The £190.5m dividend was agreed by the directors and paid in 2015. No dividends were proposed or paid in 2014.

21. RESTATEMENT OF COMPARATIVES

The following items have been restated in the 2014 comparatives. Details of amounts and account lines affected are provided below:

	Restated £m	Adjusted £m	Previously Reported £m
Income Statement			
Fee and commission income	136.5	5.5	131.0
Operating expenses	57.7	5.0	52.7

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015 (CONTINUED)**

21. RESTATEMENT OF COMPARATIVES (continued)

	Restated £m	Adjusted £m	Previously Reported £m
Balance Sheet			
At 1 January 2014			
Due from Group Companies	273.1	-	273.1
Other liabilities	34.0	-	34.0
Retained earnings	99.8	-	99.8
At 31 December 2014			
Due from Group Companies	280.4	5.5	274.9
Other liabilities	35.2	5.0	30.2
Retained earnings	191.1	0.5	190.6

In 2014, the PPI provision was understated. This has therefore increased the PPI charges reported in the prior year as well as other liabilities. As these costs are recharged to the Bank, this has also increased fee and commission income and amounts due from Group Companies.

The restatements have had a £0.5m impact on the profit before tax and £0.5m impact on net assets in 2014.

22. FUTURE ACCOUNTING DEVELOPMENTS

The following pronouncements may have a significant effect on the Group's financial statements but are not applicable for the year ending 31 December 2015 and have not been applied in preparing these financial statements. Save as disclosed below, the full impact of these accounting changes is being assessed by the Company.

Pronouncement	Nature of change	IASB effective date
IFRS 9 Financial Instruments ¹	<p>Replaces IAS 39 <i>Financial Instruments: Recognition and Measurement</i>. IFRS 9 requires financial assets to be classified into three measurement categories, fair value through profit and loss, fair value through other comprehensive income and amortised cost, on the basis of the objectives of the entity's business model for managing its financial assets and the contractual cash flow characteristics of the instruments. The requirements for derecognition are broadly unchanged from IAS 39. The standard also retains most of the IAS 39 requirements for financial liabilities except for those designated at fair value through profit or loss whereby that part of the fair value change attributable to the entity's own credit risk is recorded in other comprehensive income. The classification and measurement change is not expected to have a significant impact on the Company.</p> <p>IFRS 9 also replaces the existing IAS 39 'incurred loss' impairment approach with an expected credit loss approach. Loan commitments and financial guarantees not measured at fair value through profit or loss are also in scope. Those changes may result in an increase in the Company's balance sheet provisions for credit losses at the initial application date (1 January 2018) depending upon the composition of the Company's amortised cost financial assets, as well as the general economic conditions and the future outlook.</p> <p>The hedge accounting requirements of IFRS 9 are more closely aligned with risk management practices and follow a more principle-based approach than IAS 39. The general hedging change is not expected to have a significant impact on the Company.</p>	Annual periods beginning on or after 1 January 2018

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015 (CONTINUED)**

22. FUTURE ACCOUNTING DEVELOPMENTS

IFRS 15 <i>Revenue from Contracts with Customers</i> ¹	Replaces IAS 18 Revenue and IAS 11 Construction Contracts. IFRS 15 establishes principles for reporting useful information about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised at an amount that reflects the consideration to which the entity expects to be entitled in exchange for goods and services. Financial instruments, leases and insurance contracts are out of scope and so this standard is not expected to have a significant impact on the Company.	Annual periods beginning on or after 1 January 2017
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1 As at April 2016, 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 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 financial statements 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 financial statements of both companies may be obtained from Group Secretariat, Lloyds Banking Group plc, 25 Gresham Street, London EC2V 7HN.