

Cheltenham & Gloucester plc

Annual report and financial statements for the year ended 31 December 2016

Registered office

Barnett Way
Gloucester
GL4 3RL

Registered number

02299428

Current directors

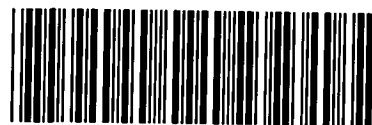
C Gowland
R W Fletcher

Company Secretary

P Gittins

Member of Lloyds Banking Group

TUESDAY



A6546PP6

A21

25/04/2017

#236

COMPANIES HOUSE

Cheltenham & Gloucester plc

Strategic report

For the year ended 31 December 2016

The directors present their Strategic report for the Company for the year ended 31 December 2016.

Business overview

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.

In the current year the Company made a profit before tax of £32.8m (2015 £50.2m restated). The decrease was driven by a reduction in fee and commission income of £35.2m and reduced operating expenses of £18.1m. The Company operates as a service charge company to the Bank and the key driver in the reduction of fee and commission income was a reduction in PPI operating costs in comparison to 2015 and a reduction in operating expenses as the Company strives to become more cost efficient.

No dividends were paid or proposed during the year ended 31 December 2016 (2015: £190.5m).

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 20 to the financial statements.

Key Performance Indicators (KPIs)

Given the straightforward nature of the business, the Company's directors are of the opinion that analysis using KPIs is not necessary for an understanding of the development, performance or position of the business.

Future outlook

The Company continues to arrange and administer mortgage and savings accounts for the Bank. The contract the Company has with the Bank governing the standards of service provision and reimbursement is being reviewed, along with the Company's regulatory permissions, as part of the Bank's continuing drive to simplify its operations.

General

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

Approved by the board of directors and signed on its behalf by:



R W Fletcher
Director

20 April 2017

For the year ended 31 December 2016

General information

The Company is a public limited company incorporated and domiciled in England and Wales (registered number 02299428).

The Company is funded entirely by other companies within the Lloyds Banking Group plc ("the Group").

Results and Dividends

Results and dividends are discussed in the Strategic report.

Going concern

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

The current Directors of the Company, as listed on the cover, are all male.

The following change has taken place between the beginning of the reporting year and the approval of the Annual report and financial statements:

A R Brindley resigned 7 October 2016

Information included in the Strategic report

The disclosures for Principal risks and uncertainties, future outlook and key performance indicators that would otherwise be required to be disclosed in the Directors' report can be found in the Strategic report

Financial Risk Management

Details of the Company's and Group's risk management policy are contained in note 20 to the financial statements.

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.

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' report (continued)

For the year ended 31 December 2016

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.

Directors' indemnities

Lloyds Banking Group plc has granted to the directors of the Company 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 directors who join 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 have the benefit of this contract of indemnity during that period of service. The indemnity remains in force for the duration of the directors' periods of office. The deed indemnifies the directors to the maximum extent permitted by law. Deeds for existing directors are 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 of directors' responsibilities

The directors are responsible for preparing the 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 (IFRSs) 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.

Disclosure of information to auditors

Each director in office at the date of this report confirms that:

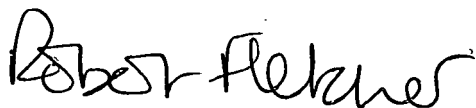
- so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- the director has taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's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

Independent auditors

PricewaterhouseCoopers LLP are deemed to be re-appointed as auditors under section 487(2) of the Companies Act 2006.

Approved by the board of directors and signed on its behalf by:



R W Fletcher
Director

20 April 2017

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 2016 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 Balance sheet as at 31 December 2016;
- the Income Statement and the Statement of comprehensive income 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.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- 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; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Directors' Report. We have nothing to report in this respect.

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.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the director

As explained more fully in the Statement of directors' responsibilities set out on page 3, 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 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.

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK and 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. With respect to the Strategic Report and Directors' Report, we consider whether those reports include the disclosures required by applicable legal requirements.

Claire Turner

Claire Turner (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Bristol

20 April 2017

Cheltenham & Gloucester plc**Income statement**

For the year ended 31 December 2016

	Note	2016 £'000	Restated 2015 £'000
Interest income		340	598
Fees and commission income		83,227	118,446
Total Revenue		83,567	119,044
Other operating expenses	3	(50,761)	(68,868)
Profit before tax		32,806	50,176
Taxation	6	(6,758)	(9,791)
Profit for the year		26,048	40,385

Statement of comprehensive income

For the year ended 31 December 2016

	Note	2016 £'000	Restated 2015 £'000
Profit for the year		26,048	40,385
Other comprehensive income/(expense)			
<i>Items that will not subsequently be reclassified to profit or loss:</i>			
Remeasurement of post-employment benefit obligations			
- before tax amount	6	35,422	(845)
- tax (charge)/credit	6	(6,730)	30
		28,692	(815)
Total comprehensive income for the year		54,740	39,570

The accompanying notes to the financial statements are an integral part of these financial statements.

The 2015 comparatives have been restated to reflect the restatement explained in note 24.

Cheltenham & Gloucester plc

Balance sheet

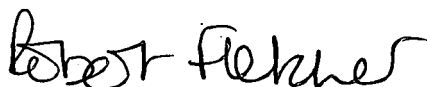
As at 31 December 2016

	Note	2016 £'000	Restated 2015 £'000	Restated 1st Jan 2015 £'000
ASSETS				
Cash and cash equivalents		106,726	8,787	78,186
Other current assets	8	205,616	237,120	280,712
Property, plant and equipment	10	13,874	14,581	14,453
Deferred tax asset	15	-	5,645	5,962
Total assets		326,216	266,133	379,313
LIABILITIES				
Borrowed funds	11	131,541	78,138	27,631
Other current liabilities	12	250	38	9,765
Provision for liabilities and charges	13	11,029	11,706	12,700
Accruals and deferred income	14	1,232	10,396	12,718
Deferred tax liability	15	1,167	-	-
Current tax liability		16,004	19,794	20,305
Retirement benefit obligations	16	587	36,395	35,598
Total liabilities		161,810	156,467	118,717
EQUITY				
Share capital	17	70,000	70,000	70,000
Retained earnings		94,406	39,666	190,596
Total equity		164,406	109,666	260,596
Total equity and liabilities		326,216	266,133	379,313

The accompanying notes to the financial statements are an integral part of these financial statements.

The 2015 comparatives have been restated to reflect the restatement explained in note 24.

The financial statements were approved by the board of directors and were signed on its behalf by:



R W Fletcher
Director

20 April 2017

Statement of changes in equity

For the year ended 31 December 2016

	Share capital £'000	Retained earnings £'000	Total equity £'000
At 1 January 2015 - previously reported	70,000	191,055	261,055
Prior year adjustment (see note 24)	-	(459)	(459)
At 1 January 2015 - restated	70,000	190,596	260,596
Profit for the year	-	40,385	40,385
Other comprehensive expense for the year	-	(815)	(815)
Dividend paid to equity holders of the Company	-	(190,500)	(190,500)
At 31 December 2015	70,000	39,666	109,666
Profit for the year	-	26,048	26,048
Other comprehensive income for the year	-	28,692	28,692
At 31 December 2016	70,000	94,406	164,406

The accompanying notes to the financial statements are an integral part of these financial statements.

The 2015 comparatives have been restated to reflect the restatement explained in note 24.

Cheltenham & Gloucester plc**Cash flow statement**

For the year ended 31 December 2016

	2016 £'000	Restated 2015 £'000
Cash flows generated from operating activities		
Profit before tax	32,806	50,176
Adjustments for:		
- Depreciation and impairment	707	(397)
- Decrease in Provision for liabilities and charges	(677)	(994)
- Retirement benefit obligations	(35,808)	797
- Net decrease in Other current assets	31,504	43,592
- Net decrease in Other current liabilities and accruals and deferred income	(8,952)	(12,049)
Cash generated from operations	19,580	81,125
Group relief paid	(10,466)	(9,955)
Net gain/(loss) on defined benefit scheme remeasurements	35,422	(845)
Net cash generated from operating activities	44,536	70,325
Cash flows generated from investing activities		
Proceeds from sale of Property, plant and equipment	-	269
Net cash generated from investing activities	-	269
Cash flows generated from/(used in) financing activities		
Proceeds from borrowings with group undertakings	53,403	50,507
Dividends	-	(190,500)
Net cash generated from/(used in) financing activities	53,403	(139,993)
Change in Cash and cash equivalents	97,939	(69,399)
Cash and cash equivalents at beginning of year	8,787	78,186
Cash and cash equivalents at end of year	106,726	8,787

The accompanying notes to the financial statements are an integral part of these financial statements.

The 2015 comparatives have been restated to reflect the restatement explained in note 24.

Cheltenham & Gloucester plc

Notes to the financial statements

For the year ended 31 December 2016

1. Accounting policies

1.1 Basis of preparation

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied in both years presented, unless otherwise stated.

These financial statements have been prepared in accordance with applicable IFRSs as adopted by the European Union and the Companies Act 2006 applicable to companies reporting under IFRSs. IFRSs comprise 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 IFRS Interpretations Committee ("IFRS IC") and its predecessor body.

The following new IFRS pronouncements relevant to the Company have been adopted in these financial statements:

- (i) Annual improvement to IFRSs (issued December 2013). A collection of amendments to IFRSs from the 2012 - 14 cycle of the annual improvements projects.
- (ii) Amendments to IAS 1: Disclosure Initiative (issued December 2014). The amendments provide clarification of existing IAS 1 requirements on materiality and the presentation of the financial statements and associated notes.

The application of these pronouncements has not had any impact for amounts recognised in these financial statements.

Details of those pronouncements which will be relevant to the Company but which were not effective at 31 December 2016 and which have not been applied in preparing these financial statements are given in note 25. No standards have been early adopted.

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 exemptions under IFRS 10 Consolidated Financial Statements and Section 400 of the 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 company.

Historically the Balance sheet of the Company has been presented on a current/non-current basis. On review of the financial statements, the decision was made to present the Balance sheet as at 31 December 2016 and 31 December 2015 using the liquidity method, in order to make the presentation of the financial statements of the Company consistent with those of Lloyds Banking Group plc.

The financial statements have been prepared on a going concern basis as detailed in the Directors' report and under the historical cost convention.

1.2 Income recognition

Income and expense from financial assets

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

Fees and commission income and expense

Fees and commissions which are not an integral part of the effective interest rate (such as income arising from the administration of mortgages and savings on behalf of Lloyds Bank Plc) are generally recognised in the Income statement on an accruals basis when the service has been provided.

Cheltenham & Gloucester plc

Notes to the financial statements (continued)

For the year ended 31 December 2016

1. Accounting policies (continued)

1.3 Financial assets and liabilities

Financial assets comprise Amounts due from group undertakings and Other debtors. Financial liabilities comprise Amounts due to group undertakings and Other current liabilities.

Financial assets and liabilities are recognised when the Company becomes a party to the contractual provisions of the instrument. Financial assets and liabilities are derecognised when the rights to receive cash flows, or obligations to pay cash flows, have expired.

Interest bearing financial assets and financial liabilities are recognised and measured at amortised cost inclusive of transaction costs, using the effective interest rate method.

1.4 Property, plant and equipment

Property, plant and equipment is included at historical purchase cost less depreciation and any impairment allowance. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Depreciation is calculated using the straight line method to allocate the difference between the cost and expected residual value over the estimated useful life, 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

Future rates of depreciation are reassessed each year in light of changes to anticipated residual values, and are amended prospectively unless the reduction in residual values are significant enough to be deemed an impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. In the event that an asset's carrying value is determined to be greater than its recoverable amount it is written down immediately. The recoverable amount is the higher of the asset's fair value less costs to sell and its value in use.

1.5 Taxation, including deferred income taxes

Current tax which is payable or receivable on taxable profits or losses is recognised as an expense or credit in the period in which the profits or losses 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 financial statements. Deferred tax is determined using tax rates that have been enacted or substantively enacted by the balance sheet date that 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. The tax effect of losses available for carry forward are recognised as an asset when it is probable that future taxable profits will be available in the Company or the Group against which these losses can be utilised.

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.

1.6 Investment in subsidiary undertakings

Investment in subsidiary undertakings is stated in the Balance sheet at cost less any provision for impairment.

Investment in subsidiary undertakings is reviewed for impairment losses at the end of each period and whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised in the Income statement for the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of an asset's net realisable value and value in use. For the purposes of assessing impairment, investments are grouped at the lowest level at which cash flows are separately monitored by management.

Cheltenham & Gloucester plc

Notes to the financial statements (continued)

For the year ended 31 December 2016

1. Accounting policies (continued)

1.7 Retirement benefit obligations

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 contribution and defined benefit pension plans.

It is the policy of the Company's immediate parent company to recharge the costs of post-retirement benefit schemes and, for defined benefit schemes to allocate the related assets and liabilities to participating company's based on the level of contributions paid in relation to staff providing services to that company.

Defined contribution

A defined contribution plan is a pension plan under which the Company pays fixed contributions; there is no legal or constructive obligation to pay further contributions. The Company receives recharges in respect of a defined contribution plan operated by the Group based on the level of contributions paid in relation to staff providing services to this Company. These are charged to the Income Statement in the period in which they fall due.

Defined benefit

A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and salary.

Full actuarial valuations of the Group's defined benefit schemes are carried out every three years with interim reviews in the intervening years; these 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 have terms to maturity approximating to the terms of the related pension liability.

The Income Statement includes the current service cost of providing pension benefits, past service cost, net interest expense (income); 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 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 fair value of scheme assets less the discounted value of scheme liabilities. Surpluses are only recognised to the extent that they are recoverable through reduced contributions in the future or through refunds from the schemes.

1.8 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.

1. Accounting policies (continued)

1.9 Share based payments

The Company's ultimate parent company operates a number of group wide, equity settled, share based compensation plans. The Company's share of the value of the employees' services received in exchange for equity instruments granted under these plans is recognised as an expense over the vesting period of the instruments. 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. Cancellations by employees of contributions to the Group's Save As You Earn scheme are treated as non-vesting conditions and the Company recognises in the year of cancellation, the amount of the expense that would have otherwise been recognised over the remainder of the vesting period.

The Company receives recharges in respect of a number of share based compensation plans operated by the Company's ultimate parent company based on the fair value of the number of equity based instruments that are expected to vest in respect of services of the relevant employees included in note 4. Full details of these schemes can be found in the 2016 Annual Report and Accounts of the Group.

1.10 Provision for liabilities and charges

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.

2. Critical accounting estimates and judgements in applying accounting policies

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although those estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates.

Deferred tax

The recoverability of the Deferred tax asset requires the consideration of the level of forecast taxable profits in the Group, taking into account the Group's long term financial and strategic plans.

The Deferred tax asset has been recognised on the basis that tax losses arising in the future will be used by the Company against taxable profits or surrendered as group relief which will be paid for by the recipient company.

Defined benefit schemes

The value of the Group's defined benefit schemes' liabilities requires management to make a number of assumptions. The key areas of estimation uncertainty are the discount rate applied to future cash flows and the expected lifetime of the schemes' members. The accounting surplus or deficit is sensitive to changes in the discount rate, which is affected by market conditions and therefore potentially subject to significant variation. The cost of the benefits payable by the schemes will also depend upon the longevity of the members. Assumptions are made regarding the expected lifetime of scheme members based on recent experience and extrapolate the improving trend, however given the rate of advance in medical science and increasing levels of obesity, it is uncertain whether they will ultimately reflect actual experience.

The key assumptions used are set out in note 16.

Payment Protection Insurance

At 31 December 2016, the Company carried a provision of £10,779k (2015: £10,930k) against the cost of making redress payments to customers and the related administration costs in relation to the mis-selling of Payment Protection Insurance ("PPI"). Determining the amount of the provision, which represent management's best estimate of the cost of settling these issues, requires the exercise of significant judgement. It will often be necessary to form a view on matters which are inherently uncertain, such as the number of future complaints, the extent to which they will be upheld and the average cost of redress. Consequently the continued appropriateness of the underlying assumptions is reviewed on a regular basis against actual experience and other relevant evidence and adjustments made to the provisions where appropriate.

Cheltenham & Gloucester plc
Notes to the financial statements (continued)

For the year ended 31 December 2016

3. Other operating expenses

	2016 £'000	2015 £'000
Staff costs (see note 4)	5,859	6,326
Depreciation (see note 10)	620	498
Impairment (see note 10)	87	(895)
Operating lease rentals – land and buildings	292	396
PPI Charges (see note 13)	12,600	25,800
Amounts recharged from Group	37,428	34,281
Other operating expenses	(6,125)	2,462
	50,761	68,868

Fees payable to the Company's auditors for the audit of the financial statements of £15,000 (2015: £15,000) have been borne by a fellow subsidiary undertaking and are recharged to the Company via Management fees. Accounting and administration services are provided by a fellow subsidiary undertaking and are recharged to the Company as part of Management fees.

4. Staff costs

	2016 £'000	2015 £'000
Wages and salaries	4,145	5,081
Social security costs	397	472
Share based payments (see note 18)	103	138
Other pension costs – defined contribution plans (see note 16)	195	300
Other pension costs – defined benefit plans (see note 16)	223	335
Redundancy costs	796	-
	5,859	6,326

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

	2016	2015
Persons employed and paid directly by the Company - all UK	145	180
Persons employed and recharged to other group companies - all UK	553	633
	698	813

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 other operating expenses.

No compensation has been paid or is payable to key management personnel in the year (2015: £nil).

5. Directors' emoluments

No director received any fees or emoluments from the Company during the year (2015: £nil). The directors are employed by other companies within the Group and consider that their services to the Company are incidental to their other responsibilities within the Group.

Cheltenham & Gloucester plc
Notes to the financial statements (continued)
For the year ended 31 December 2016

6. Taxation

	2016 £'000	Restated 2015 £'000
a) Analysis of charge for the year		
UK corporation tax:		
- Current tax on taxable profit for the year	6,501	9,579
- Adjustments in respect of prior years	175	(135)
Current tax charge	6,676	9,444
UK deferred tax:		
- Origination and reversal of timing differences	40	221
- Adjustments in respect of prior years	44	126
- Impact of deferred tax rate change	(2)	-
Deferred tax charge	82	347
Tax charge	6,758	9,791

Corporation tax is calculated at a rate of 20.00% (2015: 20.25%) of the taxable profit for the year.

b) Factors affecting the tax charge for the year

Where taxation on the Company's profit for the year differs from the taxation charge that would arise using the standard rate of corporation tax of 20.00% (2015: 20.25%), the differences are explained below:

	2016 £'000	Restated 2015 £'000
Profit before tax	32,806	50,176
Tax charge thereon at UK corporation tax rate of 20.00% (2015: 20.25%)	6,561	10,161
Factors affecting charge:		
- Non-allowable and non-taxable items	167	107
- Adjustments in respect of prior years	219	(261)
- Effect of reduction in tax rate and related impacts	(2)	158
- Timing differences not recognised	(187)	(374)
Tax charge on profit	6,758	9,791
Effective rate	20.6%	19.5%

Cheltenham & Gloucester plc
Notes to the financial statements (continued)

For the year ended 31 December 2016

6. Taxation (continued)

c) Tax effects relating to Other comprehensive income/(expense)

The tax effect relating to Other comprehensive income/(expense) is as follows:

	Before tax amount £'000	Tax (charge)/ credit £'000	Net of tax amount £'000
2016			
Pension remeasurement	35,422	(6,730)	28,692
2015			
Pension remeasurement	(845)	30	(815)

The Finance Act 2013 which was substantively enacted on 2 July 2013 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 (No. 2) Act 2015 which was substantively enacted on 26 October 2015 reduced the main rate of corporation tax to 19% with effect from 1 April 2017 and 18% with effect from 1 April 2020.

The Finance Act 2016, which was substantively enacted on 6 September 2016, further reduced the corporate tax rate to 17% with effect from 1 April 2020.

7. Dividends

	2016 £'000	2015 £'000
Equity - ordinary		
Final paid: nil (2015: £2.721) per £1 share	-	(190,500)

8. Other current assets

	2016 £'000	Restated 2015 £'000
Amounts due from group undertakings (see note 19)	204,855	236,787
Prepayments and accrued income	177	60
Other debtors	584	273
	205,616	237,120

Amounts due from group undertakings is unsecured, non-interest bearing and repayable on demand.

The fall in amounts from Group Companies is driven by the settlement of intercompany balances.

Notes to the financial statements (continued)

For the year ended 31 December 2016

9. Investments

Investment in subsidiary undertakings is stated at cost less impairment. As permitted by section 611 of the Companies Act 2006, where the relief afforded under section 612 of the Companies Act 2006 applies, cost is the aggregate of the nominal value of the relevant number of the Company's shares and the fair value of any other consideration given to acquire the share capital of the subsidiaries.

The subsidiary undertakings at 31 December 2016 and 31 December 2015, listed below, are all incorporated in England and Wales. The registered address of all these subsidiaries as at 31st December 2016 is Barnett Way, Gloucester GL4 3RL.

Subsidiary undertakings	Company interest %	Country of registration / incorporation	Principal activities	Share Class
C&G Estate Agents Limited	100%	England and Wales	Dormant	Ordinary
C&G Financial Services Limited	100%	England and Wales	Dormant	Ordinary
C&G Homes Limited	100%	England and Wales	Dormant	Ordinary
Central Mortgage Finance Limited	100%	England and Wales	Dormant	Ordinary
Barnwood Mortgages Limited	100%	England and Wales	Dormant	Ordinary

C&G Property Holdings Limited and C&G Financial Services Limited have been dissolved in 2016 and 2017 respectively. C&G Homes Limited was placed in liquidation in March 2017.

10. Property, plant and equipment

	Land & buildings £'000	Office and other equipment £'000	Total £'000
Cost			
At 1 January 2015	21,852	4,946	26,798
Reversal of impairment	895	-	895
Disposals	(399)	-	(399)
At 31 December 2015	22,348	4,946	27,294
Impairment adjustment	(87)	-	(87)
At 31 December 2016	22,261	4,946	27,207
Accumulated depreciation			
At 1 January 2015	7,659	4,686	12,345
Charge for the year (see note 3)	398	100	498
Disposals	(130)	-	(130)
At 31 December 2015	7,927	4,786	12,713
Charge for the year (see note 3)	590	30	620
At 31 December 2016	8,517	4,816	13,333
Balance sheet amount at 31 December 2016	13,744	130	13,874
Balance sheet amount at 31 December 2015	14,421	160	14,581

Included in Land and buildings is leasehold land with a net book value of £4,093,000 (2015: £4,093,000).

A valuation of the land and buildings at 31 December 2016 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 lower than the current net book value and an impairment £87k is recorded in the financial statements.

Notes to the financial statements (continued)

For the year ended 31 December 2016

10. Property, plant and equipment (continued)

At 31 December the Company had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2016 £'000	2015 £'000
Not later than one year	138	292
Later than one year and not later than five years	462	490
Later than five years	633	743
	1,233	1,525

11. Borrowed funds

	2016 £'000	2015 £'000
Amounts due to group undertakings (see note 19)	- 131,541	78,138

Amounts due to group undertakings are unsecured and repayable on demand, although there is no expectation that such a demand would be made. All amounts are non-interest bearing.

12. Other current liabilities

	2016 £'000	2015 £'000
Other creditors	197	1
Other tax and social security payable	53	37
	250	38

13. Provision for liabilities and charges

	PPI provision £'000	Other provision £'000	Total £'000
At 1 January 2015	10,900	1,800	12,700
Charge for the year	25,800	(926)	24,874
Utilised during the year	(25,770)	(98)	(25,868)
At 31 December 2015	10,930	776	11,706
Charge for the year	12,600	163	12,763
Utilised during the year	(12,751)	(689)	(13,440)
At 31 December 2016	10,779	250	11,029

The potential future transfer of economic benefits from claims made against the Company in relation to PPI is assessed on a regular basis and provision made for the estimated future outflows. The settlement costs incurred by the Company are recharged to Lloyds Bank plc under the terms of its service charge agreement.

14. Accruals and Deferred Income

	2016 £'000	2015 £'000
Accrued operating expenses	1,232	10,396

During the year £8.3m of accrued operating expense were released

Cheltenham & Gloucester plc
Notes to the financial statements (continued)
For the year ended 31 December 2016

15. Deferred tax

The movement in the Deferred tax is as follows:

	2016 £'000	2015 £'000
Asset at 1 January	5,645	5,962
Charge for the year (see note 6)	(82)	(347)
	5,563	5,615
Amount charged to equity - Pension remeasurement	(6,730)	30
(Liability)/ asset at 31 December	(1,167)	5,645

The deferred tax charge in the Income statement comprises the following temporary differences:

	2016 £'000	2015 £'000
Accelerated capital allowances	(210)	(225)
Pension	(73)	(205)
Share based payments	24	(127)
Other temporary differences	177	210
	(82)	(347)

Deferred tax comprises:	2016 £'000	2015 £'000
Accelerated capital allowances	(316)	(106)
Pension	112	6,915
Share based payments	39	15
Other temporary differences	(1,002)	(1,179)
Deferred tax (liability)/asset	(1,167)	5,645

The Finance Act 2013 which was substantively enacted on 2 July 2013 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 (No. 2) Act 2015 which was substantively enacted on 26 October 2015 reduced the main rate of corporation tax to 19% with effect from 1 April 2017 and 18% with effect from 1 April 2020.

The Finance Act 2016, which was substantively enacted on 6 September 2016, further reduced the main rate of corporation tax to 17% with effect from 1 April 2020.

Cheltenham & Gloucester plc
Notes to the financial statements (continued)

For the year ended 31 December 2016

16. Retirement benefit obligations

The Group operates a number of defined benefit and defined contribution schemes, in which some of the employees of the Company participate.

Defined contribution schemes

The majority of the people providing services to the Company ("employees") are members of the Lloyds Bank Group Pension Scheme No 1. New employees are offered membership of the defined contribution section of the Lloyds Bank Group Pension Scheme No 1.

During the year ended 31 December 2016 the charge to the Income statement in respect of employees in the defined contribution section of the scheme was £195,000 (2015: £300,000), representing the contributions payable by the Company in accordance with the scheme's rules. There are no outstanding or prepaid contributions at 31 December 2016 (2015: £nil).

Defined benefits schemes

The remaining employees of the Company are members of the defined benefit sections of the Lloyds Bank Group Pension Scheme No 1. This is a funded scheme providing retirement benefits calculated as a percentage of final pensionable salary depending upon the length of service. The minimum retirement age under the rules of the scheme at 31 December 2013 was generally 55 although certain categories of member are deemed to have a contractual right to retire at 50. They are operated as separate legal entities under trust law by trustees and the responsibilities for their governance lies with Pension Trustees.

The Company receives a recharge of the costs in respect of the defined benefit scheme and an allocation of the scheme assets and liabilities based on the level of contributions paid in respect of staff providing services to the Company. During the year, the allocation was revised to better reflect the split of contributions paid across the entities currently participating in the scheme.

Amount included in the Balance sheet:

	2016 £'000	2015 £'000
Company's share of present value of funded obligations	45,659	1,368,113
Company's share of fair value of scheme assets	(45,072)	(1,331,718)
Liability in the Balance sheet	587	36,395

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

	2016 £'000	2015 £'000
At 1 January	36,395	35,598
Remeasurement actuarial gains	(1,322,586)	(184)
Net charge to the Income statement	223	335
Net charge to the statement of comprehensive income	1,287,164	1,029
Contributions paid	(609)	(383)
At 31 December	587	36,395

The amounts recognised in the Income statement in respect of defined benefits schemes are as follows:

	2016 £'000	2015 £'000
Current service cost	196	338
Interest cost	(16)	(45)
Past service cost	10	6
Plan administration costs	33	36
	223	335

Cheltenham & Gloucester plc
Notes to the financial statements (continued)

For the year ended 31 December 2016

16. Retirement benefit obligations (continued)

Defined benefits schemes (continued)

The following information relates to Lloyds Group Pension Scheme No 1 as at 31 December 2016

In accordance with IAS 19R, the information below relates to the Lloyds Group No 1 Pension Scheme in which the Company participates. In previous years information relating to both Lloyds Group defined benefit schemes operated by the Company's ultimate parent company was provided, however the No2 scheme has now been excluded in order to provide more relevant information. The Company's ultimate parent company expects to pay contributions of approximately £575m in respect of all of its defined benefit schemes in 2017.

Movements in the defined benefit obligation:

	2016 £'000	2015 £'000
At 1 January	16,226,000	16,164,000
Current service cost	86,000	106,000
Interest cost	617,000	583,000
Remeasurements:		
Actuarial gain – experience	(212,000)	(93,000)
Actuarial losses – demographic assumptions	(83,000)	523,000
Actuarial losses – financial assumptions	4,072,000	(488,000)
Benefits paid	(650,000)	(571,000)
Past service cost	4,000	2,000
At 31 December	20,060,000	16,226,000

Changes in the fair value of scheme assets:

	2016 £'000	2015 £'000
At 1 January	16,293,000	16,481,000
Return on plan assets excluding amounts included in interest income	3,282,000	(323,000)
Interest income	624,000	597,000
Contributions by employer	268,000	120,000
Administrative costs paid	(15,000)	(11,000)
Benefits paid	(650,000)	(571,000)
At 31 December	19,802,000	16,293,000
Actual return on scheme assets	3,282,000	(323,000)

The principal actuarial and financial assumptions used were as follows:

	2016 %	2015 %
Discount rate	2.76	3.87
Rate of inflation		
- Retail Price Index	3.23	2.99
- Consumer Price Index	2.18	1.99
Rate of salary increases	-	-
Rate of increase for pensions in payment and deferred pensions	2.74	2.58

	Years	Years
Life expectancy for member aged 60, on the valuation date:		
- Men	28.1	28.1
- Women	30.3	30.4
Life expectancy for member aged 60, 15 years after the valuation date:		
- Men	29.3	29.5
- Women	31.7	31.9

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 the actual experience of the relevant schemes.

An analysis of the impact of a reasonable change in these assumptions is provided in the 2016 financial statements of the Company's ultimate parent company.

Notes to the financial statements (continued)

For the year ended 31 December 2016

16. Retirement benefit obligations (continued)**Defined benefits schemes (continued)**

Composition of scheme assets:

	2016 %	2015 %
Equities	1.36	1.34
Bonds	56.64	53.24
Property	0.04	3.75
Other	41.96	41.67
	100	100

The assets are held independently of the Company'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 rates based on the views of the plan's independent investment consultants. The expected return on equities allows for the different expected returns from the private equity, infrastructure and hedge fund investments held by some of the funded plans. Some of the funded plans also invest in certain money market instruments and the expected return on these investments has been assumed to be the same as cash.

17. Share capital

	2016 £'000	2015 £'000
Allotted, issued and fully paid ordinary shares of £1 each	70,000	70,000

18. Share based payments

During the year ended 31 December 2016, the Company's ultimate parent company operated share-based payment schemes, all of which are equity settled. Further details in respect of these schemes can be found in the financial statements of that company.

19. Related party transactions

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.

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.

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

	2016 £'000	2015 £'000
Interest Income		
Interest Income on deposits held with Lloyds Bank plc	340	598
Total Interest Income	340	598

Notes to the financial statements (continued)

For the year ended 31 December 2016

19. Related party transactions (continued)

	2016 £'000	Restated 2015 £'000
Commission receivable		
Commission receivable from Lloyds Bank plc	55,299	77,639
Commission receivable from Scottish Widows Group	11,195	20,492
Commission receivable from Lloyds Bank Insurance Service Ltd	16,733	20,315
Total Commission receivable from related parties	83,227	118,446

	2016 £'000	Restated 2015 £'000
Administrative expenses		
Administrative expenses from Lloyds Bank plc	3,799	1,364
Administrative expenses from BoS plc	33,629	32,917
Total Administrative expenses from related parties	37,428	34,281

A summary of the outstanding balances at the year end is set out below.

	2016 £'000	Restated 2015 £'000
Amounts due from group undertakings		
Amounts due from Lloyds Bank plc	36,021	93,960
Amounts due from Scottish Widows Group	59,621	65,854
Amounts due from Lloyds Bank Insurance Services Ltd	9,213	16,973
Amounts on deposit with Lloyds Bank plc	100,000	60,000
Total Amounts due from group undertakings	204,855	236,787

	2016 £'000	2015 £'000
Amounts payable to group undertakings		
Amounts payable to BOS plc	106,076	59,844
Amounts payable to Lloyds Bank plc	25,465	18,294
Total Amounts due to group undertakings	131,541	78,138

20. Financial risk management

The Company's operations expose it to credit risk, liquidity risk and interest rate risk; it is not exposed to any significant foreign exchange risk. Responsibility for the control of overall risk lies with the board of directors, operating within a management framework established by the ultimate parent, Lloyds Banking Group plc.

A description of the Company's financial assets/liabilities and associated accounting is provided in note 1.

Cheltenham & Gloucester plc

Notes to the financial statements (continued)

For the year ended 31 December 2016

20. Financial risk management (continued)

20.1 Credit risk

Credit risk management

Credit risk is the risk that a counterparty will be unable to pay amounts in full when due. 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.

20.2 Liquidity risk

Liquidity risk is the risk that the Company is unable to meet its obligations as they fall due. To manage this risk extensive borrowing facilities are available from within the Group.

Liquidity risks are managed as part of the Group by an intermediate parent company, Lloyds Bank plc, in consultation with the board of directors. Monthly reviews of funding positions are undertaken to anticipate any shortfalls.

The Company is funded entirely by companies within the Group. The table below sets out the cash flows payable by the Company in respect of Borrowed funds, by remaining contractual undiscounted repayments of principal and interest, at the balance sheet date.

As at 31 December 2016

	Up to 1 month £'000	1-3 months £'000	3-12 months £'000	1-5 years £'000	Total £'000
Borrowed funds	131,541	-	-	-	131,541

As at 31 December 2015

	Up to 1 month £'000	1-3 months £'000	3-12 months £'000	1-5 years £'000	Total £'000
Borrowed funds	78,138	-	-	-	78,138

All other funding is repayable on demand, although there is no expectation that such a demand would be made. All other financial liabilities are repayable on demand.

20.3 Interest rate risk

Interest rate risk is the risk of financial loss as a result of adverse movements in interest rates, and arises largely because of timing differences between the repricing of financial assets and liabilities. Interest rate risk is managed at a divisional level. The Company has no interest bearing assets from third parties and no deposits are placed outside of the Lloyds Banking Group plc.

The Company has interest bearing assets on deposits held within Lloyds Banking Group plc and interest earned on these amounts is variable and based on a 60 month rolling average of the 5 year swap rate.

A sensitivity analysis has been performed as at 31 December 2016 to assess the impact on interest margins being 50 base points higher or lower with all other variables held constant. The Company has taken a prudent approach to this analysis by assuming that any base point movement would be completely reflected in all variable products. The net effect on the Company's income statement would be as shown in the following table:

	-50bps £'000	Profit before taxation £'000	+50 bps £'000
2016	123	340	557
2015	381	598	815

In respect of income-earning financial assets and interest-bearing financial liabilities, the following table indicates the years in which they re-price:

	Less than 1 year £'000	Between 1-2 years £'000	Between 2-5 years £'000	5 years or more £'000	Total £'000
2016					
Interest-bearing cash & cash equivalents	106,725	-	-	-	106,725
2015					
Interest-bearing cash & cash equivalents	8,787	-	-	-	8,787

Cheltenham & Gloucester plc

Notes to the financial statements (continued)

For the year ended 31 December 2016

21. Capital disclosures

The Company's objectives when managing capital are to safeguard the entity's ability to continue as a going concern, provide an adequate return to its shareholders through pricing products and services commensurately with the level of risk and, indirectly, to support the Group's regulatory capital requirements.

The Company's parent manages the Company's capital structure and advises the board of directors to consider making adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the board of directors may adjust the amount of dividends to be paid to shareholders, return capital to shareholders, issue new shares, or sell assets.

The Company's capital comprises all components of equity, movements in which appear in the Statement of changes in equity. The Company receives its funding requirements from its fellow group undertakings and does not raise funding externally.

The Company is authorised and regulated by the Financial Conduct Authority ('FCA') and is subject to the FCA's capital resource requirements as set out by the FCA. Capital is actively managed at an appropriate level of frequency and regulatory capital levels are a key factor in the Company's budgeting and planning processes.

22. Contingent tax liabilities

The Group 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. The Group has an open matter in relation to a claim for group relief of losses incurred in its former Irish banking subsidiary, which ceased trading on 31 December 2010. In 2013 HMRC informed the Group that their interpretation of the UK rules, permitting the offset of such losses, denies the claim; if HMRC's position is found to be correct management estimate that this would result in an increase in current tax liabilities for the company of approximately £23,646k (including interest). The Group 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.

23. Post balance sheet events

There are no post balance sheet events requiring disclosure in these financial statements.

24. Restatement of comparatives

The following items have been restated in the 2015 comparatives. Details of amounts and account items affected are provided:

	Restated £'000	Adjustment £'000	Previously reported £'000
Income statement			
Fees and commission income	118,446	(1,534)	119,980
Taxation	(9,791)	307	(10,098)
Balance sheet			
At 1 January 2015			
Other current assets	280,712	(574)	281,286
Current tax liability	20,305	(115)	20,420
Retained Earnings	190,596	(459)	191,055

Notes to the financial statements (continued)

For the year ended 31 December 2016

24. Restatement of comparatives (continued)

At 31 December 2015		Restated £'000	Adjustment £'000	Previously reported £'000
Other current assets	(a)	237,120	(2,108)	239,228
Current tax liability	(a)	19,794	(462)	20,256
Retained Earnings	(a)	39,666	(1,646)	41,312

- (a) Under IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors', the Company is required to correct all material prior period errors retrospectively. It has been identified that the service charge received on impairment expenses has not been accounted for correctly. The 2015 and 2014 comparatives have been restated as the error has been applied retrospectively.

The restatement has resulted in the derecognition of revenue of £2,108,000 being the service charge received on the reversal of impairment charges. The restatement has also resulted in a decrease in amounts due from group companies of £2,108,000 and an reduction in current tax liability of £422,000 as at 31 December 2015.

25. Future developments

The following pronouncements will be relevant to the Company but were not effective at 31 December 2016 and have not been applied in preparing these financial statements.

Pronouncement	Nature of change	Effective date
IFRS 9 'Financial Instruments' ¹	Replaces IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 requires financial assets to be classified into one of three measurement categories, fair value through profit or 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. IFRS 9 also replaces the existing 'incurred loss' impairment approach with an expected credit loss approach. 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.	Annual periods beginning on or after 1 January 2018
IFRS 15 'Revenue from Contracts with Customers' ¹	IFRS 15 replaces IAS 18 Revenue and IAS 11 Construction Contracts. Financial instruments, leases and insurance contracts are out of scope; however, fee recognition associated with credit cards and packaged products, for example, will need to be reviewed. The standard is not currently expected to have a significant impact on the Company's profitability. Limited, or no systems or process impacts are expected as a result of adopting IFRS 15. IFRS 15 is effective for annual periods beginning on or after 1 January 2018.	Annual periods beginning on or after 1 January 2018
IFRS 16 'Leases' ¹	IFRS 16 replaces IAS 17 Leases and requires lessees to recognise a right of use asset and a liability for future payments arising from a lease contract. Lessees will recognise a finance charge on the liability and a depreciation charge on the asset which could affect the timing of the recognition of expenses on leased assets. This change will mainly impact the properties that the Company currently accounts for as operating leases. Finance systems will need to be changed to reflect the new accounting rules and disclosures.	Annual periods beginning on or after 1 January 2019

Cheltenham & Gloucester plc

Notes to the financial statements (continued)

For the year ended 31 December 2016

25. Future developments

Pronouncement	Nature of change	Effective date
Minor amendments to other accounting standards ¹	During 2016, the IASB has issued amendments to IAS 7 Statement of Cash Flows (which require additional disclosure about an entity's financing activities) and IAS 12 Income Taxes (which clarify when a deferred tax asset should be recognised for unrealised losses) together with a number of other minor amendments to IFRSs, which will be effective for annual periods beginning on or after either 1 January 2017 or 1 January 2018. These revised requirements are not expected to have a significant impact on the Company.	Annual periods beginning on or after 1 January 2017 or 1 January 2018

1. At the date of this report, these pronouncements were awaiting EU endorsement.

The full impact of these pronouncements is being assessed by the Company. However, the initial view is that they are not expected to cause any material adjustments to the reported numbers in the financial statements.

26. Ultimate parent undertaking and controlling party

The immediate parent company is Lloyds Bank plc. The company regarded by the directors as the ultimate parent company and controlling party is Lloyds Banking Group plc (incorporated 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. Lloyds Bank plc is the parent undertaking of the smallest such group of undertakings. Copies of the financial statements of both companies may be obtained from Group Secretariat, Lloyds Banking Group plc, 25 Gresham Street, London, EC2V 7HN. The Lloyds Banking Group plc financial statements may be downloaded via www.lloydsbankinggroup.com.