

Cheltenham & Gloucester Public Limited Company

Annual report and financial statements for the year ended 31 December 2017

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

Cheltenham & Gloucester Public Limited Company

Strategic report

For the year ended 31 December 2017

The directors present their strategic report and the audited financial statements of Cheltenham & Gloucester Public Limited Company ("the Company") for the year ended 31 December 2017.

Review of strategy and the business model

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

Following the transfer of the mortgage book (April 2017) and savings book (October 2017) to the Bank the Company is operating as provider to support the servicing of the Lloyds mortgage and savings book.

Costs in the period to 31 December 2017 continued to be recharged at cost plus 10% in accordance with the 2007 service charge agreement. A new service charge agreement will come into force with effect from 1 January 2018 whereby the Company will recover its costs from the Bank and will receive fee and commission income on the sale of insurance policies. This reflects the Company becoming a resource centre to support servicing of the Lloyds mortgage and savings book.

Review of the business

In the current year the Company made a profit before tax of £29.7m (2016 £32.8m). The decrease reflects lower insurance income with a decline in the value of the existing protection book whilst the net benefit of recharging the operating expenses to the Bank increased. This is driven by £18.2m of additional Payment Protection Insurance ("PPI") charges associated with a revised allocation methodology, offset by other operating expenses.

Following a £35.4m benefit to post-employment benefit obligations in 2016, due to changes in the allocation methodology, the 2017 benefit of £0.8m reflects positive returns on scheme investments. As a result the £0.6m liability at the end of 2016 has moved to a £0.5m asset for 2017.

Key Performance Indicators (KPIs)

Given the nature of the business it is considered that the understanding of key drivers within profit before tax is sufficient and that analysis using KPIs is not necessary for an understanding of the development, performance or position.

Financial risk management

The key risks and uncertainties faced by the Company are managed within the framework established for the Group. The key risks surrounding credit, liquidity, markets and operations are discussed in note 19. There are no areas of concern that carry significant risks of causing material adjustments to the carrying value of the Company's assets and liabilities.

Future developments

The contract the Company has with the Bank which governs the standards of service provision and reimbursement is being reviewed as part of the Group's continuing drive to simplify its operations. A request has been submitted to the FCA to proceed with the cancellation of the Company's regulatory permissions. The Company is awaiting a response from the FCA.

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

 April 2018

Cheltenham & Gloucester Public Limited Company

Directors' report

For the year ended 31 December 2017

The directors present their report and the audited financial statements for Cheltenham & Gloucester Public Limited Company ("the Company"), for the year ended 31 December 2017.

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").

The Company holds properties in Barnwood and Fareham which the Company intends to sell to another Group entity in 2018.

Retirement benefits have moved from a liability (2016) to an asset (2017) within the Statement of financial position, following remeasurement of the scheme in 2017. This is due to better than anticipated returns on scheme assets.

Dividends

No dividends were paid during the year ended 31 December 2017 (2016: £nil). No final dividend is proposed for 2017.

Directors

The directors of the Company who were in office during the year and up to the date of signing the financial statements are shown on the front cover. No changes in directors occurred in 2017 or up to the date of signing these financial statements.

Directors' indemnities

Lloyds Banking Group plc ("the Group") 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. 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 a Director's periods 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 of directors' responsibilities

The directors are responsible for preparing 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;
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- 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.

The directors are also responsible for safeguarding the assets for the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In the case of each director in office at the date the Directors' Report is approved:

- so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- they have taken all 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.

Cheltenham & Gloucester Public Limited Company

Directors' report (continued)

For the year ended 31 December 2017

Statement on going concern

The directors are satisfied that it is the intention of the Group 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.

Financial risk management

The key risks and uncertainties faced by the Company are managed within the framework established for the Group. The key risks surrounding credit, liquidity, markets and operations are discussed in note 19. There are no areas of concern that carry significant risks of causing material adjustments to the carrying value of the Company's assets and liabilities.

Future Developments

Future developments are discussed in the Strategic Report on page 1.

Employees

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

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

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

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

The Group 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.

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

20th April 2018

Independent auditors' report to the members of Cheltenham & Gloucester Public Limited Company

Report on the audit of the financial statements

Opinion

In our opinion, Cheltenham & Gloucester Public Limited Company's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2017 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual report and financial statements (the "Annual Report"), which comprise: the Statement of financial position as at 31 December 2017, the Income statement, the Statement of comprehensive income, the Cash flow statement and the Statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

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

Independence

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

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you when:

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

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2017 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors' responsibilities set out on page 2, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Claire Turner

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

20th April 2018

Cheltenham & Gloucester Public Limited Company

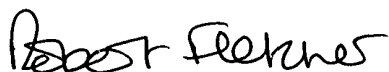
Statement of financial position

As at 31 December 2017

	Note	2017 £'000	2016 £'000
ASSETS			
Cash and cash equivalents		70,277	106,726
Other current assets	7	178,618	205,616
Non-current assets held for sale	8	13,348	-
Property, plant and equipment	10	40	13,874
Retirement benefit asset	16	467	-
Total assets		262,750	326,216
LIABILITIES			
Borrowed funds	11	40,296	131,541
Other current liabilities	12	210	250
Provision for liabilities and charges	13	26,110	11,029
Accruals and deferred income	14	122	1,232
Retirement benefit obligations	16	-	587
Deferred tax liability	15	1,563	1,167
Current tax liability		19,468	16,004
Total liabilities		87,769	161,810
EQUITY			
Share capital	17	70,000	70,000
Retained profits		104,981	94,406
Total equity		174,981	164,406
Total equity and liabilities		262,750	326,216

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

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



R W Fletcher
Director

20th April 2018

Cheltenham & Gloucester Public Limited Company

Income Statement

For the year ended 31 December 2017

	Note	2017 £'000	2016 £'000
Interest income		344	340
Fees and commission income		82,661	83,227
Total Income		83,005	83,567
Other operating expenses	3	(53,327)	(50,761)
Profit before tax		29,678	32,806
Taxation	6	(19,780)	(6,758)
Profit for the year		9,898	26,048

Statement of comprehensive income

For the year ended 31 December 2017

	Note	2017 £'000	2016 £'000
Profit for the financial year		9,898	26,048
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	836	35,422
- tax charge	6	(159)	(6,730)
		677	28,692
Total comprehensive income for the year		10,575	54,740

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

Cheltenham & Gloucester Public Limited Company**Cash flow statement**

For the year ended 31 December 2017

	2017 £'000	2016 £'000
Cash flows generated from operating activities		
Profit before tax	29,678	32,806
- Depreciation and impairment	486	707
- Increase/(decrease) in Provision for liabilities and charges	15,081	(677)
- Retirement benefit obligations	(1,054)	(35,808)
- Net decrease in Other current assets	26,998	31,504
- Net decrease in Other current liabilities and accruals and deferred income	(1,150)	(8,952)
Cash generated from operations	70,039	19,580
Corporation tax paid	(16,078)	(10,466)
Net gain on defined benefit scheme remeasurements	836	35,422
Net cash generated from operating activities	54,797	44,536
Cash flows (used in)/generated from financing activities		
Proceeds from/(Repayment of) borrowings with Parent undertakings	(91,246)	53,403
Net cash (used in)/generated from financing activities	(91,246)	53,403
Change in Cash and cash equivalents	(36,449)	97,939
Cash and cash equivalents at beginning of year	106,726	8,787
Cash and cash equivalents at end of year	70,277	106,726

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

Cheltenham & Gloucester Public Limited Company**Statement of changes in equity**

For the year ended 31 December 2017

	Share capital £'000	Retained profits £'000	Total equity £'000
At 1 January 2016	70,000	39,666	109,666
Profit for the financial 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
At 1 January 2017	70,000	94,406	164,406
Profit for the financial year	-	9,898	9,898
Other comprehensive income for the year	-	677	677
At 31 December 2017	70,000	104,981	174,981

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

Cheltenham & Gloucester Public Limited Company

Notes to the financial statements (continued)

For the year ended 31 December 2017

1. Accounting policies (continued)

1.4 Property, plant and equipment

Property, plant and equipment is 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: the shorter of 50 years and the remaining period of the lease for freehold /long and short leasehold premises; the shorter of 10 years and, if lease renewal is not likely, the remaining period of the lease for leasehold improvements; 10 to 20 years for fixtures and furnishings; and 2 to 8 years for other equipment.

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.

1.5 Non-current assets held for sale

Non-current assets are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell.

1.6 Taxation, including deferred income taxes

Tax expense comprises current and deferred tax. Current and deferred tax are charged or credited in the Income statement except to the extent that the tax arises from a transaction or event which is recognised, in the same or a different period, outside the Income statement (either in other comprehensive income, directly in equity, or through a business combination), in which case the tax appears in the same statement as the transaction that gave rise to it.

Current tax is the amount of corporate income taxes expected to be payable or recoverable based on the profit for the period as adjusted for items that are not taxable or not deductible, and is calculated using tax rates and laws that were enacted or substantively enacted at the balance sheet date.

Current tax includes amounts provided in respect of uncertain tax positions when management expects that, upon examination of the uncertainty by Her Majesty's Revenue and Customs (HMRC) or another relevant tax authority, it is more likely than not that an economic outflow will occur. Provisions reflect management's best estimate of the ultimate liability based on their interpretation of tax law, precedent and guidance, informed by external tax advice as necessary. Changes in facts and circumstances underlying these provisions are reassessed at each balance sheet date, and the provisions are re-measured as required to reflect current information.

Deferred tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the balance sheet. Deferred tax is calculated using tax rates and laws that have been enacted or substantively enacted at the balance sheet date, and which are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax liabilities are generally recognised for all taxable temporary differences but not recognised for taxable temporary differences arising on investments in subsidiaries where the reversal of the temporary difference can be controlled and it is probable that the difference will not reverse in the foreseeable future. Deferred tax liabilities are not recognised on temporary differences that arise from goodwill which is not deductible for tax purposes.

Deferred tax assets are recognised to the extent it is probable that taxable profits will be available against which the deductible temporary differences can be utilised, and are reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are not recognised in respect of temporary differences that arise on initial recognition of assets and liabilities acquired other than in a business combination. Deferred tax is not discounted.

Cheltenham & Gloucester Public Limited Company

Notes to the financial statements

For the year ended 31 December 2017

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 International Financial Reporting Standards (IFRS) as adopted by the European Union (EU). 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 financial information has been prepared under the historical cost convention; held for sale financial assets are stated at the lower of carrying amount and fair value less costs to sell. As stated on page 3, the directors consider that it is appropriate to adopt the going concern basis in preparing the financial statements.

The following new IFRS pronouncement relevant to the Company has been adopted in these financial statements:

(i) Amendments to IAS7: Disclosure Initiative (issued January 2016). The amendments are intended to clarify IAS7 'Statement of Cash Flows' to improve information provided to users of financial statements about an entity's financing activities.

The application of this pronouncement 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 2017 and which have not been applied in preparing these financial statements are given in note 22.

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 except for those classified at fair value through profit or loss. 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 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 instrument, or when appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability, including 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.

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.

1.3 Financial assets and liabilities

On initial recognition financial assets are classified into fair value through profit or loss, available for sale financial assets, held to maturity investments or loans and receivables. Financial liabilities are measured at amortised cost, except for trading liabilities and other financial liabilities designated at fair value through profit or loss on initial recognition which are held at fair value. The Company initially recognises loans and receivables when the Company becomes a party to the contractual provisions of the instrument.

Financial assets are derecognised when the contractual right to receive cash flows from those assets has expired or when the Company has transferred its contractual right to receive the cash flows from the assets and either: substantially all of the risks and rewards of ownership have been transferred; or the Company has neither retained nor transferred substantially all the risks and rewards, but has transferred control.

Financial liabilities are derecognised when they are extinguished (i.e. when the obligation is discharged), cancelled or expire.

Cheltenham & Gloucester Public Limited Company

Notes to the financial statements (continued)

For the year ended 31 December 2017

1. Accounting policies (continued)

1.9 Share-based compensation

The Company's ultimate parent company operates a number of group wide, equity settled, share-based compensation plans in respect of services received from certain of its employees. 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, 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 or a Monte Carlo simulation. 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 plans 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. Modifications are assessed at the date of modification and any incremental charges are charged to the Income statement.

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.

1.10 Provision and contingent liabilities

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.

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.

2. 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 significant judgements made by management in applying the Company's accounting policies and the key sources of estimation uncertainty in these financial statements, which together are deemed critical to the Company's results and financial position, are as follows:

- Defined benefit pension schemes (note 16); and
- Provision for customer redress (note 13).

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.

Payment Protection Insurance

At 31 December 2017, the Company carried a provision of £26,110k (2016: £10,779k) against the cost of making redress payments to customers and the related administration costs in relation to the mis-selling of 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 Public Limited Company

Notes to the financial statements (continued)

For the year ended 31 December 2017

1. Accounting policies (continued)

1.7 Employee Benefit Obligations

Pension schemes

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.

A defined benefit plan 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 under which the Company pays fixed contributions; there is no legal or constructive obligation to pay further contributions.

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 companies based on the level of contributions paid in relation to staff providing services to that company. 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 the Company. These are charged to the Income statement in the period in which they fall due.

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 Income statement 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 Statement of financial position includes the net surplus or deficit, being the fair value of scheme assets less the discounted value of scheme liabilities at the balance sheet date. Surpluses are only recognised to the extent that they are recoverable through reduced contributions in the future or through refunds from the schemes. In assessing whether the surplus is recoverable, the Company considers its current right to obtain a refund or a reduction in future contributions and does not anticipate any future acts by other parties that could change the amount of surplus that may ultimately be recovered.

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.

Cheltenham & Gloucester Public Limited Company

Notes to the financial statements (continued)

For the year ended 31 December 2017

6. Taxation

	2017 £'000	2016 £'000
a) Analysis of charge for the year		
UK corporation tax:		
- Current tax on taxable profit for the year	12,114	6,501
- Adjustments in respect of prior years	7,429	175
Current tax charge	19,543	6,676
UK deferred tax:		
- Origination and reversal of timing differences	207	40
- Adjustments in respect of prior years	33	44
- Impact of deferred tax rate change	(3)	(2)
Deferred tax charge	237	82
Total tax charge	19,780	6,758

Corporation tax is calculated at a rate of 19.25% (2016: 20.00%) 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 financial year differs from (2016: differs from) the taxation charge that would arise using the standard rate of corporation tax of 19.25% (2016: 20.00%), the differences are explained below:

	2017 £'000	2016 £'000
Profit before tax	29,678	32,806
Tax charge thereon at UK corporation tax rate of 19.25% (2016: 20.00%)	5,713	6,561
Factors affecting charge:		
- Non-allowable and non-taxable items	86	167
- Non-deductible costs: conduct charges	6,522	-
- Adjustments in respect of prior years	7,462	219
- Effect of reduction in tax rate and related impacts	(3)	(2)
- Timing differences not recognised	-	(187)
Tax charge on profit	19,780	6,758
Effective rate	66.65%	20.60%

An adjustment has been made in the current year for non-deductible conduct costs in relation to periods from 2015 in line with CTA 2009 s133A.

Cheltenham & Gloucester Public Limited Company

Notes to the financial statements (continued)

For the year ended 31 December 2017

3. Other operating expenses

	2017 £'000	2016 £'000
Staff costs (see note 4)	4,673	5,859
Depreciation (see note 10)	486	620
Impairment (see note 10)	-	87
Operating lease rentals – land and buildings	138	292
PPI Charges (see note 13)	30,800	12,600
Amounts recharged from Group	16,740	37,428
Other operating expenses	490	(6,125)
	53,327	50,761

Accounting and administration services are provided by a related undertaking and are recharged to the Company as part of Other operating expenses. The auditors' remuneration of £15k (2016: £15k) was borne by the parent company.

4. Staff costs

	2017 £'000	2016 £'000
Wages and salaries	3,301	4,145
Social security costs	318	397
Share based payments	63	103
Other pension costs – defined contribution plans (see note 16)	153	195
Other pension costs – defined benefit plans (see note 16)	199	223
Redundancy costs	639	796
	4,673	5,859

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

	2017	2016
Persons employed and paid directly by the Company - all UK	91	145
Persons employed and recharged to other group companies - all UK	534	553
	625	698

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 (2016: £nil).

5. Directors' emoluments

No director received any fees or emoluments from the Company during the year (2016: £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 Public Limited Company

Notes to the financial statements (continued)

For the year ended 31 December 2017

9. Investments

The subsidiary undertakings at 31 December 2017 and 31 December 2016, listed below, are all incorporated in England and Wales. The registered address of C&G Homes Limited is 1 More London Place, London, SE1 2AF. The remaining subsidiaries as at 31 December 2017 are all registered to Barnett Way, Gloucester GL4 3RL.

Subsidiary undertakings	Company interest %	Country of registration / incorporation	Principal activities	Share Class
C&G Homes Limited	100%	England and Wales	Liquidation	Ordinary
C&G Estate Agents 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 Homes Limited was placed in liquidation in April 2017. The following subsidiaries are dissolved: C&G Financial Services Limited in 2017 and C&G Property Holdings Limited in 2016.

10. Property, plant and equipment

	Land & buildings £'000	Office and other equipment £'000	Total £'000
Cost			
At 1 January 2016	22,348	4,946	27,294
Impairment	(87)	-	(87)
At 31 December 2016	22,261	4,946	27,207
Disposals	-	(3)	(3)
Transferred to non current assets for sale	(22,261)	(4,862)	(27,123)
At 31 December 2017	-	81	81
Accumulated depreciation			
At 1 January 2016	7,927	4,786	12,713
At 1 January 2016 - as restated	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
Charge for the year (see note 3)	417	69	486
Disposals	-	(3)	(3)
Transferred to non current assets for sale	(8,934)	(4,841)	(13,775)
At 31 December 2017	-	41	41
Balance sheet amount at 31 December 2017	-	40	40
Balance sheet amount at 31 December 2016	13,744	130	13,874

As at 31 December 2017, included within the net book value of £13,348,000 of assets being reclassified as non-current assets for sale, is leasehold property and land with a net book value of £3,989,000 (2016: £4,093,000).

Cheltenham & Gloucester Public Limited Company**Notes to the financial statements (continued)**

For the year ended 31 December 2017

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 credit £'000	Net of tax amount £'000
2017			
Pension remeasurement	836	(159)	677
2016			
Pension remeasurement	35,422	(6,730)	28,692

The Finance (No.2) Act 2015 reduced the main rate of corporation tax to 19% with effect from 1 April 2017. Finance Act 2016 further reduced the main rate of corporation tax to 17% with effect from 1 April 2020.

7. Other current assets

	2017 £'000	2016 £'000
Amounts due from group undertakings (see note 18)	178,019	204,855
Prepayments and accrued income	113	177
Other debtors	486	584
	178,618	205,616

The majority of amounts due from group undertakings are unsecured, non-interest bearing and repayable on demand. £100,000k on deposit with the Group is sat in a call account. See notes 18 and 19.

The reduction in amounts from group undertakings is due to the settlement of intercompany balances.

8. Non-current assets held for sale

	2017 £'000	2016 £'000
Assets		
Land and buildings	13,348	-

Included in non current assets held for sale is leasehold property and with a net book value of £3,989,000 (2016: £nil).

During the year the Company agreed in principle to transfer the Barnwood and Fareham land and buildings at net book value to another group company. The transfer is expected to take place in the first half of 2018.

Cheltenham & Gloucester Public Limited Company

Notes to the financial statements (continued)

For the year ended 31 December 2017

15. Deferred tax

The movement in the Deferred tax is as follows:

	2017 £'000	2016 £'000
(Liability) at 1 January	(1,167)	5,645
Charge for the year (see note 6)	(237)	(82)
	(1,404)	5,563
Amount charged to equity - Pension remeasurement	(159)	(6,730)
Liability at 31 December	(1,563)	(1,167)

The deferred tax charge in the Statement of Comprehensive Income comprises the following temporary differences:

	2017 £'000	2016 £'000
Accelerated capital allowances	(84)	(210)
Pension	(41)	(73)
Bonus payments	(39)	24
Other temporary differences	(73)	177
	(237)	(82)

Deferred tax comprises:	2017 £'000	2016 £'000
Accelerated capital allowances	(401)	(316)
Pension	(89)	112
Bonus payments	-	39
Other temporary differences	(1,073)	(1,002)
Deferred tax liability	(1,563)	(1,167)

Cheltenham & Gloucester Public Limited Company

Notes to the financial statements (continued)

For the year ended 31 December 2017

10. Property, plant and equipment (continued)

As at 31 December 2017 the Company had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2017 £'000	2016 £'000
Not later than one year	149	138
Later than one year and not later than five years	441	462
Later than five years	523	633
	1,113	1,233

11. Borrowed funds

	2017 £'000	2016 £'000
Amounts due to group undertakings (see note 18)	40,296	131,541

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

	2017 £'000	2016 £'000
Other creditors	210	197
Other tax and social security payable	-	53
	210	250

13. Provision for liabilities and charges

	PPI provision £'000	Other provision £'000	Total £'000
At 1 January 2016	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
Charge for the year	30,800	-	30,800
Utilised during the year	(15,469)	(250)	(15,719)
At 31 December 2017	26,110	-	26,110

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. The £26,110,000 reflects the expected monthly charges to the end of August 2019, in line with the group's allocation methodology.

PPI is estimated at a group level and allocated based on past utilisation and volume of expected future claims. Sensitivities over the assumptions at a group level are included in the Group accounts.

14. Accruals and Deferred Income

	2017 £'000	2016 £'000
Accrued operating expenses	122	1,232

Cheltenham & Gloucester Public Limited Company

Notes to the financial statements (continued)

For the year ended 31 December 2017

16. Retirement benefit obligations (continued)

Defined benefits schemes (continued)

The following information relates to Lloyds Group Pension Scheme No 1 as at 31 December 2017

In accordance with IAS 19R, the information below relates to the Lloyds Group No 1 Pension Scheme in which the Company participates. The Company's ultimate parent company expects to pay contributions of approximately £750m in respect of all of its defined benefit schemes in 2018.

Movements in the defined benefit obligation:

	2017 £'000	2016 £'000
At 1 January	20,060,000	16,226,000
Current service cost	98,000	86,000
Interest cost	544,000	617,000
Remeasurements:		
Actuarial gain/(loss) – experience	314,000	(212,000)
Actuarial losses– demographic assumptions	(828,000)	(83,000)
Actuarial gain – financial assumptions	680,000	4,072,000
Benefits paid	(1,693,000)	(650,000)
Past service cost	3,000	4,000

At 31 December	19,178,000	20,060,000
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Changes in the fair value of scheme assets:

	2017 £'000	2016 £'000
At 1 January	19,802,000	16,293,000
Expected return on plan assets excluding amounts included in interest income	575,000	3,282,000
Interest income	540,000	624,000
Contributions by employer	254,000	268,000
Administrative costs paid	(16,000)	(15,000)
Benefits paid	(1,693,000)	(650,000)

At 31 December	19,462,000	19,802,000
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Expected return on plan assets	575,000	3,282,000
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The principal actuarial and financial assumptions used were as follows:

	2017 %	2016 %
Discount rate	2.59	2.76
Rate of inflation		
- Retail Price Index	3.20	3.23
- Consumer Price Index	2.15	2.18
Rate of salary increases	-	-
Rate of increase for pensions in payment and deferred pensions	2.73	2.74

	Years	Years
Life expectancy for member aged 60, on the valuation date:		
- Men	27.9	28.1
- Women	29.5	30.3
Life expectancy for member aged 60, 15 years after the valuation date:		
- Men	28.9	29.3
- Women	30.7	31.7

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 2017 financial statements of the Company's ultimate parent company.

Cheltenham & Gloucester Public Limited Company

Notes to the financial statements (continued)

For the year ended 31 December 2017

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 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 2017 the charge to the statement of comprehensive income in respect of employees in the defined contribution section of the scheme was £153,000 (2016: £195,000), representing the contributions payable by the Company in accordance with the scheme's rules. There are no outstanding or prepaid contributions at 31 December 2017 (2016: £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 rest 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 employees providing services to the Company.

Amount included in the Statement of financial position:

	2017 £'000	2016 £'000
Company's share of present value of funded obligations	31,485	45,659
Company's share of fair value of scheme assets	(31,952)	(45,072)
Company's share of unrecognised actuarial gains / losses	(467)	587

The movements in the liability recognised in the Statement of financial position are as follows:

	2017 £'000	2016 £'000
At 1 January	587	36,395
Remeasurement of actuarial gains	(12,454)	(1,322,586)
Net charge to the income statement	199	223
Net charge to the statement of comprehensive income	11,618	1,287,164
Contributions paid	(417)	(609)
At 31 December	(467)	587

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

	2017 £'000	2016 £'000
Current service cost	161	196
Interest cost	7	(16)
Past service cost	5	10
Plan administration costs	26	33
	199	223

Cheltenham & Gloucester Public Limited Company
Notes to the financial statements (continued)

For the year ended 31 December 2017

18. Related party transactions (continued)

	2017 £'000	2016 £'000
Commission receivable		
Commission receivable from Parent	70,693	72,032
Commission receivable from other related parties	11,968	11,195
Total Commission receivable from related parties	82,661	83,227
	2017 £'000	2016 £'000
Administrative expenses		
Administrative expenses from Parent	16,740	37,428
Total Administrative expenses from related parties	16,740	37,428
	2017 £'000	2016 £'000
Amounts due from group undertakings		
Amounts due from Parent	18,035	45,234
Amounts due from other related parties	59,983	59,621
Amounts on deposit with Parent	100,000	100,000
Total Amounts due from group undertakings	178,018	204,855
	2017 £'000	2016 £'000
Amounts payable to group undertakings		
Amounts payable to Parent	40,296	131,541
Total Amounts payable to group undertakings	40,296	131,541

19. 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 Public Limited Company

Notes to the financial statements (continued)

For the year ended 31 December 2017

16. Retirement benefit obligations (continued)

Defined benefits schemes (continued)

Composition of scheme assets:

	2017 %	2016 %
Equities	1.56	1.36
Bonds	60.28	56.64
Property	-	0.04
Other	38.16	41.96
	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

	2017 £'000	2016 £'000
Allotted, issued and fully paid 70,000,000 (2016: 70,000,000) ordinary shares of £1 each	70,000	70,000

18. Related party transactions

Amounts due to the Company from its dormant subsidiary companies have been written off in previous years' financial statements as the amounts were not deemed to be recoverable, given the dormant nature of the entities.

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of an entity. The Company's key management personnel are its Directors, who consider that their duties in respect of the Company are incidental to their Group responsibilities. No director entered into transactions with the Company in the year.

Banking transactions are entered into by the Company with the Group plc and its subsidiaries in the normal course of business and on normal commercial terms.

The following table details the impact of transactions with the Group companies through the Income statement:

	2017 £'000	2016 £'000
Interest Income		
Interest Income on deposits held with Lloyds Bank plc	344	340
Total Interest Income	344	340

Cheltenham & Gloucester Public Limited Company

Notes to the financial statements (continued)

For the year ended 31 December 2017

20. 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.

21. Contingent liabilities

21.1 Contingent tax liability

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 £24,172K (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.

21.2 Contingent liabilities

During the ordinary course of business the Company is subject to complaints and threatened or actual legal proceedings (including class or group action claims) brought by or on behalf of current or former employees, customers, investors or other third parties, as well as legal and regulatory reviews, challenges, investigations and enforcement actions, both in the United Kingdom and overseas. All such material matters are periodically reassessed, with the assistance of external professional advisors where appropriate, to determine the likelihood of the Company incurring a liability. In those instances where it is concluded that it is more likely than not that a payment will be made, a provision is established to management's best estimate of the amount required at the relevant Statement of financial position date. In some cases it will not be possible to form a view, for example because the facts are unclear or because further time is needed to properly assess the situation, and no provisions are held in relation to such matters.

22. Future accounting developments

The following pronouncements are not applicable for the year ending 31 December 2017 and have not been applied in preparing these financial statements. Save as disclosed below, the impact of these accounting changes is still being assessed by the Company and reliable estimates cannot be made at this stage.

With the exception of other minor amendments, as at 20 April 2018 these pronouncements have been endorsed by the European Union.

Pronouncement	Nature of change
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IFRS 9 'Financial Instruments'	<p>IFRS9 replaces IAS 39 'Financial Instruments: Recognition and Measurement' and is effective for annual periods beginning on or after 1 January 2018. The Company has chosen 1 January 2018 as its initial application date of IFRS 9 and will not restate comparative periods.</p> <p>The Company's current accounting policy is materially consistent with the requirements of IFRS9 and, accordingly, no transition adjustments are required.</p> <p><i>Classification and Measurement</i></p> <p>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 or amortised cost. Financial assets will be measured at amortised cost if they are held within a business model the objective of which is to hold financial assets in order to collect contractual cash flows, and their contractual cash flows represent solely payments of principal and interest. Financial assets will be measured at fair value through other comprehensive income if they are held within a business model the objective of which is achieved by both collecting contractual cash flows and selling financial assets and their contractual cash flows represent solely payments of principal and interest. Financial assets not meeting either of these two business models; and all equity instruments (unless designated at inception to fair value through other comprehensive income); and all derivatives are measured at fair value through profit or loss.</p> <p>An entity may, at initial recognition, designate a financial asset as measured at fair value through profit or loss if doing so eliminates or significantly reduces an accounting mismatch.</p> <p>The re-classification and measurement of assets under IFRS 9 will have no material impact on the Company.</p>
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Cheltenham & Gloucester Public Limited Company

Notes to the financial statements (continued)

For the year ended 31 December 2017

19. Financial risk management (continued)

19.1 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.

19.2 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 2017

	Up to 1 month £'000	1-3 months £'000	3-12 months £'000	1-5 years £'000	Total £'000
Borrowed funds	40,296	-	-	-	40,296

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

19.3 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 Group.

The Company has interest bearing assets on deposits within the Group 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 2017 to assess the impact of interest margins being 25 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:

	-25bps £'000	Interest income £'000	+25 bps £'000
2017	94	344	594
2016	161	340	519

In respect of income-earning financial assets, 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
2017					
Interest-bearing cash & cash equivalents	70,277	-	-	-	70,277
2016					
Interest-bearing cash & cash equivalents	106,726	-	-	-	106,726

Cheltenham & Gloucester Public Limited Company

Notes to the financial statements (continued)

For the year ended 31 December 2017

22. Future developments (continued)

IFRS 9 'Financial Instruments' (continued)	<p><i>Impairment</i></p> <p>IFRS 9 replaces the existing 'incurred loss' impairment approach with an expected credit loss ('ECL') model resulting in an earlier recognition of credit losses compared to IAS 39. The ECL has three stages. Entities are required to recognise a 12 month expected loss allowance on initial recognition (stage 1) and a lifetime expected loss allowance when there has been a significant increase in credit risk since initial recognition (stage 2). Stage 3 requires objective evidence that the asset is credit impaired, which is similar to the guidance on incurred losses in IAS 39. The Company's Other current assets primarily relate to amounts due from other group companies where there are no concerns regarding the collectability of the amounts stated and it is therefore not expected that any provisions will be required under IFRS9.</p>
IFRS 15 'Revenue from Contracts with Customers'	<p>IFRS 15 replaces IAS 18 'Revenue' and IAS 11 'Construction Contracts' and is effective for annual periods beginning on or after 1 January 2018. The core principle of IFRS 15 is that revenue reflects the transfer of goods or services to customers in an amount that reflects the consideration to which an entity expects to be entitled.</p> <p>The recognition of such revenue is in accordance with five steps to: identify the contract; identify the performance obligations; determine the transaction price; allocate the transaction price to the performance obligations; and recognise revenue when the performance obligations are satisfied.</p> <p>The Company's current accounting policy is materially consistent with the requirements of IFRS 15 and, accordingly, no transition adjustments are required.</p>
IFRS 16 'Leases'	<p>IFRS 16 replaces IAS 17 'Leases' and is effective for annual periods beginning on or after 1 January 2019. IFRS 16 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. Lessor accounting requirements remain aligned to the current approach under IFRS 17. This change will mainly impact the properties that the Company currently accounts for as operating leases with the full impact of this pronouncement currently being assessed by the Company. Finance systems will need to be changed to reflect the new accounting rules and disclosures.</p>
Minor amendments to other accounting standards	<p>The IASB has issued a number of minor amendments to IFRSs effective 1 January 2018 (including IFRS2 Share-based Payment and IAS 40 Investment Property) and effective 1 January 2019 (including IAS12 Income Taxes and IFRIC 23 Uncertainty over Income Tax Treatments). These revised requirements are not expected to have a significant impact on the Company.</p>

23. 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.