

Cheltenham & Gloucester Public Limited Company

Annual report and financial statements for the year ended 31 December 2018

Registered office

Barnett Way
Gloucester
GL4 3RL

Registered number

02299428

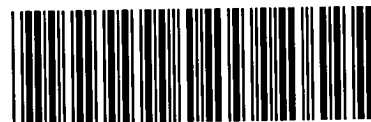
Current directors

C Gowland
R W Fletcher

Company Secretary

P Gittins

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Cheltenham & Gloucester Public Limited Company

Strategic report

For the year ended 31 December 2018

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 2018.

Business overview

The principal activity of the business was to arrange and administer mortgages and savings accounts on behalf of Lloyds Bank plc, the immediate parent company. With effect from 1 January 2018, a number of changes have been made to the Company's business model. These are as follows:

- A new service charge agreement whereby the Company only recovers its costs (previous agreement was expenses plus 10%) in relation to its principal activity of providing a resource to support the arranging and administration of mortgage and savings accounts on behalf of Lloyds Bank plc.
- Following the rebranding of insurance policies (completed by the end of 2017), the Company no longer receives fee and commission income in relation to the renewal of household insurance policies. This income has been transferred to Lloyds Bank plc.
- Income from the acquisition of Life protection policies has been transferred to Lloyds Bank plc.
- Removal of FCA permissions was granted and took effect on 31 October 2018.

Review of the business

The results for the year are set out in the Statement of comprehensive income. The Company's loss before tax for the financial year was £12.7m (2017: profit of £29.7m). The year on year decrease is due to the following:

- Income in relation to the renewal of General Insurance Policies ceased in 2018 following the rebranding exercise with a year on year impact of £12.2m.
- During 2018, the net adjustment to the Protection asset from the annual revaluation and terms of trade review, resulted in a charge of £13.7m. This compares to a £12.0m benefit in 2017.
- In addition to the insurance and protection changes, the Company has also seen a fall in its operating expenses (£31.5m). This is due to lower PPI costs and no recharge from Group Companies during 2018. As a result of the lower operating expenses, service charge income has reduced by £3.1m year on year being 10% of (£31.5m), and a further reduction of £2.2m due to the company only recharging costs and not costs plus 10%.

The service resource continues to decline with the number of employees paid directly by the company reducing from 91 in 2017 to 87 in 2018. This reflects colleagues transferring to Lloyds Bank plc and leavers from the Company in the year.

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.

Key Performance Indicators (KPIs)

The Company's directors are of the opinion that using KPIs is not necessary for an understanding of the development, performance and position of the Company.

Principal risks and uncertainties

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 18. 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.

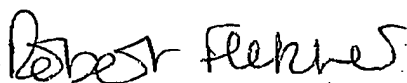
Future developments

As part of the Group's continuing drive to simplify its operations, it is the intention to wind down the Company and transfer all remaining activities and assets to Lloyds Bank plc.

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

26 June 2018

Cheltenham & Gloucester Public Limited Company

Directors' report

For the year ended 31 December 2018

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 Group. The Company holds properties in Barnwood and Fareham which the Company intends to sell to another Group entity in 2019.

Dividends

No dividends were paid during the year ended 31 December 2018 (2017: £nil). No final dividend is proposed for 2018.

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 2018 or up to the date of signing these financial statements.

Directors' Indemnities

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 the Group. 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 Annual Report and the financial statements in accordance with applicable law and regulation.

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 the 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 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.

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.

Directors' confirmations

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 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.

Statement on going concern

The Company is reliant on funding provided by Bank of Scotland plc which is a subsidiary of the Group. 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 surrounding credit, liquidity, markets and operations are discussed in note 18. 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.

Cheltenham & Gloucester Public Limited Company

Directors' report (continued)

For the year ended 31 December 2018

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.

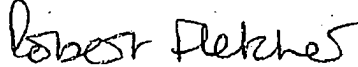
Employees are kept closely involved in major changes affecting them through such measures as team meetings, briefings, internal communications and opinion surveys. There are well established procedures, including regular meetings with recognised unions, to ensure that the views of employees are taken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

26 June 2019

Cheltenham & Gloucester Public Limited Company

Income Statement

For the year ended 31 December 2018

	Note	2018 £'000	2017 £'000
Interest Income		708	344
Fees and commission income		22,109	82,661
Fees and commission expense		(13,741)	-
Net Income		9,076	83,005
Other operating expenses	2	(21,806)	(53,327)
(Loss) / Profit before tax		(12,730)	29,678
Taxation	5	(1,056)	(19,780)
(Loss) / Profit before tax		(13,786)	9,898

Statement of comprehensive income

For the year ended 31 December 2018

	Note	2018 £'000	2017 £'000
(Loss) / Profit for the financial year		(13,786)	9,898
Other comprehensive (expense) / income			
<i>Items that will not subsequently be reclassified to profit or loss:</i>			
Remeasurement of post-employment benefit obligations			
- before tax amount	5	(354)	836
- tax credit / (charge)	5	67	(159)
Total other comprehensive (expense) / Income		(287)	677
Total comprehensive (expense) / Income for the year		(14,073)	10,575

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

Cheltenham & Gloucester Public Limited Company

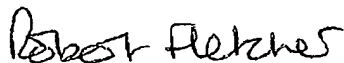
Statement of financial position

As at 31 December 2018

	Note	2018 £'000	2017 £'000
ASSETS			
Cash and cash equivalents		19,039	70,277
Other current assets	6	166,563	178,618
Non-current assets held for sale	7	13,348	13,348
Property, plant and equipment	9	-	40
Retirement benefit asset	15	348	467
Total assets		199,298	262,750
LIABILITIES			
Borrowed funds	10	11,675	40,296
Other current liabilities	11	14	210
Provision for liabilities and charges	12	24,068	26,110
Accruals and deferred income	13	3	122
Deferred tax liability	14	1,464	1,563
Current tax liability		1,186	19,468
Total liabilities		38,390	87,769
EQUITY			
Share capital	16	70,000	70,000
Retained profits		90,908	104,981
Total equity		160,908	174,981
Total equity and liabilities		199,298	262,750

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

26 June 2019

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

For the year ended 31 December 2018

	Share capital £'000	Retained profits £'000	Total equity £'000
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
At 1 January 2018	70,000	104,981	174,981
Loss for the financial year	-	(13,786)	(13,786)
Other comprehensive expense for the year	-	(287)	(287)
At 31 December 2018	70,000	90,908	160,908

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 2018

	2018 £'000	2017 £'000
Cash flows (used in) / generated from operating activities		
(Loss) / Profit before tax	(12,730)	29,678
Adjustments for:		
- Depreciation and impairment	40	486
- (Decrease) / increase in Provision for liabilities and charges	(2,042)	15,081
- Retirement benefit asset / obligations	119	(1,054)
- Net decrease in Other current assets	12,055	28,990
- Net decrease in Other current liabilities and accruals and deferred income	(315)	(1,150)
Cash (used in) / generated from operations	(2,873)	70,039
Corporation tax paid	(19,390)	(16,078)
Net (loss) / gain on defined benefit scheme remeasurements	(354)	836
Net cash (used in) / generated from operating activities	(22,617)	54,797
Cash flows used in financing activities		
Repayment of borrowings with group undertakings	(28,621)	(91,246)
Net cash used in financing activities	(28,621)	(91,246)
Change in Cash and cash equivalents	(51,238)	(36,449)
Cash and cash equivalents at beginning of year	70,277	106,726
Cash and cash equivalents at end of year	19,039	70,277

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

For the year ended 31 December 2018

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 2, 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:

IFRS 9 'Financial Instruments': 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.

IFRS 15 'Revenue from Contracts with customers': Replaces IAS 18 Revenue and IAS 11 Construction Contracts. Establishes principles for reporting useful information about the nature, amount and uncertainty of revenue and cash flows arising from an entity's contracts with customers.

Details of those pronouncements which will be relevant to the Company but which were not effective at 31 December 2018 and which have not been applied in preparing these financial statements are given in note 21.

1.2 Revenue recognition

a) Net interest income

Interest income and expense are recognised in the Statement of comprehensive income for all interest bearing financial instruments, including loans and advances, 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.

b) Fees and commission income and expense

Fees and commissions which are not an integral part of the effective interest rate (such as commission associated with the sale of insurance underwritten by a third party) are generally recognised in the Statement of comprehensive income on an accruals basis when the service has been provided. A provision for the claw back of such commissions in the event of early termination is assessed at least every six months to take account of the most recent trends.

Fees and commission income relates primarily to operating expenses recharged to Lloyds Bank plc, with the remainder being commission earned on existing life protection policies. Fees and commission expense is a net value taking into account the effect of changes to the terms of trade, less the movement on the annual revaluation of the life asset.

1.3 Financial assets and liabilities

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 the obligation is discharged, cancelled or expires.

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.

Cheltenham & Gloucester Public Limited Company

Notes to the financial statements (continued)

For the year ended 31 December 2018

1. Accounting policies (continued)

1.4 Property, plant and equipment (continued)

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 statement of comprehensive income 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 statement of comprehensive income (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.

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, usually 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.

Cheltenham & Gloucester Public Limited Company

Notes to the financial statements (continued)

For the year ended 31 December 2018

1. Accounting policies (continued)

1.7 Employee Benefit Obligations (continued)

Pension schemes (continued)

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.

1.9 Share-based compensation

The Company's ultimate parent company operates a number of group wide, equity settled, share-based compensation plans. 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. 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 schemes 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 3. Full details of these schemes can be found in the 2018 Annual Report.

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.

1.11 Critical accounting estimates and judgements in applying accounting policies

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 15); and
- Provision for customer redress (note 12).

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 15.

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

For the year ended 31 December 2018

1. Accounting policies (continued)

1.11 Critical accounting estimates and judgements in applying accounting policies (continued)

Payment Protection Insurance

At 31 December 2018, the Company carried a provision of £24,068k (2017: £26,110k) 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.

1.12 Cash and cash equivalents

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

2. Other operating expenses

	2018 £'000	2017 £'000
Staff costs (see note 3)	3,444	4,673
Depreciation (see note 9)	40	486
Operating lease rentals – land and buildings	149	138
PPI Charges (see note 12)	17,900	30,800
Amounts recharged from Group	-	16,740
Other operating expenses	273	490
	21,806	53,327

Following the transfer of responsibility around the servicing and administration of the mortgage and saving books from the Company to Lloyds Bank plc at 30 April 2017, recharges from Group were redistributed to Lloyds Bank plc, this included the accounting and administration services provided. The auditors' remuneration of £15k (2017: £15k) was borne by the parent company.

3. Staff costs

	2018 £'000	2017 £'000
Wages and salaries	2,815	3,301
Social security costs	254	318
Share based payments	55	63
Other pension costs – defined contribution plans (see note 15)	141	153
Other pension costs – defined benefit plans (see note 15)	174	199
Redundancy costs	5	639
	3,444	4,673

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

	2018 No.	2017 No.
Persons employed and paid directly by the Company – all UK	87	91
Persons employed and recharged to other group companies – all UK	494	534
	581	625

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 (2017: £nil).

4. Directors' emoluments

No director received any fees or emoluments from the Company during the year (2017: £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 2018

5. Taxation

	2018 £'000	2017 £'000
a) Analysis of charge for the year		
UK corporation tax:		
- Current tax on taxable loss / profit for the year	1,166	12,114
- Adjustments in respect of prior years	(78)	7,429
Current tax charge	1,088	19,543
UK deferred tax:		
- Origination and reversal of timing differences	160	207
- Adjustments in respect of prior years	(192)	33
- Impact of deferred tax rate change		(3)
Deferred tax (credit) / charge (see note 14)	(32)	237
Total tax charge	1,056	19,780

Corporation tax is calculated at a rate of 19.00% (2017: 19.25%) of the taxable (loss) / profit for the year.

b) Factors affecting the tax charge for the year

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

	2018 £'000	2017 £'000
(Loss) / Profit before tax	(12,730)	29,678
Tax (credit) / charge thereon at UK corporation tax rate of 19.00% (2017: 19.25%)	(2,419)	5,713
Factors affecting (credit) / charge:		
- Non-allowable and non-taxable items	-	86
- Non-deductible costs: conduct charges	3,744	6,522
- Adjustments in respect of prior years	(269)	7,462
- Effect of reduction in tax rate and related impacts	-	(3)
Tax charge on (loss) / profit	1,056	19,780
Effective rate	(8.30%)	66.65%

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

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

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

	Before tax amount £'000	Tax credit/(charge) £'000	Net of tax amount £'000
2018			
Pension remeasurement	(354)	67	(287)
2017			
Pension remeasurement	836	(159)	677

The Finance Act 2016 reduced the main rate of corporation tax to 17% with effect from 1 April 2020.

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

For the year ended 31 December 2018

6. Other current assets

	2018 £'000	2017 £'000
Amounts due from group undertakings (see note 17)	166,290	178,019
Prepayments and accrued income	-	113
Other debtors	273	486
	166,563	178,618

The majority of amounts due from group undertakings are unsecured and repayable on demand. Included within the amount is £100,000k which is held on deposit in a call account with the Company's parent (see notes 17 and 18).

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

7. Non-current assets held for sale

	2018 £'000	2017 £'000
Assets		
Land and buildings	13,348	13,348

During 2017 the Company agreed in principle to transfer the Barnwood and Faroham land and buildings at net book value to another group company. The transfer is now expected to take place in 2019.

8. Investments

The subsidiary undertakings at 31 December 2018 and 31 December 2017, 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 2018 are all registered to 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	Liquidation	Ordinary
Central Mortgage Finance Limited	100%	England and Wales	Dormant	Ordinary
Barnwood Mortgages Limited	100%	England and Wales	Dormant	Ordinary

The following subsidiaries are dissolved: C&G Homes Limited in 2018, C&G Financial Services Limited in 2017, and C&G Property Holdings Limited in 2016.

Cheltenham & Gloucester Public Limited Company

Notes to the financial statements (continued)

For the year ended 31 December 2018

9. Property, plant and equipment

	Land & buildings £'000	Office and other equipment £'000	Total £'000
Cost			
At 1 January 2017	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
At 31 December 2018	-	81	81
Accumulated depreciation			
At 1 January 2017	8,517	4,816	13,333
Charge for the year	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
Charge for the year	-	40	40
At 31 December 2018	-	81	81
Balance sheet amount at 31 December 2018	-	-	-
Balance sheet amount at 31 December 2017	-	40	40

As at 31 December 2018 the Company had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2018 £'000	2017 £'000
Not later than one year	110	149
Later than one year and not later than five years	441	441
Later than five years	413	523
	964	1,113

10. Borrowed funds

	2018 £'000	2017 £'000
Amounts due to group undertakings (see note 17)	11,675	40,296

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.

11. Other current liabilities

	2018 £'000	2017 £'000
Other creditors	14	210
	14	210

Cheltenham & Gloucester Public Limited Company

Notes to the financial statements (continued)

For the year ended 31 December 2018

12. Provision for liabilities and charges

	PPI provision £'000	Other provision £'000	Total £'000
At 1 January 2017	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
Charge for the year	17,900	-	17,900
Utilised during the year	(19,942)	-	(19,942)
At 31 December 2018	24,068	-	24,068

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 provision at 31 December 2018 of £24,068k represents the Group's best estimate of the likely future cost. However a number of risks and uncertainties remain including with respect to future complaint volumes. The cost could differ from the Group's estimates and the assumptions underpinning them, and could result in a further provision being required. There is also uncertainty around the impact of the regulatory changes, Financial Conduct Authority (FCA) media campaign and Claims Management Company and customer activity, and potential additional remediation arising from the continuous improvement of the Group's operational practices.

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 financial statements.

13. Accruals and Deferred Income

	2018 £'000	2017 £'000
Accrued operating expenses	3	122

14. Deferred tax

The movement in the Deferred tax is as follows:

	2018 £'000	2017 £'000
(Liability) at 1 January	(1,563)	(1,167)
Credit / (charge) for the year	32	(237)
	(1,531)	(1,404)
Amount charged to equity - Pension remeasurement	67	(159)
Liability at 31 December	(1,464)	(1,563)

The deferred tax credit in the period comprises the following temporary differences:

	2018 £'000	2017 £'000
Accelerated capital allowances	(115)	(84)
Pension	(45)	(41)
Bonus payments	-	(39)
Other temporary differences	192	(73)
	32	(237)

Cheltenham & Gloucester Public Limited Company

Notes to the financial statements (continued)

For the year ended 31 December 2018

14. Deferred tax (continued)

Deferred tax comprises:	2018 £'000	2017 £'000
Accelerated capital allowances	(516)	(401)
Pension	(66)	(89)
Other temporary differences	(882)	(1,073)
Deferred tax liability	(1,464)	(1,563)

The Finance Act 2016 reduced the main rate of corporation tax to 17% with effect from 1 April 2020.

15. Retirement benefit asset

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 2018 the charge to the statement of comprehensive income in respect of employees in the defined contribution section of the scheme was £141,000 (2017: £153,000), representing the contributions payable by the Company in accordance with the scheme's rules. There are no outstanding or prepaid contributions at 31 December 2018 (2017: £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 2018 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:

	2018 £'000	2017 £'000
Company's share of present value of funded obligations	(23,994)	(31,485)
Company's share of fair value of scheme assets	24,342	31,952
Net amount recognised on the Statement of financial position	348	467

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

	2018 £'000	2017 £'000
At 1 January	467	(587)
Remeasurement of actuarial gains	6,352	12,454
Net charge to the Income statement	(174)	(199)
Net charge to the statement of comprehensive income	(6,706)	(11,618)
Contributions paid	409	417
At 31 December	348	467

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

	2018 £'000	2017 £'000
Current service cost	112	161
Interest cost / (Income)	(14)	7
Past service cost	53	5
Plan administration costs	23	26
	174	199

Cheltenham & Gloucester Public Limited Company

Notes to the financial statements (continued)

For the year ended 31 December 2018

15. Retirement benefit asset (continued)

The following information relates to Lloyds Group Pension Scheme No 1 as at 31 December 2018

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 £1,050m in respect of all of its defined benefit schemes in 2019.

Movements in the defined benefit obligation:

	2018 £'000	2017 £'000
At 1 January	31,485	45,659
Current service cost	112	161
Interest cost	661	893
Remeasurements:		
Actuarial gain – experience	355	515
Actuarial gain / (loss) – demographic assumptions	201	(1,359)
Actuarial (loss) / gain – financial assumptions	(6,908)	(11,610)
Benefits paid	(1,965)	(2,779)
Past service cost	53	5

At 31 December	23,994	31,485
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Changes in the fair value of scheme assets:

	2018 £'000	2017 £'000
At 1 January	31,952	45,072
Expected return on plan assets excluding amounts included in interest income	(6,706)	(11,618)
Interest income	675	886
Contributions by employer	409	417
Administrative costs paid	(23)	(26)
Benefits paid	(1,965)	(2,779)

At 31 December	24,342	31,952
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The principal actuarial and financial assumptions used were as follows:

	2018 %	2017 %
Discount rate	2.90	2.59
Rate of inflation		
- Retail Price Index	3.20	3.20
- Consumer Price Index	2.15	2.15
Rate of salary increases	-	-
Rate of increase for pensions in payment and deferred pensions	2.73	2.73

	Years	Years
Life expectancy for member aged 60, on the valuation date:		
- Men	27.8	27.9
- Women	29.4	29.5
Life expectancy for member aged 60, 15 years after the valuation date:		
- Men	28.8	28.9
- Women	30.6	30.7

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 2018 financial statements of the Company's ultimate parent company.

Composition of scheme assets:

	2018 %	2017 %
Equities	2.01	1.56
Bonds	73.31	60.28
Other	24.68	38.16
	100	100

Cheltenham & Gloucester Public Limited Company

Notes to the financial statements (continued)

For the year ended 31 December 2018

15. Retirement benefit asset (continued)

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.

16. Share capital

	2018 £'000	2017 £'000
Allotted, issued and fully paid 70,000,000 (2017: 70,000,000) ordinary shares of £1 each	70,000	70,000

17. 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 Lloyds Banking 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:

	2018 £'000	2017 £'000
Interest Income		
Interest Income on deposits held with Lloyds Bank plc	708	344
Total Interest Income	708	344
	2018 £'000	2017 £'000
Commission receivable		
Commission receivable from Parent	21,792	70,693
Commission receivable from other related parties	312	11,968
Total Commission receivable from related parties	22,104	82,661
	2018 £'000	2017 £'000
Commission Payable		
Commission payable to other related parties	13,741	-
Total Commission payable to related parties	13,741	-
	2018 £'000	2017 £'000
Administrative expenses		
Administrative expenses from Parent	-	16,740
Total Administrative expenses from related parties	-	16,740

Cheltenham & Gloucester Public Limited Company

Notes to the financial statements (continued)

For the year ended 31 December 2018

17. Related party transactions (continued)

The following table details the impact of transactions with the Group companies on the Statement of financial position:

	2018 £'000	2017 £'000
Amounts due from group undertakings		
Amounts due from Parent	25,618	18,036
Amounts due from other related parties	40,672	59,983
Amounts on deposit with Parent	100,000	100,000
Total Amounts due from group undertakings	166,290	178,019
Amounts payable to group undertakings		
Amounts payable to Parent	9,610	40,296
Amounts payable to other related parties	2,065	-
Total Amounts payable to group undertakings	11,675	40,296

18. Financial risk management

The Company's operations expose it to credit risk, liquidity risk, interest rate risk, and business risk; it is not exposed to any significant market or foreign exchange risk. Responsibility for the control of overall risk lies with the board of directors, operating within a management framework established by the immediate parent company, Bank of Scotland plc, and the ultimate parent, Lloyds Banking Group plc. Interest rate and liquidity risk faced by the Company is in substance managed and borne by other group undertakings which fund the Company. Business risk is managed through regular reporting and oversight.

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

18.1 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 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.

18.2 Liquidity risk

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

Lloyds Banking Group plc manages and monitors liquidity risks and ensures that liquidity risk management systems and arrangements are adequate with regards to the internal risk appetite, strategy and regulatory requirements. Liquidity policies and procedures are subject to independent internal oversight by Risk. The Company ensures it is compliant with these requirements, policies and procedures.

The liquidity table below is a contractual maturity analysis for all borrowed funds, based on the earliest date the entity could be expected to repay the amounts owed.

As at 31 December 2018

	Up to 1 month £'000	1-3 months £'000	3-12 months £'000	1-5 years £'000	> 5 years £'000	Total £'000
Borrowed funds	11,675	-	-	-	-	11,675

As at 31 December 2017

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

Cheltenham & Gloucester Public Limited Company

Notes to the financial statements (continued)

For the year ended 31 December 2018

18. Financial risk management (continued)

18.3 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 3 month libor rate.

A sensitivity analysis has been performed as at 31 December 2018 to assess the impact of interest rates 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 interest bearing assets. 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
2018	423	708	993
2017	94	344	594

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
2018					
Interest-bearing cash & cash equivalents	19,039	-	-	-	19,039
2017					
Interest-bearing cash & cash equivalents	70,277	-	-	-	70,277

19. 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.

20. Contingent liabilities

20.1 Contingent tax liability

The Company provides for potential tax liabilities that may arise on the basis of the amounts expected to be paid to tax authorities. This includes open matters where Her Majesty's Revenue and Customs (HMRC) adopt a different interpretation and application of tax law which might lead to additional tax.

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 £24,859k (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.

20.2 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.

Cheltenham & Gloucester Public Limited Company

Notes to the financial statements (continued)

For the year ended 31 December 2018

21. Future accounting developments

The following pronouncements are not applicable for the year ending 31 December 2018 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 26 June 2019 these pronouncements have been endorsed by the European Union.

Pronouncement	Nature of change
IFRS 16 'Leases'	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.
Minor amendments to other accounting standards	The IASB has issued a number of minor amendments to IFRSs 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.

22. 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.

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 2018 and of its loss 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.

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 2018; 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

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.

We have nothing to report in respect of the above matters.

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. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the company's trade, customers, suppliers and the wider economy.

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 2018 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.

N. Dumper

Nick Dumper (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Manchester
26 June 2019