Cheltenham & Gloucester PLC

Report and Accounts

2019

Member of Lloyds Banking Group

Strategic report

For the year ended 31 December 2019

The directors present their strategic report and the audited financial statements of Cheltenham & Gloucester PLC ("the Company") for the year ended 31 December 2019. The Company's registered address is Barnett Way, Gloucester, GL4 3RL. The Directors in office during 2019 are listed in the Directors report and the Company secretary is Mr P Gittins.

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. This activity ended in 2018. As part of the intention to wind down the company and transfer remaining assets to Lloyds Bank plc, the accounts for the current year include the following changes:

- All costs for C&G colleagues are now recognised in Lloyds Bank plc from September 2019.
- The transfer and subsequent cash settlement of the Barnwood property to Lloyds Bank plc in December 2019.
- The transfer and subsequent cash settlement of the protection asset to Lloyds Bank plc based upon its value as at the end of 2018.
- The transfer and subsequent cash settlement of the pension asset to Lloyds Bank plc based upon its value at the end of 2018.

The remaining assets and liabilities held within the Company primarily include intercompany cash balances offset by a provision to cover PPI claims and Equity. The PPI provision included within the accounts is expected to cover the future liability of the Company due in 2020.

The company transferred the majority of its activities to its Lloyds Bank plc during 2019. Future transactions will be limited to interest earned on its cash assets.

Review of the business

The results for the year are set out in the Statement of comprehensive income. The Company’s profit before tax for the financial year was £0.4m (2018: loss of £12.7m). The year on year increase is due to the following:

- No income impact in 2019 from the protection asset, due to its transfer to Lloyds Bank plc, versus a £13.7m charge in 2018, relating to a terms of trade review.

At the end of August 2019, the service resource of employees paid directly by the company was a headcount of 81. From September, on-going salary costs were transferred to Lloyds Bank plc.

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 Lloyds Banking Group Plc.

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 20. 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.

The rapid pace and scale of measures to contain a major health issue such as the Coronavirus pandemic demonstrate the potentially adverse impact of those measures on the economy. The government and regulators are taking significant action to address the economic impact, which may be temporary, but depending on the severity it could lead to a significant loss of output and recession in the UK. Any sector-specific or wider impact due to this could potentially impact the retail customers of the Lloyds Banking Group plc and as a result have a material adverse effect on the Lloyds Banking Group plc's results of operations, financial condition or prospects.

As a result of the global health issues, the potential for operational risks materialising increases, notably in the areas of cyber, fraud, people, technology, operational resilience and where there is reliance on third-party suppliers. In addition to the key operational risks, new risks are likely to arise as the business will need to change its ways of working whilst managing any site contamination to ensure continuity and support to colleagues and customers.

Future developments

As part of the continuing drive to simplify its operations, it is the intention of the ultimate parent, Lloyds Banking Group plc ("the Group"), to continue the wind down of the Company and transfer all remaining activities and assets to Lloyds Bank plc.

Section 172(1) Statement

In accordance with the Companies Act 2006 (the 'Act'), for the year ended 31 December 2019, the Directors provide the following statement describing how they have had regard to the matters set out in section172(1) of the Act, when performing their duty to the Company under section 172.

Statement of Engagement with Employees and Other Stakeholders

In accordance with the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended by the Companies (Miscellaneous Reporting) Regulations 2018), the following statement also provides details of how the Directors have engaged with and had regard to the interests of key stakeholders. The Company is a subsidiary of Lloyds Banking Group plc, and as such follows many of the processes and practices of Lloyds Banking Group plc, which are further referred to in this statement where relevant.

Strategic report (continued)

For the year ended 31 December 2019

Shareholders

The Company is a wholly owned subsidiary of Lloyds Banking Group plc, forming part of Lloyds Banking Group plc's retail division. As a wholly owned subsidiary, the Directors ensure that the strategy, priorities, processes and practices of the Company are fully aligned where required to those of Lloyds Banking Group plc, ensuring that the interests of Lloyds Banking Group plc as the Company's sole shareholder are duly acknowledged. Further information in respect of the relationship of Lloyds Banking Group plc with its shareholders is included within the Strategic Report within the Lloyds Banking Group plc Annual Report and Accounts for 2019, which does not form part of this report, available on the Lloyds Banking Group plc website.

Colleagues

Colleagues employed by the Company are part of the wider Lloyds Banking Group Plc workforce that includes permanent employees, contingent workers and third-party suppliers that work on Lloyds Banking Group plc premises delivering services to customers and supporting key business operations.

In June 2019, the Lloyds Banking Group plc Group People and Productivity director presented to the Lloyds Banking Group plc Board on people and transforming ways of working, providing them with an update on the people strategy, which along with the wider Lloyds Banking Group plc approach to organisational culture is discussed further on pages 19 and 22 of the Lloyds Banking Group plc annual report and accounts for 2019. As well as its own engagement survey, Lloyds Banking Group plc takes part in the Banking Standards Board assessment on a yearly basis, which provides member firms with the evidence, support and challenge to help them achieve and maintain high standards of behaviour and competence both individually and collectively. There are five parts to the assessment; an online employee survey, a set of Board questions, interviews with executive and non-executive directors and employee focus groups.

Communities and the Environment

Due to its limited physical presence, the Company has a minimal direct impact on the community and the environment. Further information in respect of Lloyds Banking Group plc's overall approach to engaging with and contributing to the communities in which it operates is included within the Strategic Report within the Lloyds Banking Group plc's Annual Report and Accounts for 2019, which does not form part of this report. Additional information on Lloyds Banking Group plc's Helping Britain Prosper Plan is available on the Lloyds Banking Group plc website.

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

29th September 2020

Directors' report

For the year ended 31 December 2019

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 held properties in Barnwood and Fareham; Barnwood was sold to Lloyds Bank plc in 2019, with Fareham being sold for £5.1m in February 2020.

Dividends

No dividends were paid during the year ended 31 December 2019 (2018: £nil). No final dividend is proposed for 2019.

Directors

The directors of the Company who were in office during the year and up to the date of signing the financial statements are below. No changes in directors occurred in 2019 or up to the date of signing these financial statements:

C Gowland
RW Fletcher

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 or from the date of appointment in respect of the director who joined the board of the Company during the financial year. Directors no longer in office but who served on the Board of the Company at any time in the financial year had the benefit of this deed of indemnity during that period of service. The indemnity remains in force for the duration of a Director's period of office. The deed indemnifies the Directors to the maximum extent permitted by law. The deed for existing Directors is available for inspection at the registered office of the Lloyds Banking Group Plc. In addition, the Lloyds Banking Group Plc 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 regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the company's 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 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 of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Directors' confirmations

In accordance with section 418 of the Companies Act 2006, in the case of each director in office at the date the 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
- The director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Statement on going concern

In context of the Covid-19 pandemic and the potential adverse impact on the Company. The Directors are satisfied that the financial statements have been prepared on a going concern basis taking into account the following;

- Due to the transfer of its principal activities to Lloyds Bank plc, the impact of Covid-19 on the Company's profitability is not expected to be material.
- There is no expectation that its parent, Lloyds Banking Group plc, will request a repayment in advance of the Company's ability to pay.
- PPI payments continue being made in 2020. It is expected that the current level of provision is adequate.
- Lloyds Banking Group plc will honour the current letter of support to its subsidiaries (including the Company) dated 19th February 2020.

Directors' report (continued)
For the year ended 31 December 2019

Financial Risk management

The key risks surrounding credit, liquidity, markets and operations are discussed in note 20. 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.

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:

Robert Fletcher

R W Fletcher
Director

29th September 2020

Income Statement

For the year ended 31 December 2019

	Note	**2019** **£'000**	2018 £'000
Interest income		**888**	708
Interest expense		**(21)**	-
Net interest income	2	**867**	708
Fees and commission income		**32,234**	22,109
Fees and commission expense		**-**	(13,741)
Net Income		**33,101**	9,076
Other operating expenses	3	**(32,668)**	(21,806)
Profit / (loss) before tax		**433**	(12,730)
Taxation	6	**1,224**	(1,056)
Profit / (loss) for the year		**1,657**	(13,786)

Statement of comprehensive Income

For the year ended 31 December 2019

	Note	**2019** **£'000**	2018 £'000
Profit / (Loss) for the financial year		**1,657**	(13,786)
Other comprehensive expense			
Items that will not subsequently be reclassified to profit or loss:			
Remeasurement of post-employment benefit obligations			
- before tax amount	6	**-**	(354)
- tax credit	6	**-**	67
Total other comprehensive expense		**-**	(287)
Total comprehensive income / (expense) for the year		**1,657**	(14,073)

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

Statement of financial position

As at 31 December 2019

	Note	2019 £'000	2018 £'000
ASSETS			
Cash and cash equivalents		**74,449**	19,039
Other assets	7	**127,754**	166,563
Loans and advances to customers	10	**593**	-
Non-current assets held for sale	8	**3,897**	13,348
Property, plant and equipment	11	**212**	-
Retirement benefit asset	17	**-**	348
Total assets		**206,905**	199,298
LIABILITIES			
Borrowed funds	12	**3,318**	11,675
Other liabilities	13	**769**	14
Provision for liabilities and charges	14	**39,319**	24,068
Accruals and deferred income	15	**245**	3
Deferred tax liability	16	**-**	1,464
Current tax liability		**689**	1,166
Total liabilities		**44,340**	38,390
EQUITY			
Share capital	18	**70,000**	70,000
Retained profits		**92,565**	90,908
Total equity		**162,565**	160,908
Total equity and liabilities		**206,905**	199,298

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

The financial statements on pages 5 to 8 were approved by the board of directors and were signed on its behalf by:

R W Fletcher
Director

29th September 2020

Statement of changes in equity

For the year ended 31 December 2019

	Share Capital £'000	Retained Profits £'000	Total Equity £'000
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**
At 1 January 2019	**70,000**	**90,908**	**160,908**
Profit for the year being total comprehensive income	-	1,657	1,657
At 31 December 2019	**70,000**	**92,565**	**162,565**

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

Cash flow statement

For the year ended 31 December 2019

	Note	2019 £'000	2018 £'000
Cash flows generated from / (used in) operating activities			
Profit / (loss) before tax		**433**	(12,730)
Adjustments for:			
- Change in operating assets	21	**(859)**	-
- Change in operating liabilities	21	**859**	-
- Depreciation and impairment		**26**	40
- Increase / (decrease) in provision for liabilities and charges		**15,251**	(2,042)
- Retirement benefit asset		**348**	119
- Sub lease of right to use asset		**593**	-
- Net increase in loans and advances to customers		**(593)**	-
- Net decrease in other current assets		**38,809**	12,055
- Sale of non current assets held for sale		**12,911**	-
- Reversal of impairment		**(3,460)**	-
- Net increase / (decrease) in other current liabilities, accruals and deferred income		**227**	(315)
Cash generated / (used in) from operations		**64,545**	(2,873)
Corporation tax paid		**(717)**	(19,390)
Net loss on defined benefit scheme remeasurements		**-**	(354)
Net cash generated / (used in) from operating activities		**63,828**	(22,617)
Cash flows used in financing activities			
Repayment of borrowings with group undertakings		**(8,357)**	(28,621)
Repayment of borrowing with leasing liabilities		**(110)**	-
Interest expense on operating lease		**21**	-
Interest receivable on loans and advances to customers		**(15)**	-
Repayment of borrowing on leasing asset		**43**	-
Net cash used in financing activities		**(8,418)**	(28,621)
Change in Cash and cash equivalents		**55,410**	(51,238)
Cash and cash equivalents at beginning of year		**19,039**	70,277
Cash and cash equivalents at end of year		**74,449**	19,039

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

Notes to the financial statements

For the year ended 31 December 2019

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 the requirements of the Companies Act 2006.

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU). IFRS comprises accounting standards prefixed IFRS issued by the International Accounting Standards Board (IASB) and those prefixed IAS issued by the IASB's predecessor body as well as interpretations issued by the IFRS Interpretations Committee (IFRS IC) and its predecessor body.

The financial information has been prepared under the historical cost convention, as modified by the revaluation of investment properties, financial assets measured at fair value through other comprehensive income, trading securities and certain other financial assets and liabilities at fair value through the profit and loss and all derivative contracts. As stated on page 3, the directors consider that it is appropriate to adopt the going concern basis in preparing the financial statements.

The Company adopted IFRS 16 Leases from 1 January 2019. IFRS 16 replaces IAS 17 Leases and addresses the classification and measurement of all leases. The Group's accounting as a lessor under IFRS 16 is substantially unchanged from its approach under IAS 17; however for lessee accounting there is no longer a distinction between finance and operating leases. For all assets, the lessee recognises a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use. Assets and liabilities arising from a lease are initially measured on a present value basis. The lease payments are discounted using the interest rate implicit in the lease, if that rate can be determined, or the lessee's incremental borrowing rate. Lease payments are allocated between the liability and finance cost. The finance cost is charged to profit and loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight line basis.

The Company elected to apply the standard retrospectively with the cumulative effect of initial application being recognised at 1 January 2019, comparatives have therefore not been restated. Further details of the impact of adoption of IFRS 16 are provided in note 21.

Details of those pronouncements which will be relevant to the Company but which were not effective at 31 December 2019 and which have not been applied in preparing these financial statements are given in note 24.

1.2 Revenue recognition

a) Net interest income

Interest income and expense are recognised in the income statement for all interest-bearing financial instruments using the effective interest method, except for those classified at fair value through profit or loss. The effective interest method is used to calculate the interest income or interest expense recognised over the expected life of the financial instrument. The effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts over the expected life of the financial instrument to the gross carrying amount of the financial asset (before adjusting for expected credit losses) or to the amortised cost of the financial liability.

b) Fees and commission income and expense

Fees and commissions receivable which are not an integral part of the effective interest rate are recognised as income as the Company fulfils its performance obligations. Fees and commission income and expense primarily relate to operating expenses recharged to Lloyds Bank plc.

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.

Notes to the financial statements (continued)

For the year ended 31 December 2019

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

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 other 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, associates and joint arrangements 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 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 participates in various defined benefit and defined contribution pension schemes operated by Companies within the Lloyds Banking Group Plc.

A defined benefit scheme is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, dependent on one or more factors such as age, years of service and salary. A defined contribution plan is a pension plan into which the Group pays fixed contributions; there is no legal or constructive obligation to pay further contributions.

With effect from 1 January 2019, Lloyds Banking Group plc revised its methodology for the intra-group re-charge relating to defined benefit scheme costs. Under this revised approach, the Company is charged the cash contributions paid to the various schemes during the year relating to its employees' current service. The Company accounts for its pension arrangements in accordance with IAS 19. As the amount charged to the company is based on the cash contributions of Lloyds Bank plc, no asset or liability or movements in other comprehensive income are recognised by the Company. Further details are set out in Note 17 Retirement Benefit Obligations and further details of the Pension scheme can be found in the financial statements of Lloyds Bank plc. Copies of the Lloyds Bank plc's 2019 annual report and financial statements may be downloaded via www.lloydsbankinggroup.com.

In 2018, the amount charged to the Company was based on Lloyds Banking Group Plc's IAS 19 pension cost and the Company recognised its share of Lloyds Banking Group Plc's income statement charge, together with its share of the surplus / deficit and movement in other comprehensive income.

Costs relating to Lloyds Banking Group Plc's defined contribution plans are charged to the income statement in the period in which they fall due.

Notes to the financial statements (continued)

For the year ended 31 December 2019

1. Accounting policies (continued)

1.8 Leases

Under IFRS 16, a lessor is required to determine whether a lease is a finance or operating lease. A lessee is not required to make this determination.

As lessor

Assets leased to customers are classified as finance leases if the lease agreements transfer substantially all the risks and rewards of ownership to the lessee but not necessarily legal title. All other leases are classified as operating leases. When assets are subject to finance leases, the present value of the lease payments, together with any unguaranteed residual value, is recognised as a receivable, net of allowances for expected credit losses, within loans and advances to banks and customers. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance lease income. Finance lease income is recognised in interest income over the term of the lease using the net investment method (before tax) so as to give a constant rate of return on the net investment in the leases. Unguaranteed residual values are reviewed regularly to identify any impairment.

Operating lease assets are included within property, plant and equipment at costs and depreciated over their estimated useful lives, which equates to the lives of the leases, after taking into account anticipated residual values. Operating lease rental income is recognised on a straight-line basis over the life of the lease.

The group evaluates non-lease arrangements such as outsourcing and similar contracts to determine if they contain a lease which is then accounted for separately.

As lessee

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the group. Assets and liabilities arising from a lease are initially measured on a present value basis. The lease payments are discounted using the interest rate implicit in the lease, if that rate can be determined, or the Group's incremental borrowing rate.

Lease payments are allocated between the liability and finance cost, The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of twelve months or less. Low-value assets comprise IT equipment and small items of office furniture.

1.9 Share-based compensation

The Company’s ultimate parent company operates a number of equity settled, share-based compensation plans in respect of services received from certain of its employees. 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 mode 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, together with a corresponding adjustment to equity. 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. 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. Full details of these schemes can be found in the 2019 Lloyds Banking Group Plc 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:

- Provision for customer redress (note 14).

Notes to the financial statements (continued)

For the year ended 31 December 2019

1. Accounting policies (continued)

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

Payment Protection Insurance

At 31 December 2019, the Company carried a provision of £39,319k (2018: £24,068k) against the cost of making redress payments to customers and the related administration costs in relation to the misselling 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. Net Interest Income

	2019 £'000	2018 £'000
Interest receivable on financial assets	**873**	708
Loans and advance to customers	**15**	-
Interest expense on lease liability	**(21)**	-
	867	708

Loans and advances to customers relate to interest income on finance leases. All income that the Company generates is from UK only.

3. Other operating expenses

	2019 £'000	2018 £'000
Staff costs (see note 4)	**2,122**	3,444
Depreciation (see note 11)	**95**	40
Operating lease rentals – land and buildings	**-**	149
PPI Charges (see note 14)	**33,285**	17,900
Release of impairment	**(3,461)**	-
Other operating expenses	**627**	273
	32,668	21,806

Barnwood property was transferred to its parent at net book value not carrying value. A release of a prior period impairment of £3.5m, is recognised in the accounts for 2019. The auditors' remuneration of £15k (2018: £15k) was borne by the parent company. There were no non-audit fee related charges in 2019 (2018: nil).

4. Staff costs

	2019 £'000	2018 £'000
Wages and salaries	**1,577**	2,815
Social security costs	**174**	254
Share based payments	**33**	55
Other pension costs – defined contribution plans (see note 17)	**84**	141
Other pension costs – defined benefit plans (see note 17)	**254**	174
Redundancy costs	**-**	5
	2,122	3,444

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

	2019 No.	2018 No.
Persons employed and paid directly by the Company - all UK	**57**	87
Persons employed and recharged to other group companies - all UK	**474**	494
	531	581

The data for employee numbers is based on headcount of employees, rather than Full Time Equivalents. Employees include persons on a historic C&G contract, split by colleagues reported in the staff costs of the Company and those recognised in other group companies. All persons whose salaries were recognised within the Company, had their staff costs transferred to Lloyds Bank plc from the 1st September 2019. No compensation has been paid or is payable to key management personnel in the year (2018: £nil).

Notes to the financial statements (continued)

For the year ended 31 December 2019

5. Directors' emoluments

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

6. Taxation

	2019 £'000	2018 £'000
a) Analysis of (credit) / charge for the year		
UK corporation tax:		
- Current tax on taxable profit / (loss) for the year	**685**	1,166
- Adjustments in respect of prior years	**(445)**	(78)
Current tax charge	**240**	1,088
UK deferred tax:		
- Origination and reversal of timing differences	**(1,464)**	160
- Adjustments in respect of prior years	**-**	(192)
Deferred tax credit (see note 16)	**(1,464)**	(32)
Total tax (credit) / charge	**(1,224)**	1,056

Corporation tax is calculated at a rate of 19.00% (2018: 19.00%) of the taxable profit / (loss) 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 profit / (loss) before tax to the actual tax charge for the year is given below:

	2019 £'000	2018 £'000
Profit / (Loss) before tax	**433**	(12,730)
Tax charge / (credit) thereon at UK corporation tax rate of 19.00% (2018: 19.00%)	**82**	(2,419)
Factors affecting charge / (credit):		
- Non-taxable items	**(777)**	-
- Non-deductible costs	**1,983**	3,744
- Adjustments in respect of prior years	**(445)**	(269)
- Other	**(2,067)**	-
Total tax (credit) / charge	**(1,224)**	1,056
Effective rate	**(282.68%)**	(8.30%)

c) Tax effects relating to Other comprehensive income / expense

The tax effect relating to Other comprehensive expense is as follows:

	Before tax amount £'000	Tax credit £'000	Net of tax amount £'000
2018			
Pension remeasurement	(354)	67	(287)

Notes to the financial statements (continued)

For the year ended 31 December 2019

7. Other assets

	2019 £'000	2018 £'000
Amounts due from group undertakings (see note 19)	**127,754**	166,290
Other debtors	**-**	273
	127,754	166,563

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 19 and 20).

The reduction in amounts from group undertakings is due to the transfer of the Company's share of the protection asset to Lloyds Bank Plc, with proceeds being reported in Cash and cash equivalents.

8. Non-current assets held for sale

	2019 £'000	2018 £'000
Assets		
Land and buildings	**3,897**	13,348
	3,897	13,348

During 2017 the Company agreed in principle to transfer the Barnwood and Fareham land and buildings at net book value to another group company. The 2019 accounts reflect the sale of the Barnwood property to Lloyds Bank plc. In February 2020 the Fareham property was sold to Lloyds Bank plc.

9. Investments

The subsidiary undertakings at 31 December 2019 and 31 December 2018, listed below, are all incorporated in England and Wales. The subsidiaries as at 31 December 2019 are all registered to Barnett Way, Gloucester GL4 3RL.

Subsidiary undertakings	**Company interest %**	**Country of registration / incorporation**	**Principal activities**	**Share Class**
Central Mortgage Finance Limited	100%	England and Wales	Dormant	Ordinary
Barnwood Mortgages Limited	100%	England and Wales	Dormant	Ordinary

C&G Estate Agents Limited was dissolved on 1st October 2019.

Due to the dormant nature of its subsidiaries, all of the Company's financial interests in its investments were fully written-off between 2012 and 2015.

Notes to the financial statements (continued)

For the year ended 31 December 2019

10. Loans and Advances to customers

From 28 June 2019, the Company subleased its Queen Street property for an annual amount of £85k. The Company's finance lease receivables are classified as loans and advances to customers and accounted for at amortised cost. The balance is analysed as follows:

	2019 £'000	2018 £'000
Gross investment in finance leases receivable		
Not later than 1 year	**85**	-
Later than 1 year and not later than 2 years	**85**	-
Later than 2 years and not later than 3 years	**85**	-
Later than 3 years and not later than 4 years	**85**	-
Later than 4 years and not later than 5 years	**85**	-
Later than 5 years	**233**	-
	658	-
Unearned future finance income on finance leases	**(65)**	-
Net investment in finance leases	**593**	-

The net investment in finance leases represents amounts recoverable as follows

	2019 £'000	2018 £'000
Not later than 1 year	**71**	-
Later than 1 year and not later than 2 years	**72**	-
Later than 2 years and not later than 3 years	**74**	-
Later than 3 years and not later than 4 years	**76**	-
Later than 4 years and not later than 5 years	**78**	-
Later than 5 years	**222**	-
Net investment in finance leases	**593**	-

11. Property, plant and equipment

	Right-of use assets £'000	**Total £'000**
Cost		
At 1 January 2018	-	-
At 31 December 2018	-	-
Adjustment on adoption of IFRS 16 (see note 21)	859	**859**
At 1 January 2019	859	**859**
Sub lease on right to use asset	(621)	**(621)**
At 31 December 2019	**238**	**238**
Accumulated depreciation		
At 1 January 2018	**-**	-
At 31 December 2018	-	-
Depreciation charge for the year	95	**95**
Depreciation benefit on right to use asset	(69)	**(69)**
At 31 December 2019	**26**	**26**
Balance sheet amount at 31 December 2019	**212**	**212**
Balance sheet amount at 31 December 2018	**-**	-

Notes to the financial statements (continued)

For the year ended 31 December 2019

11. Property, plant and equipment (continued)

As at 31 December 2019 the Company had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2019 **£'000**	2018 £'000
Not later than one year	**110**	110
Later than one year and not later than five years	**441**	441
Later than five years	**302**	413
	853	964

12. Borrowed funds

	2019 **£'000**	2018 £'000
Amounts due to group undertakings (see note 19)	**3,318**	11,675

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.

13. Other liabilities

	2019 **£'000**	2018 £'000
Lease liability	**769**	-
Other creditors	**-**	14
	769	14

14. Provision for liabilities and charges

	Total **£'000**
At 1 January 2018	26,110
Charge for the year	17,900
Utilised during the year	(19,942)
At 31 December 2018	24,068
Charge for the year	33,285
Utilised during the year	(18,034)
At 31 December 2019	**39,319**

15. Accruals and deferred Income

	2019 **£'000**	2018 £'000
Accrued operating expenses	**245**	3

Notes to the financial statements (continued)

For the year ended 31 December 2019

16. Deferred tax liability

The movement in the Deferred tax liability is as follows:

	2019	2018
	£'000	£'000
Liability at 1 January	**(1,464)**	(1,563)
Credit for the year	**1,464**	32
	-	(1,531)
Amount charged to equity		
- Pension remeasurement	**-**	67
Liability at 31 December	**-**	(1,464)

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

	2019	2018
	£'000	£'000
Accelerated capital allowances	**516**	(115)
Pension	**66**	(45)
Other temporary differences	**882**	192
	1,464	32

Deferred tax liability comprises:	**2019**	2018
	£'000	£'000
Accelerated capital allowances	**-**	(516)
Pension	**-**	(66)
Other temporary differences	**-**	(882)
Deferred tax liability	**-**	(1,464)

17. 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 2019 the charge to the statement of comprehensive income in respect of employees in the defined contribution section of the scheme was £84k (2018: £141k), representing the contributions payable by the Company in accordance with the scheme's rules. There are no outstanding or prepaid contributions at 31 December 2019 (2018: £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 2019 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.

As discussed in Note 1.7 Accounting Policies, with effect from 1 January 2019 the Group has revised its methodology for the recharge of defined benefit costs. Under the new re-charge methodology, the Company is charged, and recognises as an expense, the cash contributions paid to the various Group schemes during the year relating to its employees' current service.

In previous years, the charge had been an allocation of the Group's pension cost determined in accordance with IAS 19 Employee Benefits. At 31 December 2018, the Company had recognised a net defined benefit asset of £348k which was reclassified as inter-company during the year and subsequently settled in cash.

Further information on the various Group defined benefits schemes is included within the consolidated annual report and accounts of Lloyds Banking Group plc, the ultimate parent company.

The defined benefit pension charge for the year ended 31 December 2019 based on cash contributions amounted to £254k. The charge for the year ended 31st December 2018 is set out on the next page:

Notes to the financial statements (continued)
For the year ended 31 December 2019

17. Retirement benefit asset (continued)

	2018 £'000
Expense recognised in the income statement	
Current service cost	112
Interest income	(14)
Past service cost	53
Plan administration costs	23
	174

The following disclosures are relevant only where the amount charged to the Company is based on a scheme's IAS 19 income statement charge. Accordingly, they are provided in respect of 2018 only.

	2018 £'000
Amounts included in the balance sheet	
Company's share of present value of funded obligations	(23,994)
Company's share of fair value of scheme assets	24,342
Net amount recognised on the Statement of financial position	348

	2018 £'000
Net amount recognised in the balance sheet	
At 1 January 2018	467
Remeasurement of actuarial gains	6,352
Net charge to the income statement	(174)
Net charge to the statement of comprehensive income	(6,706)
Contributions paid	409
At 31 December 2018	348

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

	2018 £'000
Movements in the defined benefit obligation	
At 1 January 2018	31,485
Current service cost	112
Interest cost	661
Remeasurements:	
Actuarial gain – experience	355
Actuarial gain – demographic assumptions	201
Actuarial (loss) – financial assumptions	(6,908)
Benefits paid	(1,965)
Past service cost	53
At 31 December 2018	23,994

	2018 £'000
Changes in the fair value of scheme assets:	
At 1 January 2018	31,952
Expected return on plan assets excluding amounts included in interest income	(6,706)
Interest income	675
Contributions by employer	409
Administrative costs paid	(23)
Benefits paid	(1,965)
At 31 December 2018	24,342

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

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

Notes to the financial statements (continued)
For the year ended 31 December 2019

17. Retirement benefit asset (continued)

	2018 %
Composition of scheme assets	
Equities	2.01
Bonds	73.31
Other	24.68
	100

18. Share capital

	2019 £'000	2018 £'000
Allotted, issued and fully paid		
70,000,000 (2018: 70,000,000) ordinary shares of £1 each	**70,000**	70,000

19. 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 and its subsidiaries in the normal course of business and on normal commercial terms. No intercompany balances are secured and no provision for doubtful debt is provided in the accounts for 2019.

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

	2019 £'000	2018 £'000
Interest Income		
Interest Income on deposits held with Lloyds Bank plc	**873**	708
Total Interest Income	**873**	708

	2019 £'000	2018 £'000
Commission receivable		
Commission receivable from Parent	**32,233**	21,792
Commission receivable from other related parties	**-**	312
Total Commission receivable from related parties	**32,233**	22,104

	2019 £'000	2018 £'000
Commission Payable		
Commission payable to other related parties	**-**	13,741
Total Commission payable to related parties	**-**	13,741

Registered in England No. 02299428

Notes to the financial statements (continued)

For the year ended 31 December 2019

19. Related party transactions (continued)

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

	2019 £'000	2018 £'000
Amounts due from group undertakings		
Amounts due from Parent	**27,754**	25,618
Amounts due from other related parties	**-**	40,672
Amounts on deposit with Parent	**100,000**	100,000
Total Amounts due from group undertakings	**127,754**	166,290

	2019 £'000	2018 £'000
Amounts payable to group undertakings		
Amounts payable to Parent	**3,318**	9,610
Amounts payable to other related parties	**-**	2,065
Total Amounts payable to group undertakings	**3,318**	11,675

20. 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.

20.1 Credit risk

Credit risk management

The Company's credit risk exposure arises in the UK.

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.

20.2 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. All borrowed funds mature within one month.

Total Borrowed funds

	2019 £'000	2018 £'000
Up to 1 month maturity	**3,318**	11,675

Notes to the financial statements (continued)

For the year ended 31 December 2019

20. Financial risk management (continued)

20.3 Interest rate risk

Interest rate risk is the risk of financial loss as a result of adverse movements in interest rates, and arises largely because of timing differences between the repricing of financial assets and liabilities. Interest rate risk is managed at a divisional level. The Company has no interest bearing assets from third parties and no deposits are placed outside of the 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 2019 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**
2019	**553**	**873**	**1,193**
2018	423	708	993

In respect of income-earning financial assets and interest expense lease liabilities, the following table indicates the years in which they mature:

	Less than 1 year £'000	Between 1-2 years £'000	Between 2-5 years £'000	5 years or more £'000	**Total £'000**
2019					
Assets					
Loans and advances to customers	71	72	228	222	**593**
Interest-bearing cash & cash equivalents	74,449	-	-	-	**74,449**
Total Assets	74,520	72	228	222	**75,042**
Liabilities					
Other liabilities	92	94	295	288	**769**
Total Liabilities	92	94	295	288	**769**
2018					
Assets					
Interest-bearing cash & cash equivalents	19,039	-	-	-	19,039
Total Assets	19,039	-	-	-	19,039

21. Adoption of IFRS 16

The Company adopted IFRS 16 Leases from 1 January 2019 and elected to apply the standard retrospectively with the cumulative effect of initial application being recognised at that data; comparative information has therefore not been restated.

Lease liabilities amounting to £964k (Note 11) in respect of leased properties previously accounted for as operating leases were recognised at 1 January 2019. These liabilities were measured at the present value of the remaining payment, discounted using the Company's incremental borrowing rate as at that date, adjusted to exclude short-term leases and leases of low-value assets. The weighted-average borrowing rate as at that date, adjusted to exclude short-term leases and leases of low-value assets. The weighted-average borrowing rate applied to these lease liabilities was 2.43 per cent in the UK. The corresponding right-of-use asset of £859k (Note 11) was measured at an amount equal to the lease liabilities. The right-of-use asset and lease liabilities are included within property, plant and equipment and other liabilities respectively. There was no impact on shareholders equity.

In applying for IFRS 16 for the first time, the Company has used a number of practical expedients permitted by the standard; the most significant of which were the use of a discount rate based on a Lloyds Banking Group Plc portfolio of similar leases with reasonably similar characteristics; reliance on previous assessments of whether a lease is onerous; and the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease. The Company has also elected not to apply IFRS 16 to contracts that were not identified as containing a lease under IAS 17 and IFRIC 4 Determining whether an Arrangement contains a lease.

Notes to the financial statements (continued)

For the year ended 31 December 2019

22. 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.

23. Contingent liabilities

23.1 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 £25,524k (including interest). The Group does not agree with HMRC's position and, having taken appropriate advice, does not consider that this is a case where additional tax will ultimately fall due.

23.2 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.

24. Events since the balance sheet date

Since the balance sheet date there has been a global pandemic from the outbreak of Covid-19 which is causing widespread disruption to financial markets and normal patterns of business activity across the world, including the UK. The Directors continue to monitor the environment closely and confirm that there has been a delay in the processing of PPI claims with the impact on administration costs being included in the 2019 redress provision.

25. Future accounting developments

The following pronouncements are not applicable for the year ending 31 December 2019 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 29th September 2020 these pronouncements have been endorsed by the European Union.

Pronouncement	Nature of change
Minor amendments to other accounting standards	The IASB has issued a number of minor amendments to IFRSs effective 1 January 2020 (including IFRS 3 Business Combinations and IAS 1 Presentation of Financial Statements). These amendments are not expected to have a significant impact on the Group.

26. Ultimate parent undertaking and controlling party

The immediate parent undertaking is Lloyds Bank plc.

The parent undertaking, which is the parent undertaking of the smallest group to consolidate these financial statements is Lloyds Bank plc. Copies of the consolidated annual report and accounts of Lloyds Bank plc may be obtained from Lloyds Banking Group Plc's head office at 25 Gresham Street, London EC2V 7HN or downloaded via www.lloydsbankinggroup.com.

The ultimate parent undertaking and controlling party is Lloyds Banking Group plc, which is the parent undertaking of the largest group to consolidate these financial statements. Copies of the consolidated annual report and accounts of Lloyds Banking Group plc may be obtained from Lloyds Banking Group's head office at 25 Gresham Street, London EC2V 7HN or download via www.lloydsbankinggroup.com.

Independent auditors' report to the members of Cheltenham & Gloucester PLC

Report on the audit of the financial statements

Opinion

In our opinion, Cheltenham & Gloucester PLC's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2019 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Report and Accounts (the "Annual Report"), which comprise: the statement of financial position as at 31 December 2019; 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 where:

- 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 2019 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 3, 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.

Daniel Pearce

Daniel Pearce (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Bristol
29 September 2020