Cheltenham & Gloucester PLC

Report and Accounts 2020

Member of Lloyds Banking Group plc

Strategic report

For the year ended 31 December 2020

The directors present their Strategic report and the audited financial statements of Cheltenham & Gloucester plc (the ''Company'') for the year ended 31 December 2020. The Company's registered address is Barnett Way, Gloucester, GL4 3RL. The directors in office during 2020 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.

The remaining assets and liabilities held within the Company primarily include intercompany cash balances offset by provisions to cover Payment Protection Insurance (''PPI'') claims and Equity. By April 2021, the main element of the PPI provision included in these financial statements had been utilised, with the residual value to be used to cover any closing charges from the Company's 3rd party claims management supplier.

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 £64k (2019: profit £433k). The year on year movement is due to the following:

- Lower income from interest bearing assets £239k 2020 (2019: £873k) due to a reduction in the inter-company recharge rates.

- Expenses not recovered through the Service Charge agreement £271k, relating to owed rental income and the unwind of prior period impairment adjustments which incorporated the historic 10% uplift.

The Company maintained its net asset position of £162,554k (2019: £162,565k), with a remaining PPI provision of £2,292k (2019: £39,319k), to cover future redress payments to customers and related administration costs.

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 Lloyds Banking Group plc (''LBG''). 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.

As a result of the COVID-19 pandemic, the potential for conduct and compliance risks as well as operational risks materialising has increased, 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 Lloyds Banking Group may need to change its ways of working whilst managing any instances of COVID-19 among its employees and locations to ensure continuity and support to colleagues and customers.

The effects on the UK, European and global economies following the UK's exit from the EU and the impact of the EU-UK Trade and Cooperation Agreement signed on 30 December 2020 (the "EU-UK TCA") remain difficult to predict but may include economic and financial instability, constitutional instability in the UK and other types of risks that could adversely impact the business of the company, results of operations, financial condition and prospects. In the event of any further substantial weakening in the UK's economic growth, the possibility of decreases in interest rates by the Bank of England or sustained low or negative interest rates would put further pressure on the company's interest margins and potentially adversely affect its profitability and prospects.

Future developments

As part of the continuing drive to simplify its operations, it is the intention of the ultimate parent, Lloyds Banking Group plc, to continue the wind down of the Company.

Section 172(1) Statement

In accordance with the Companies Act 2006 (the ''Act''), for the year ended 31 December 2020, 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 2020

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 2020, which does not form part of this report, available on the Lloyds Banking Group plc website.

Colleagues

Lloyds Banking Group plc's board agreed in 2019 its approach to workforce engagement, which has remained unchanged during the year. The definition of workforce agreed by Lloyds Banking Group plc's board is our permanent colleagues, contingent workers and third-party suppliers that work on the Group's premises delivering services to our customers and supporting key business operations.

During the year, Lloyds Banking Group plc's board gained further understanding of colleague views through a number of surveys completed by colleagues across the Group. These included the annual colleague survey, ad hoc 'Pulse' surveys, and participation by colleagues in the survey of the Banking Standards Board.

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 Lloyds Banking Group plc's Annual Report and Accounts for 2020, which does not form part of this report. Additional information on Lloyds Banking Group plc's Helping Britain Recover & 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:

Robert Fletcher

R W Fletcher
Director

16th June 2021

Directors' report

For the year ended 31 December 2020

General information

The Company is a public limited company, limited by shares, incorporated and domiciled in the United Kingdom (registered number: 02299428).

The Company is in a net asset position and does not rely on funding from its parent company. The Company's held for sale assets have now been sold to Lloyds Bank plc. The last remaining asset being the Fareham property which was sold in February 2020.

Dividends

No dividends were paid during the year ended 2020 (2019: none). No final dividend is proposed for 2020.

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 2020 or up to the date of signing these financial statements.

C Gowland
RW Fletcher

Directors' indemnities

Lloyds Banking Group plc has granted to the Directors of the Company a deed of indemnity which constitutes ‘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. The Deed for existing Directors is available for inspection at the registered office of Lloyds Banking Group plc. In addition, the Group has in place appropriate Directors and Officers Liability Insurance cover which was in place throughout the financial year.

Statement of directors’ responsibilities in respect to the financial statements

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 accounting standards in conformity with the requirements of the Companies Act 2006. Under company law, 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 international accounting standards in conformity with the requirements of the Companies Act 2006 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.

Director's 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.

Going concern

The Directors are satisfied that the financial statements have been prepared on a going concern basis, taking into account that the Company is in a net asset position and will be continue to be able to repay its liabilities as they fall due, through its liquid assets.

As a result, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly they continue to adopt the going concern basis in preparing the annual report and financial statements.

Directors' report (continued)

For the year ended 31 December 2020

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.

Emerging Risks

The Company is out of scope of the Streamlined Energy and Carbon Reporting (SECR), as it does not have to report on SECR in its own Director' Report where included in the Group SECR statement of a UK Group report. Further information in respect of SECR is included within the Lloyds Banking Group plc Annual Report and Accounts for 2020, which does not form part of this report, available on the Lloyds Banking Group plc website.

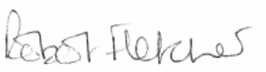
Future Developments

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

Independent auditors

Pursuant to section 487(2) of the Companies Act 2006, the auditors of the Company are deemed re-appointed for each financial year unless the Directors of the Company resolve to terminate their appointment. Following the completion of a tender process, Deloitte LLP are to be appointed as auditors of the Company for accounting periods on or after 31 December 2021.

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



R W Fletcher
Director

16th June 2021

Statement of comprehensive income

For the year ended 31 December 2020

	Note	**2020** **£'000**	2019 £'000
Interest income		**253**	888
Interest expense		**(19)**	(21)
Net interest income	2	**234**	867
Fees and commission income	3	**(7,925)**	32,234
Net Income		**(7,691)**	33,101
Other operating expenses	4	**7,627**	(32,668)
(Loss) / profit before tax		**(64)**	433
Taxation	7	**53**	1,224
(Loss) / profit for the year, being total comprehensive (expense) / income		**(11)**	1,657

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

Registered in England No. 02299428

Statement of financial position

As at 31 December 2020

	Note	**2020**	2019
		£'000	£'000
ASSETS			
Cash and cash equivalents		**52,886**	74,449
Other assets	8	**116,564**	127,754
Loans and advances to customers	11	**523**	593
Non-current assets held for sale	9	**-**	3,897
Property, plant and equipment	12	**185**	212
Total assets		**170,158**	206,905
LIABILITIES			
Borrowed funds	13	**4,615**	3,318
Other liabilities	14	**679**	769
Provision for liabilities and charges	15	**2,292**	39,319
Accruals and deferred income	16	**-**	245
Current tax liability		**18**	689
Total liabilities		**7,604**	44,340
EQUITY			
Share capital	18	**70,000**	70,000
Retained profits		**92,554**	92,565
Total equity		**162,554**	162,565
Total equity and liabilities		**170,158**	206,905

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

The financial statements on pages 5 to 19 were approved by the board of directors and were signed on its behalf by:

R W Fletcher
Director

16th June 2021

Statement of changes in equity
For the year ended 31 December 2020

	Share Capital £'000	Retained profits £'000	Total equity £'000
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**
Loss for the year being total comprehensive expense	-	(11)	(11)
At 31 December 2020	**70,000**	**92,554**	**162,554**

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

Cash flow statement

For the year ended 31 December 2020

	Note	2020 £'000	2019 £'000
Cash flows (used in) / generated from operating activities			
(Loss) / profit before tax		**(64)**	433
Adjustments for:			
- Change in operating assets		**-**	859
- Change in operating liabilities		**-**	(859)
- Depreciation of property, plant and equipment		**27**	26
- (Decrease) / increase in provision for liabilities and charges		**(37,027)**	15,251
- Retirement benefit asset		**-**	348
- Sub lease of right to use asset		**(70)**	593
- Net decrease / (increase) in loans and advances to customers		**70**	(593)
- Net decrease in other current assets		**11,190**	38,809
- Sale of non current assets held for sale		**5,127**	12,911
- Reversal of impairment		**(1,230)**	(3,460)
- Net (decrease) / increase in other creditors, accruals and deferred income		**(245)**	227
Cash (used in) / generated from operations		**(22,222)**	64,545
Corporation tax paid		**(618)**	(717)
Net cash (used in) / generated from operating activities		**(22,840)**	63,828
Cash flows generated from / (used in) financing activities			
Proceeds from / (increase in) net borrowings		**1,297**	(8,357)
Repayment of borrowing with leasing liabilities		**(110)**	(110)
Interest expense on operating lease		**19**	21
Interest receivable on loans and advances to customers		**(14)**	(15)
Repayment of borrowing on leasing asset		**85**	43
Net cash generated from / (used in) financing activities		**1,277**	(8,418)
Change in Cash and cash equivalents		**(21,563)**	55,410
Cash and cash equivalents at beginning of year		**74,449**	19,039
Cash and cash equivalents at end of year		**52,886**	74,449

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 2020

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 accounting standards in conformity with the requirements of the Companies Act 2006 ('IFRS') and the applicable legal requirements of the Companies Act 2006.

The financial information has been prepared under the historical cost convention. As stated on page 3, the directors consider that it is appropriate to continue to adopt the going concern basis in preparing the financial statements.

Details of those pronouncements which will be relevant to the Company but which were not effective at 31 December 2020 and which have not been applied in preparing these financial statements are given in note 24.

1.2 Revenue recognition

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.

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.

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.

Notes to the financial statements (continued)

For the year ended 31 December 2020

1. Accounting policies (continued)

1.6 Taxation

Tax expense comprises current and deferred tax. Current tax 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.

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.

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.

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 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.

Notes to the financial statements (continued)

For the year ended 31 December 2020

1. Accounting policies (continued)

1.10 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 15).

Payment Protection Insurance

At 31 December 2020, the Company carried a provision of £2,292k (2019: £39,319k) against the cost of making redress payments to customers and the related administration costs in relation to the misselling of Payment Protection Insurance. The remaining provision held is to cover the impact of COVID-19 delaying operational activities during 2020, the final stages of work to ensure operational completeness ahead of an orderly programme close and final validation of information requests and complaints with third parties that resulted in a limited number of additional complaints to be handled. A small part of the costs incurred during the year also reflect the costs associated with litigation activity to date. 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 provision where appropriate.

1.11 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

	2020 £'000	2019 £'000
Interest receivable on financial assets	**239**	873
Loans and advance to customers	**14**	15
Interest expense on lease liability	**(19)**	(21)
	234	867

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

3. Fee and commission income

	2020 £'000	2019 £'000
Fees and commission income	**(7,925)**	32,234
	(7,925)	32,234

The charge on fee and commission income in 2020 relates to the reversal of prior period provisions in other operating expenses, which had been previously recovered by the Company through its service charge agreement.

4. Other operating expenses

	2020 £'000	2019 £'000
Staff costs (see note 5)	**-**	2,122
Depreciation (see note 12)	**95**	95
PPI provision release (see note 15)	**(6,695)**	33,285
Release of impairment	**(1,230)**	(3,461)
Other operating expenses	**203**	627
	(7,627)	32,668

Due to the operational wind-down of the Company, the main 2020 transactions related to the reversal of prior period provisions. These included a release of an impairment charge on the Fareham property £1,230k, which was transferred to its parent at net book value and not its carrying value and in-line with updated operational activities and program close, a reduction of £6,695k on the PPI provision.

Registered in England No. 02299428

Notes to the financial statements (continued)

For the year ended 31 December 2020

5. Staff costs

	2020 £'000	2019 £'000
Wages and salaries	-	1,577
Social security costs	-	174
Share based payments	-	33
Other pension costs – defined contribution plans	-	84
Other pension costs – defined benefit plans	-	254
	-	2,122

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

	2020 No.	2019 No.
Persons employed and paid directly by the Company - all UK	-	57
Persons employed and recharged to other group companies - all UK	492	474
	492	531

The data for employee numbers is based on headcount of employees, rather than Full Time Equivalents. Employees include persons on a historic Cheltenham & Gloucester 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.

6. Directors' emoluments

No director received any fees or emoluments from the Company during the year (2019: £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.

7. Taxation

a) Analysis of credit for the year	2020 £'000	2019 £'000
UK corporation tax:		
- Current tax on taxable (loss) / profit for the year	15	685
- Adjustments in respect of prior years	(68)	(445)
Current tax (credit) / charge	(53)	240
UK deferred tax:		
- Origination and reversal of timing differences	-	(1,464)
Deferred tax credit	-	(1,464)
Total tax credit	(53)	(1,224)

Corporation tax is calculated at a rate of 19.00% (2019: 19.00%) of the taxable (loss) / profit for the year.

Notes to the financial statements (continued)

For the year ended 31 December 2020

7. Taxation (continued)

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 (credit) / charge for the year is given below:

	2020 £'000	2019 £'000
(Loss) / profit before tax	**(64)**	433
Tax (credit) / charge thereon at UK corporation tax rate of 19.00% (2019: 19.00%)	**(12)**	82
Factors affecting (credit) / charge :		
- Non-taxable items	**(918)**	(777)
- Non-deductible costs	-	1,983
- Adjustments in respect of prior years	**(68)**	(445)
- Timing differences not recognised	**945**	-
- Other	-	(2,067)
Total tax credit	**(53)**	(1,224)
Effective rate	**82.81%**	(282.68%)

Deferred tax asset of £945k relating to miscellaneous losses has not been recognised on the basis that the Company has insufficient forecast taxable profits to recover the asset in future periods. Subject to some conditions the losses can be carried forward indefinitely and offset against future taxable profits.

On 3 March 2021, the UK Government announced its intention to increase the rate of corporation tax from 19% to 25% with effect from 1 April 2023. Had this rate change in corporation tax been enacted on 31 December 2020, the effect would have been to increase the unrecognised deferred tax asset by £259k.

8. Other assets

	2020 £'000	2019 £'000
Amounts due from group undertakings (see note 19)	**116,564**	127,754
	116,564	127,754

All 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). All Amounts due from group undertakings are included within Stage 1 for IFRS 9 purposes. The expected credit loss is £nil (2019: £ nil).

9. Non-current assets held for sale

	2020 £'000	2019 £'000
Assets		
Land and buildings	**-**	3,897
	-	3,897

These financial statements reflect the sale of the Fareham property to Lloyds Bank plc in February 2020.

10. Investments

The subsidiary undertakings at 31 December 2020 and 31 December 2019, listed below, are all incorporated in England and Wales. The subsidiaries as at 31 December 2020 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	Liquidation	Ordinary
Barnwood Mortgages Limited	100%	England and Wales	Liquidation	Ordinary

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. All subsidiaries were placed into liquidation during 2020.

Notes to the financial statements (continued)

For the year ended 31 December 2020

11. Loans and Advances to customers

From 28 June 2019, the Company subleased its Queen Street property for an annual amount of £85k. During 2020 the lessee of the property entered administration. The sublease is still legally held by the lessee at the time of signing the financial statements. Balance is analysed as follows:

	2020 £'000	2019 £'000
Not later than 1 year	**85**	85
Later than 1 year and not later than 2 years	**85**	85
Later than 2 years and not later than 3 years	**85**	85
Later than 3 years and not later than 4 years	**85**	85
Later than 4 years and not later than 5 years	**85**	85
Later than 5 years	**148**	233
Gross investment in finance leases receivable	**573**	658
Unearned future finance income on finance leases	**(50)**	(65)
Net investment in finance leases	**523**	593

The net investment in finance leases represents amounts recoverable as follows

	2020 £'000	2019 £'000
Not later than 1 year	**72**	71
Later than 1 year and not later than 2 years	**74**	72
Later than 2 years and not later than 3 years	**76**	74
Later than 3 years and not later than 4 years	**78**	76
Later than 4 years and not later than 5 years	**80**	78
Later than 5 years	**143**	222
Net investment in finance leases	**523**	593

12. Property, plant and equipment

	Right-of use assets £'000	**Total £'000**
Cost		
At 1 January 2019	859	859
Sub lease on right to use asset	(621)	(621)
At 31 December 2019	238	238
At 31 December 2020	238	238
Accumulated depreciation		
At 1 January 2019	**-**	-
Depreciation charge for the year	95	95
Depreciation benefit on right to use asset	(69)	(69)
At 31 December 2019	26	26
Depreciation charge for the year	95	95
Depreciation benefit on right to use asset	(68)	(68)
At 31 December 2020	53	53
Balance sheet amount at 31 December 2020	**185**	**185**
Balance sheet amount at 31 December 2019	212	212

Notes to the financial statements (continued)

For the year ended 31 December 2020

12. Property, plant and equipment (continued)

As at 31 December 2020 the Company had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2020 £'000	2019 £'000
Not later than one year	**110**	110
Later than one year and not later than five years	**441**	441
Later than five years	**192**	302
	743	853

13. Borrowed funds

	2020 £'000	2019 £'000
Amounts due to group undertakings (see note 19)	**4,615**	3,318

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.

14. Other liabilities

	2020 £'000	2019 £'000
Lease liability	**678**	769
Other creditors	**1**	-
	679	769

15. Provision for liabilities and charges

	Total £'000
At 1 January 2019	24,068
Charge for the year	33,285
Utilised during the year	(18,034)
At 31 December 2019	39,319
Release for the year	(6,695)
Utilised during the year	(30,332)
At 31 December 2020	**2,292**

During 2020, the split of provision utilised relates to redress payments of £11,122k (2019: £18,034k) and internal processing expenses of £19,210k (2019: £nil).

16. Accruals and deferred Income

	2020 £'000	2019 £'000
Accrued operating expenses	**-**	245

Notes to the financial statements (continued)

For the year ended 31 December 2020

17. Retirement benefit obligations

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

Defined contribution schemes

Employees are members of the Lloyds Bank Pension Scheme No 1.

Defined benefits schemes

The remaining employees of the Company are members of the defined benefit sections of the Lloyds Bank 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 2020 is 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.

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.

18. Share capital

	2020 **£'000**	2019 £'000
Allotted, issued and fully paid		
70,000,000 (2019: 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 financial statements for 2020.

Amounts due from group undertakings are unsecured. Interest bearing assets are charged at SONIA and repayable on demand. Balances are included within Stage 1 for IFRS 9 purposes and any expected credit losses are considered to be immaterial.

	2020 **£'000**	2019 £'000
Interest Income		
Interest Income on deposits held with Lloyds Bank plc	**239**	873
Fees and commission income		
Commission (payable to) / receivable from Parent	**(7,925)**	32,233
Amounts due from group undertakings		
Amounts due from Parent	**116,564**	127,754
Amounts payable to group undertakings		
Amounts payable to Parent	**4,615**	3,318

Notes to the financial statements (continued)

For the year ended 31 December 2020

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, Lloyds Bank plc, and the ultimate parent, Lloyds Banking Group plc. Interest rate and liquidity risk faced by the Company is in substance managed by other group undertakings. Business risk is managed through regular reporting and oversight.

A description of the Company's financial assets and 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. Balances are included in Stage 1 for IFRS 9 purposes.

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.

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.

Borrowed funds are classed as stage 1 for IFRS 9 purposes.

Total Borrowed funds

	2020 **£'000**	2019 £'000
Up to 1 month maturity	**4,615**	3,318

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 SONIA (2019: 3 month libor rate).

A sensitivity analysis has been performed as at 31 December 2020 to assess the impact of interest rates being 25 base points ("bps") 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 on the next page:

	-25bps **£'000**	**Interest income** **£'000**	**+25 bps** **£'000**
2020	**-**	**239**	**683**
2019	553	873	1,193

	-25bps £'000	Equity £'000	+25 bps £'000
2020	162,315	162,554	162,998
2019	162,245	162,565	162,885

Notes to the financial statements (continued)
For the year ended 31 December 2020

20. Financial risk management (continued)

20.3 Interest rate risk (continued)

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**
2020					
Assets					
Loans and advances to customers	72	74	234	143	**523**
Interest-bearing cash & cash equivalents	52,886	-	-	-	**52,886**
Total Assets	52,958	74	234	143	**53,409**
Liabilities					
Other liabilities	95	96	302	186	**679**
Total Liabilities	95	96	302	186	**679**
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

21. Capital disclosures

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

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

The Company's capital comprises all components of equity, movements in which appear in the Statement of changes in equity. The Company has liquid assets and does not require funding.

22. Contingent liabilities

22.1 Contingent tax liability

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 its interpretation of the UK rules means that the group relief is not available. In 2020, HMRC concluded their enquiry into the matter and issued a closure notice. The Group's interpretation of the UK rules has not changed and hence it has appealed to the First Tier Tax Tribunal, with a hearing expected in early 2022. If the final determination of the matter by the judicial process is that HMRC's position is correct, management estimate that this would result in an increase in current tax liabilities for the company of approximately £26,084k (including interest). The Group, having taken appropriate advice, does not consider that this is a case where additional tax will ultimately fall due.

22.2 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 UK 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.

Notes to the financial statements (continued)

For the year ended 31 December 2020

23. Post balance sheet events

There have been no post balance events requiring disclosure in these financial statements.

24. Future accounting developments

The following pronouncements will be relevant to the Company but were not effective at 31 December 2020 and have not been applied in preparing these financial statements.

With the exception of certain minor amendments, as at date 16th June 2021 these pronouncement have been endorsed.

Pronouncement	Nature of change
Minor amendments to accounting standard	The IASB has issued a number of minor amendments to IFRSs effective 1 January 2021 and 1 January 2022 (including IFRS 9 Financial Instruments and IAS 37 Provisions, Contingent Liabilities and Contingent Assets). These amendments are not expected to have a significant impact on the Group.
Interest rate bench mark reform	The IASB's Phase 2 amendments in response to issues arising from the planned replacement of interest rate benchmarks in a number of jurisdictions are effective for annual periods beginning on or after 1 January 2021. Under these amendments, an immediate gain or loss is not recognised in the income statement where the contractual cash flows of a financial asset or financial liability are amended as a direct consequence of the rate reform and the revised contractual terms are economically equivalent to the previous terms. In addition, hedge accounting is continued for relationships that are directly affected by the reform. These amendments are not expected to have a significant impact on the Group.

25. 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 2020 and of its loss and cash flows for the year then ended;
- have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006; 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: statement of financial position as at 31 December 2020; statement of comprehensive income, statement of changes in equity and cash flow statement 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

Our evaluation of the directors’ assessment of the company’s ability to continue to adopt the going concern basis of accounting included:

- Evaluation of management’s going concern assessment;
- Evaluation of the Company's funding arrangements; and
- Evaluation of the Company's forecast financial performance and position over the going concern period.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company’s ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors’ use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

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

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

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 our work undertaken in the course of the audit, the Companies Act 2006 requires 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 2020 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 in respect to the financial statements, 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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of industry laws and regulations, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting of manual journal entries to manipulate financial performance and management bias in the assumptions used in significant accounting estimates. Audit procedures performed by the engagement team included:

- Inquiries of management, including consideration of known or suspected instances of non-compliance with laws and regulations or fraud;
- Performing testing over period end adjustments;
- Incorporating unpredictability into the nature, timing and / or extent of testing;
- Challenging assumptions and judgements made by management in their significant accounting estimates, in particular in relation to the PPI provision; and
- Identifying and testing journal entries, in particular any manual journal entries posted by unexpected or unusual users or those posted with descriptions indicating a higher level of risk.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

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 obtained 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 (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Bristol
16 June 2021