Cheltenham & Gloucester PLC

Annual Report and Financial Statements

2021

Member of Lloyds Banking Group plc

Strategic report
For the year ended 31 December 2021

The directors present their Strategic report and the audited financial statements of Cheltenham & Gloucester plc (the "Company") for the year ended 31 December 2021. The Company's registered address is Barnett Way, Gloucester, GL4 3RL. The directors in office during 2021 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. At 31 December 2021, the remaining PPI provision of £144k is to be used to cover any closing charges and administrative expenses.

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 £126k (2020: loss £64k). The year on year movement is due to the following:

- Lower income from interest bearing assets £56k (2020: £239k) due to a reduction in the inter-company recharge rates.

- Certain operating costs not recoverable through the service charge agreement were lower in the current year.

The Company maintained its net asset position of £162,680k (2020: £162,554k), with a remaining PPI provision of £144k (2020: £2,292k), 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

Despite a resilient recovery, 2021 has been another year of significant uncertainty, with COVID-19 accelerating broad structural changes, including ways of working and impacts to global and domestic economies. COVID-19 has continued to have a significant impact on all risk types in 2021. Understanding and managing its impacts dynamically has remained a major area of focus. The Group has responded quickly to the challenges faced, putting in place risk mitigation strategies and refining its investment and strategic plans.

The key risks and uncertainties faced by the Company are managed within the framework established for Lloyds Banking Group plc. The key risks surrounding credit, liquidity, markets and operations are discussed in note 17. 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.

Russian invasion of Ukraine

The Russian invasion of Ukraine, beginning in February 2022, has increased tensions between members of the North Atlantic Treaty Organisation (NATO) and Russia and caused sanctions to be imposed. This could have significant adverse economic effects on financial markets and on energy costs, and may also result in increased cyber attacks and an increase in costs associated with such cyber attacks, all of which could have a materially adverse effect on the Company's results of operations, financial conditions or prospects. The Company will continue to monitor the situation and risks to the business.

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. The Company is in a net asset position and holds adequate reserves of cash and near cash equivalents to repay its liabilities as they fall due.

Section 172(1) Statement

In accordance with the Companies Act 2006 (the "Act"), for the year ended 31 December 2021, 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 only as the Company has no direct employees or customers. 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 2021

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 2021, 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 2021, 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.

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’s 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 2021, which does not form part of this report, 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

6th June 2022

Directors' report

For the year ended 31 December 2021

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.

Dividends

No dividends were paid during the year ended 2021 (2020: none). No final dividend is proposed for 2021.

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 2021 or up to the date of signing these financial statements.

C Gowland (appointed 30th October 2015)
RW Fletcher (appointed 3rd October 2014)

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 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 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.

Directors' responsibilities statement

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 elected to prepare the financial statements in accordance with United Kingdom adopted international accounting standards. The financial statements also comply with International Financial Reporting Standards (IFRSs) as issued by the IASB. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing these financial statements, International Accounting Standard 1 requires that directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements of the financial reporting framework are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Auditor and disclosure of information to auditor

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 they ought to have taken as a director in order to make themself 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 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 2021

Financial risk management

The key risks surrounding credit, liquidity, markets and operations are discussed in note 17. 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.

Subsequent events

The subsidiary undertaking Barnwood Mortgages Limited, wholley owned by the Company was dissolved in March 2022. There are no other subsequent events to report.

Independent auditors

Deloitte LLP was appointed as the auditor of the Company during the period under review and are to remain in office until the conclusion of the Company's annual general meeting . Having expressed their willingness to continue in office and pursuant to section 489 of the Companies Act 2006, a resolution for the re-appointment of Deloitte LLP will be proposed at the forthcoming annual general meeting.

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

R W Fletcher
Director

6th June 2022

Statement of comprehensive income

For the year ended 31 December 2021

	Note	2021 £'000	2020 £'000
Interest income		**56**	253
Interest expense		**(16)**	(19)
Net interest income	2	**40**	234
Fees and commission income / (expense)	3	**879**	(7,925)
Net Income / (expense)		**919**	(7,691)
Other operating (expenses) / income	4	**(793)**	7,627
Profit / (loss) before tax		**126**	(64)
Taxation	7	**-**	53
Profit / (loss) for the year, being total comprehensive income / (loss)		**126**	(11)

All profit for the year being total comprehensive income is attributable to continuing operations.

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

Balance sheet

As at 31 December 2021

	Note	2021 £'000	2020 £'000
ASSETS			
Cash and cash equivalents		**62,204**	52,886
Receivables / amounts due from group undertakings	8	**100,668**	116,564
Loans and advances to customers	10	**-**	523
Right of use asset	11	**573**	185
Total assets		**163,445**	170,158
LIABILITIES			
Borrowed funds	12	**37**	4,615
Other liabilities	13	**584**	679
Provision for liabilities and charges	14	**144**	2,292
Current tax liability		**-**	18
Total liabilities		**765**	7,604
EQUITY			
Share capital	15	**70,000**	70,000
Retained earnings		**92,680**	92,554
Total equity		**162,680**	162,554
Total equity and liabilities		**163,445**	170,158

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:

Robert Fletcher

R W Fletcher
Director

6th June 2022

Statement of changes in equity

For the year ended 31 December 2021

	Share Capital £'000	Retained earnings £'000	Total equity £'000
At 1 January 2020	**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**
Profit for the year being total comprehensive income	-	126	126
At 31 December 2021	**70,000**	**92,680**	**162,680**

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

Cash flow statement

For the year ended 31 December 2021

	Note	2021 £'000	2020 £'000
Cash flows generated from / (used in) operating activities			
Profit / (loss) before tax		**126**	(64)
Adjustments for:			
- Depreciation of right of use asset	11	**95**	27
- Decrease in provision for liabilities and charges	14	**(2,148)**	(37,027)
- Sale of non current assets held for sale		**-**	5,127
- Reversal of impairment		**-**	(1,230)
- Net decrease in receivables / amounts due from group undertakings	8	**15,896**	11,190
- Net decrease in other creditors, accruals and deferred income		**-**	(245)
Cash generated from / (used in) operating activities		**13,969**	(22,222)
Corporation tax paid		**(18)**	(618)
Net cash generated from / (used in) operating activities		**13,951**	(22,840)
Cash flows generated from investing activities			
- Sub lease of right to use asset		**(523)**	(70)
- Net decrease in loans and advances to customers	10	**523**	70
- Loss on disposal of sub lease		**39**	-
- Interest expense on operating lease	2	**16**	19
- Interest received on loans and advances to customers		**-**	(14)
Net cash generated from investing activities		**55**	5
Cash flows (used in) / generated from financing activities			
- (Increase in) / proceeds from net borrowings	12	**(4,578)**	1,297
- Repayment of borrowing with leasing liabilities		**(110)**	(110)
- Repayment of borrowing on leasing asset		**-**	85
Net cash (used in) / generated from financing activities		**(4,688)**	1,272
Change in Cash and cash equivalents		**9,318**	(21,563)
Cash and cash equivalents at beginning of year		**52,886**	74,449
Cash and cash equivalents at end of year		**62,204**	52,886

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

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.

The financial statements of the Company have been prepared in accordance with United Kingdom adopted international accounting standards and International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB) and 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. 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.

No new IFRS pronouncements which had a material impact have been adopted in these financial statements. Details of those pronouncements which will be relevant to the Company but which were not effective at 31 December 2021 and which have not been applied in preparing these financial statements are given in note 22.

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 rate method, except for those classified at fair value through profit or loss. The effective interest rate 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 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.

1. Accounting policies (continued)

1.4 Taxation (continued)

Deferred tax assets are recognised to the extent it is probable that taxable profits will be available against which the deductible temporary differences can be utilised, and are reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. In certain cases where forecast profits are not expected to be sufficient to support the recognition of a deferred tax asset on a standalone entity basis, further consideration has been given to the availability of UK group relief with connected companies to support the recognition.

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.

1.5 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.

1.6 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. Accounting policies (continued)

1.7 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.

1.8 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.

In the course of preparing these financial statements, no critical estimates have been made in the process of applying the Company's accounting policies.

1.9 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

	2021 **£'000**	2020 £'000
Interest receivable on financial assets (see note 16)	**56**	239
Loans and advance to customers	**-**	14
Interest expense on lease liability	**(16)**	(19)
	40	234

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

	2021 **£'000**	2020 £'000
Fees and commission income (see note 16)	**879**	(7,925)

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

	2021 **£'000**	2020 £'000
Depreciation (see note 11)	**95**	95
PPI provision charge/(release) (see note 14)	**657**	(6,695)
Release of impairment	**-**	(1,230)
Other operating expenses	**41**	203
	793	(7,627)

Due to the operational wind-down of the Company, the main 2020 transactions related to the reversal of prior period provisions. These included the 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. In addition, a reduction of £6,695k on the PPI provision in-line with updated operational activities and program close.

5. Staff costs

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

	2021 No.	2020 No.
Persons employed and recharged to other group companies - all UK	**480**	492

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 (2020: £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

	2021 £'000	2020 £'000
a) Analysis of credit for the year		
UK corporation tax:		
- Current tax on taxable profit / (loss) for the year	**-**	(15)
- Adjustments in respect of prior years	**-**	68
Current tax credit	**-**	53
Tax credit	**-**	53

Corporation tax is calculated at a rate of 19.00% (2020: 19.00%) of the taxable profit / (loss) for the year.

b) Factors affecting the tax credit for the year

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

	2021 £'000	2020 £'000
Profit / (loss) before tax	**126**	(64)
Tax (charge) / credit thereon at UK corporation tax rate of 19.00% (2020: 19.00%)	**(24)**	12
Factors affecting charge / (credit):		
- Non-taxable items	**-**	918
- Non-deductible costs	**-**	-
- Adjustments in respect of prior years	**-**	68
- Timing differences not recognised	**24**	(945)
- Other	**-**	-
Total tax credit	**-**	53
Effective rate	**0.00%**	82.81%

The Finance Act 2016 reduced the main rate of corporation tax to 17% with effect from 1 April 2020. This reduction was superseded by Finance Act 2020 which was enacted on 22 July 2020, and maintained the main rate of corporation tax at 19% with effect from 1 April 2020.

The Finance Act 2021, which received Royal Assent on 10 June 2021, increases the rate of corporation tax from 19% to 25% with effect from 1 April 2023.

A deferred tax asset of £1,183k 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.

8. Receivables / amounts due from group undertakings

	2021 **£'000**	2020 £'000
Amounts due from group undertakings (see note 16)	**100,668**	116,564

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 16 and 17). All Amounts due from group undertakings are included within Stage 1 for IFRS 9 purposes. The expected credit loss is £nil (2020: £nil).

9. Investments

The subsidiary undertakings listed below, are incorporated in England and Wales and are registered to 1 More London Place, London, SE1 2AF.

Subsidiary undertakings	**Company interest %**	**Country of registration / incorporation**	**Principal activities**	**Share Class**
Central Mortgage Finance Limited	100%	England and Wales	Dissolved December 2021	Ordinary
Barnwood Mortgages Limited	100%	England and Wales	Dissolved March 2022	Ordinary

10. 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 has been derecognised in 2021 and all associated income has been written off. The balance is analysed as follows:

	2021 **£'000**	2020 £'000
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	-	148
Gross investment in finance leases receivable	-	573
Unearned future finance income on finance leases	-	(50)
Net investment in finance leases	-	523

The net investment in finance leases represents amounts recoverable as follows:

	2021 **£'000**	2020 £'000
Not later than 1 year	-	72
Later than 1 year and not later than 2 years	-	74
Later than 2 years and not later than 3 years	-	76
Later than 3 years and not later than 4 years	-	78
Later than 4 years and not later than 5 years	-	80
Later than 5 years	-	143
Net investment in finance leases	-	523

Notes to the financial statements (continued)

For the year ended 31 December 2021

11. Right of use asset

	Right-of use assets £'000	Total £'000
Cost		
At 1 January 2020	238	238
At 31 December 2020	238	238
Disposal of sub lease on right to use asset	621	621
At 31 December 2021	859	859
Accumulated depreciation		
At 1 January 2020	26	26
Depreciation charge for the year	95	95
Depreciation benefit on right to use asset	(68)	(68)
At 31 December 2020	53	53
Depreciation charge for the year	95	95
Disposal of sub lease on right to use asset	138	138
At 31 December 2021	286	286
Balance sheet amount at 31 December 2021	**573**	**573**
Balance sheet amount at 31 December 2020	185	185

As at 31 December 2021 the Company had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2021 £'000	2020 £'000
Not later than one year	**110**	110
Later than one year and not later than five years	**441**	441
Later than five years	**82**	192
	633	743

12. Borrowed funds

	2021 £'000	2020 £'000
Amounts due to group undertakings (see note 16)	**37**	4,615

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

	2021 £'000	2020 £'000
Lease liability	**584**	678
Other creditors	**-**	1
	584	679

14. Provision for liabilities and charges

	Total £'000
At 1 January 2020	39,319
Release for the year	(6,695)
Utilised during the year	(30,332)
At 31 December 2020	2,292
Charge for the year	657
Utilised during the year	(2,805)
At 31 December 2021	**144**

During 2021, the split of provision utilised relates to redress payments of £1,216k (2020: £11,122k) and internal processing expenses of £1,589k (2020: £19,210k). At 31 December 2021, the remaining PPI provision of £144k is to be used to cover any closing charges and administrative costs.

15. Share capital

	2021 £'000	2020 £'000
Allotted, issued and fully paid		
70,000,000 (2020: 70,000,000) ordinary shares of £1 each	**70,000**	70,000

16. 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 2021.

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.

	2021	2020
	£'000	£'000
Interest Income		
Interest Income on deposits held with Lloyds Bank plc (see note 2)	**56**	239
Fees and commission income		
Commission receivable from / (payable to) Parent (see note 3)	**879**	(7,925)
Amounts due from group undertakings		
Amounts due from Parent (see note 8)	**100,668**	116,564
Amounts payable to group undertakings		
Amounts payable to Parent (see note 12)	**37**	4,615

17. 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.

17.1 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.

The maximun credit risk exposure of the company in the event of other parties failing to perform their obligations is detailed below:

	2021	2020
	£'000	£'000
Cash and cash equivalents	**62,204**	52,886
Receivables / amounts due from group undertakings	**100,668**	116,564
Loans and advances to customers	**-**	523
	162,872	169,973

Cash and cash equivalents and Amounts due from group undertakings are held with other companies within the Group. The credit risk associated with these financial assets is considered to be trivial. Balances are included in Stage 1 for IFRS 9 purposes.

17.2 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.

17. Financial risk management (continued)

17.2 Liquidity risk (continued)

Total Borrowed funds

	2021 £'000	2020 £'000
Borrowed funds		
Up to 1 month maturity	**37**	4,615
Other liabilities		
Less than 1 year	**96**	95
Between 1-2 years	**98**	96
Between 2-5 years	**310**	302
5 years or more	**80**	186
Total Borrowed funds	**621**	5,294

17.3 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.

A sensitivity analysis has been performed as at 31 December 2021 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:

	-25bps £'000	Interest income £'000	+25 bps £'000
2021	**-**	**56**	**464**
2020	-	239	683

	-25bps £'000	Equity £'000	+25 bps £'000
2021	**162,624**	**162,680**	**163,088**
2020	162,315	162,554	162,998

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
2021					
Assets					
Interest-bearing cash & cash equivalents	62,204	-	-	-	**62,204**
Total Assets	62,204	-	-	-	**62,204**
Liabilities					
Other liabilities	96	98	310	80	**584**
Total Liabilities	96	98	310	80	**584**

17. Financial risk management (continued)

17.3 Interest rate risk (continued)

	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

18. 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.

19. 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 2021 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.

20. Contingent liabilities

20.1 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 rules has not changed and hence it has appealed to the First Tier Tax Tribunal, with a hearing expected in 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 £26,678k (including interest). The Group, having taken appropriate advice, does not consider that this is a case where additional tax will ultimately fall due.

20. Contingent liabilities (continued)

20.2 Contingent liabilities

During the ordinary course of business the Company is subject to complaints and threatened or actual legal proceedings (including class or group action claims) brought by or on behalf of current or former employees, customers, investors or other third parties, as well as legal and regulatory reviews, challenges, investigations and enforcement actions, both in the 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 balance sheet 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.

21. Post balance sheet events

Russian invasion of Ukraine

The Russian invasion of Ukraine, beginning in February 2022, has increased tensions between members of the North Atlantic Treaty Organisation (NATO) and Russia and caused sanctions to be imposed. This could have significant adverse economic effects on financial markets and on energy costs, and may also result in increased cyber attacks and an increase in costs associated with such cyber attacks, all of which could have a materially adverse effect on the Company's results of operations, financial conditions or prospects. The Company will continue to monitor the situation and risks to the business.

The subsidiary undertaking Barnwood Mortgages Limited, wholley owned by the Company was dissolved in March 2022. There have been no other post balance events requiring disclosure in these financial statements.

22. Future accounting developments

The IASB has issued a number of minor amendments to IFRSs effective 1 January 2022 and in later years (including IFRS 9 Financial Instruments and IAS 37 Provisions, Contingent Liabilities and Contingent Assets). These amendments are not applicable for the year ended 31 December 2021 and have not been applied in preparing these financial statements. They are not expected to have a significant impact on the Group.

23. 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 https://www.lloydsbankinggroup.com/investors/financial-downloads.html.

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 https://www.lloydsbankinggroup.com/investors/financial-downloads.html.

Independent auditor's report to the members of Cheltenham & Gloucester PLC

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of Cheltenham & Gloucester PLC (the 'company'):

- give a true and fair view of the state of the company's affairs as at 31 December 2021 and of its profit for the year end 31 December 2021 then ended;
- have been properly prepared in accordance with United Kingdom adopted international accounting standards and International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the statement of comprehensive income;
- the balance sheet;
- the statement of changes in equity;
- the cash flow statement; and
- the related notes 1 to 23.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom adopted international accounting standards and IFRSs as issued by the IASB.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

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.

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.

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

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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 course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. 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 in this regard.

Responsibilities of directors

As explained more fully in the statement of directors' responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors 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.

Auditor's 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 auditor's 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 auditor's report.

Extent to which the audit was considered capable of detecting irregularities, including fraud

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.

Extent to which the audit was considered capable of detecting irregularities, including fraud (continued)

We considered the nature of the company's industry and its control environment, and reviewed the company's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management about their own identification and assessment of the risks of irregularities.

We obtained an understanding of the legal and regulatory framework that the company operates in, and identified the key laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the financial statements. These included UK Companies Act and UK tax legislation; and
- do not have a direct effect on the financial statements but compliance with which may be fundamental to the company's ability to operate or to avoid a material penalty.

We discussed among the audit engagement team regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

In addition to the above, our procedures to respond to the risks identified included the following:

- reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management and legal counsel concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of meetings of those charged with governance.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

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

- the information given in the strategic report and directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and directors' report has been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report and directors' report.

Independent auditor's report to the members of Cheltenham & Gloucester PLC (continued)

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

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

We have nothing to report in respect of these matters.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

P Cowley

Paul Cowley CA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Glasgow, United Kingdom
6 June 2022