

Registered Number 05941709

ARKLE MASTER ISSUER PLC
ANNUAL REPORT AND FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2013

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**ARKLE MASTER ISSUER PLC
DIRECTORS AND COMPANY INFORMATION**

DIRECTORS

Jason C Bingham
Martin C Schnaier
Ian G Stewart

COMPANY SECRETARY

Sanne Group Secretaries (UK) Limited

REGISTERED OFFICE

1 Berkeley Street
London
W1J 8DJ

INDEPENDENT AUDITORS

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
7 More London Riverside
London
SE1 2RT

ARKLE MASTER ISSUER PLC
STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2013

The directors have pleasure in presenting their strategic report for Arkle Master Issuer plc (the "Company") for the year ended 31 December 2013

Principal activities

The principal activity of the Company is the investment of the proceeds of the issue of publicly listed floating and fixed rate asset backed loan notes in the international capital markets which are denominated in a number of currencies (the "Notes"). These proceeds have been invested in loans to Arkle Funding (No 1) Limited ("Funding 1"). No future changes in activity are envisaged

The activities of the Company are conducted primarily by reference to a series of securitisation transaction documents (the "Programme Documentation"). The securitisation structure has been established as a means of raising finance for Lloyds Bank plc ("Lloyds"), and subsequently Lloyds Banking Group plc ("LBG"). The Programme Documentation sets out the workings of the transaction and the principal risks to the holders of the Notes. As such, these have not been reproduced in full in the financial statements

The Company was incorporated under the laws of England and Wales and registered as a public limited company. Arkle PECO Holdings Limited holds 49,999, £1 ordinary shares in the Company partly paid to £0.25 and one £1 ordinary share which is fully paid. Sanne Group Nominees 1 (UK) Limited holds one £1 ordinary share in the Company fully paid as nominee for Arkle PECO Holdings Limited. These shares comprise the entire issued share capital of the Company.

Business Review

The results for the year are set out on page 12. The loss after taxation for the year amounted to £56,493k (2012: £5,191k profit). The directors do not recommend the payment of a dividend (2012: £ nil).

As required under IFRSs, the loss for the year includes a net fair value loss on financial instruments of £78,295k (2012: £36,705k) which reflects the movement in the market value of the derivatives. The Notes issued are effectively hedged using derivative contracts and so gains or losses recognised to date are expected to reverse in the future.

Underlying profits for the Company, excluding fair value gains or losses on financial instruments, are pre-determined under the Programme Documentation. Under the terms of the intercompany loans, the Company has the right to a profit before tax of £5k from available revenue receipts per accounting period.

The Company's tax charge is based on the permanent tax regime for securitisation companies.

On 8 August 2013, State Street Administration Services (UK) Limited resigned as the corporate service provider and was replaced by Sanne Group (UK) Limited. State Street Secretaries (UK) Limited resigned on the same day as secretary to the Company and was replaced by Sanne Group Secretaries (UK) Limited. The immediate parent of the Company also changed on the same day with Stanhope Gate Trustees Limited retiring as parent and Sanne Trustee Company UK Limited was appointed. The registered office became 1 Berkeley Street, London, W1J 8DJ.

ARKLE MASTER ISSUER PLC
STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2013 (CONTINUED)

Business review (continued)

During the year £3,472 million (2012 £2,537 million) of Notes were repaid on their expected payment dates and a further Note for £498 million was repaid ahead of its expected payment date following the receipt of the equivalent amount on the intercompany loans with Funding 1. No further Notes were issued during the year (2012 £3,946 million).

Since the year end, there have been no Note repayments and no further Notes have been issued.

The Company will continue to issue Notes and invest the proceeds as intercompany loans to Funding 1. The directors anticipate that the Company will be profitable over its lifetime.

Key performance indicators (KPIs)

A defined set of KPIs for the securitisation transaction are set out in the Programme Documentation and published as a monthly Investor Report.

In order to assist the directors to mitigate key risks, there is Board representation at a monthly meeting with programme managers. This meeting analyses and discusses the trends for the month and identifies any issues or required changes. Any such issues are then reported, further discussed and collectively agreed in accordance with the programme documentation that governs the transaction.

The Board is responsible for assessing the risk of irregularities, where caused by fraud or error in the financial reporting and ensuring that the processes are in place for the timely identification of internal and external matters with a potential effect on financial reporting.

The key performance indicator used by management in assessing the performance of the Company is the monitoring of actual cash flows against planned cash flows. All the interest and principal due on the intercompany loans and Notes was received and paid on the expected dates during 2013. In addition, a Note held by Lloyds was repaid early.

At the time of issue each series and class of Notes is assigned a credit rating which reflects the likelihood of full and timely payment to the holders of the Notes of interest on each interest payment date and the payment of principal by the final maturity date. A rating may be subject to revision, suspension or withdrawal at any time by the rating agencies if the Company's circumstances change.

Any change in the credit rating assigned to a Note would be used as an indicator as to the performance of the Company. No downgrade in credit ratings has been applied to the Company's Notes in the period under review and subsequently up to the date of approval of these financial statements.

The Company's principal outflows, being the payments on the Notes, have been economically hedged using a series of derivatives contracts which match the terms of the Notes. This has provided certainty in terms of amounts due on the Notes and avoids fluctuations in cashflows.

ARKLE MASTER ISSUER PLC
STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2013 (CONTINUED)

Risk management

The majority of the Company's assets and liabilities have been classified as financial instruments in accordance with IAS 32 "Financial Instruments Presentation". The Company's financial instruments comprise intercompany loans to Funding 1, Notes issued in the capital markets, derivative contracts, various other receivables and payables and cash and liquid resources.

The principal risks and uncertainties for the Company arise from the Company's financial instruments. These are credit risk, liquidity risk, interest rate risk and currency risk. These and other risks which may affect the Company's performance are detailed below. Further analysis of the risks facing the Company in relation to its financial instruments and the Company's financial risk management policies is provided in note 12.

Credit risk

The intercompany loans are ultimately secured against a beneficial interest in a mortgage portfolio held in trust for Funding 1. The performance of the mortgage loans, secured on UK residential properties, is influenced by the economic environment and the UK housing market.

To mitigate this risk, credit enhancement is provided to Funding 1 in the form of excess revenue receipts ("Excess Spread"), a subordinated Z loan ("Z Loan") and a general reserve.

Liquidity risk

The ability of the Company to meet its obligations to make principal and interest payments on the Notes and to meet its operating and administrative expenses is dependent on funds being received under the intercompany loans held with Funding 1. Funding 1 is only obliged to pay interest and principal to the Company to the extent that it has such amounts available to it. The Company has recourse to the other assets of Funding 1 for any shortfall in receipts due under the intercompany loan agreement.

The Company has received all necessary payments on the intercompany loans with Funding 1, in accordance with the expected repayment dates for the year ended 31 December 2013.

Interest rate risk

Interest rate risk exists where assets and liabilities have interest rates set under a different basis or which reset at different times. The Company minimises its exposure to interest rate risk by ensuring that the interest rate characteristics of the intercompany loans and the Notes (its principal assets and liabilities) are similar, where this is not possible the Company uses derivative contracts to mitigate any residual interest rate risk.

ARKLE MASTER ISSUER PLC
STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2013 (CONTINUED)

Currency risk

The Company has issued certain Notes denominated in US Dollars, Japanese Yen and Euros ("Currency Notes"). All the Company's assets and its other liabilities are denominated in Sterling. The Company's policy is to eliminate all exposures arising from movements in exchange rates by the use of interest rate related contracts to hedge payments of interest and principal on the Currency Notes. Interest rate related contracts providers at the year end were Natixis SA and Lloyds Bank plc. These financial institutions were rated A (long term) or above by Standard & Poor's as at 31 December 2013.

Operational risks

The Company is also exposed to operational risks through a number of contracts with third parties who have agreed to provide operational support to the Company in accordance with the Programme Documentation. State Street Secretaries (UK) Limited and subsequently Sanne Group (UK) Limited, appointed on 8th August 2013 provide corporate services in accordance with a corporate services agreement. Other third parties who have agreed to provide services with respect to the Notes include the paying agents, derivative contract providers and the agent bank. Lloyds has been appointed to act as account bank and cash manager on behalf of the Company.

Business risks

The principal business risks of the Company are set out in a number of asset and non-asset trigger events in the Programme. The occurrence of trigger events may lead to a different priority of payments of the Notes. There have been no such trigger events since the inception of the Programme.

By order of the board



Sanne Group Secretaries (UK) Limited
Company Secretary

Registered Office
1 Berkeley Street
London
W1J 8DJ

28 March 2014

ARKLE MASTER ISSUER PLC
DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2013

The directors have pleasure in presenting their annual report and the audited financial statements for Arkle Master Issuer plc (the "Company") for the year ended 31 December 2013

Directors and directors' interests

The directors of the Company at the end of the year and subsequently were as follows

Jason C Bingham
Martin C Schnaier
Ian G Stewart

None of the directors had a beneficial interest in the shares of the Company, or of the ultimate holding company, Sanne Trustee Company UK Limited

Ashan Iqbal resigned from the Board on 31 May 2013

Neville D Scott resigned from the Board on 8 August 2013 and both Jason C Bingham and Martin C Schnaier were appointed on the same day

Ian G Stewart is an employee of Bank of Scotland plc, a subsidiary of Lloyds Banking Group

Statement of directors' responsibilities

The directors are responsible for preparing the Strategic Report, Directors' Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and accounting estimates that are reasonable and prudent,
- state whether applicable International Financial Reporting Standards (IFRSs) as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. 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.

ARKLE MASTER ISSUER PLC
DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2013 (CONTINUED)

Disclosure of information to auditors

In accordance with Section 418, director's reports shall include a statement, in the case of each director in office at the date the directors' report is approved, that

- a) so far as a director is aware, there is no relevant audit information of which the Company's auditors are unaware, and
- b) he has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information

Directors' indemnities

As permitted by the Articles of Association, the directors have the benefit of an indemnity which is a qualifying third party indemnity provision as defined by Section 234 of the Companies Act 2006. The indemnity was in force throughout the last financial year and is currently in force.

Employees

The Company has employed no staff during the year ended 31 December 2013 (2012 Nil). None of the directors received any emoluments from the Company in the current year (2012 Nil).

Policy and practice on payment of creditors

The majority of the Company's payments are in relation to the Notes and are due monthly or quarterly in accordance with the terms of the Notes. Payments are subject to the receipt of principal and interest on the underlying mortgage pool and the subsequent payment of the intercompany loans. All such payments were made on the due dates.

The Company's policy is to agree terms of payment with suppliers and these normally provide for settlement within 30 days after the date of the invoice, except where other arrangements have been negotiated. It is the policy of the Company to abide by the agreed terms of payment, provided the supplier performs according to the terms of the contract.

Corporate Governance

The Directors have been charged with governance in accordance with the Programme Documentation detailing the structure and operation of the transaction. The governance structure of the Company is such that the key policies have been predetermined at the time of issuance and the operational roles have been assigned to third parties with their roles strictly governed by the transaction documents.

The Programme Documentation provides for procedures that have been designed for safeguarding assets against unauthorised use or disposition, for maintaining proper accounting records, and for the reliability and usefulness of financial information used within the business or for publication. Such procedures are designed to manage rather than eliminate the risk of failure to achieve business objectives whilst enabling them to comply with the regulatory obligations.

ARKLE MASTER ISSUER PLC
DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2013 (CONTINUED)

Corporate Governance (continued)

Due to the nature of the securities which have been issued, the Company is largely exempt from the requirements of the Financial Conduct Authority Disclosure and Transparency Rules (DTR) and detailed in DTR 7.1 audit committees and 7.2 corporate governance statements (save for the rule DTR 7.2.5 requiring descriptions of the features of the internal control and risk management systems), which would otherwise require the Company respectively, to have an audit committee in place and include a corporate governance statement in the report of the directors. The directors are therefore satisfied that there is no requirement for an audit committee or a supervisory body entrusted to carry out the functions of an audit committee or to publish a corporate governance statement.

Independent auditors

PricewaterhouseCoopers LLP have indicated their willingness to continue in office.

Statement of going concern

The directors are satisfied that the Company has adequate resources to continue to operate for the foreseeable future and is financially sound. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

By order of the board



Sanne Group Secretaries (UK) Limited
Company Secretary

Registered Office
1 Berkeley Street
London
W1J 8DJ

28 March 2014

ARKLE MASTER ISSUER PLC
INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF ARKLE MASTER ISSUER PLC

REPORT ON FINANCIAL STATEMENTS

Our opinion

In our opinion the financial statements, defined below

- give a true and fair view of the state of the company's affairs as at 31 December 2013 and of its loss and cash flows for the year then ended,
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006

This opinion is to be read in the context of what we say in the remainder of this report

What we have audited

The financial statements, which are prepared by Arkle Master Issuer plc, comprise

- the statement of comprehensive income for the year then ended,
- the statement of financial position as at 31 December 2013,
- the statement of changes in equity for the year then ended,
- the cashflow statement for the year then ended, and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events

What an audit of financial statements involves

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)") An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of

- whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed,
- the reasonableness of significant accounting estimates made by the directors, and
- the overall presentation of the financial statements

ARKLE MASTER ISSUER PLC

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF ARKLE MASTER ISSUER PLC (CONTINUED)

What an audit of financial statements involves (continued)

In addition, we read all the financial and non-financial information in the Directors' Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

OPINION ON OTHER MATTER PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion 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.

OTHER MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

Adequacy of accounting records and information and explanations received

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

- we have not received all the information and explanations we require for our audit, or
- adequate accounting records have not been kept, 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

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

ARKLE MASTER ISSUER PLC
INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF ARKLE MASTER ISSUER PLC (CONTINUED)

RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS AND THE AUDIT

Our responsibilities and those of the directors

As explained more fully in the Directors' Responsibilities Statement set out on page 6, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland) Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

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



Scott Berryman (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

28 March 2014

ARKLE MASTER ISSUER PLC
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2013

		2013	2012
	Note	£'000	£'000
Interest receivable and similar income	2	213,773	293,266
Interest payable and similar charges	3	(190,992)	(250,117)
Net interest income		<u>22,781</u>	<u>43,149</u>
Fair value losses		(78,295)	(36,705)
Operating expenses	4	(978)	(1,252)
(Loss) / Profit before tax		<u>(56,492)</u>	<u>5,192</u>
Taxation	5	(1)	(1)
(Loss) / Profit and total comprehensive income attributable to owners of the parent		<u>(56,493)</u>	<u>5,191</u>

The loss shown above is derived from continuing operations. All of the Company's activities are in the UK.

There was no income or expense recognised directly in equity in the current year or preceding year.

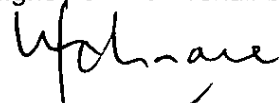
The accompanying notes on pages 16 to 39 are an integral part of the financial statements.

ARKLE MASTER ISSUER PLC
STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2013

		2013	2012
	Note	£'000	£'000
Assets			
Loans to related company	6	8,011,985	11,989,752
Derivative assets	7	29,993	69,368
Trade and other receivables	8	37	37
Cash and cash equivalents		52	48
		<hr/>	<hr/>
Total assets		8,042,067	12,059,205
		<hr/>	<hr/>
Equity and liabilities			
Debt securities in issue	9	7,755,449	11,699,704
Derivative liabilities	7	288,687	305,032
Current tax liability		1	1
Trade and other payables	10	96	141
		<hr/>	<hr/>
Total liabilities		8,044,233	12,004,878
		<hr/>	<hr/>
Share capital	11	50	50
Accumulated (losses) / earnings		(2,216)	54,277
		<hr/>	<hr/>
Total equity		(2,166)	54,327
		<hr/>	<hr/>
Total equity and liabilities		8,042,067	12,059,205
		<hr/>	<hr/>

The accompanying notes on pages 16 to 39 are an integral part of the financial statements

The financial statements on pages 12 to 39 were approved by the directors on 28 March 2014 and signed on their behalf by


Martin C Schnaier
Director

ARKLE MASTER ISSUER PLC
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2013

	Share capital £'000	Retained earnings £'000	Total equity £'000
Balance at 1 January 2013	50	54,277	54,327
Loss for the year and total comprehensible income	-	(56,493)	(56,493)
	<hr/>	<hr/>	<hr/>
Balance at 31 December 2013	50	(2,216)	(2,166)
	<hr/>	<hr/>	<hr/>

	Share capital £'000	Retained earnings £'000	Total equity £'000
Balance at 1 January 2012	50	49,086	49,136
Profit for the year and total comprehensible income	-	5,191	5,191
	<hr/>	<hr/>	<hr/>
Balance at 31 December 2012	50	54,277	54,327
	<hr/>	<hr/>	<hr/>

The accompanying notes on pages 16 to 39 are an integral part of the financial statements

ARKLE MASTER ISSUER PLC
CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2013

	2013 £'000	2012 £'000
Operating activities		
Tax paid	(1)	(1)
Net cash flows used in operating activities	(1)	(1)
Investing activities		
Loans to Funding 1	-	(3,946,278)
Repayment of loans to Funding 1	3,969,764	2,536,840
Interest received on loans to Funding 1	221,775	292,180
Net cash flows generated from / (used in) investing activities	4,191,539	(1,117,258)
Financing activities		
New debt securities issued	-	3,946,278
Principal repayments of debt securities	(3,969,764)	(2,536,840)
Interest paid on debt securities	(197,286)	(249,152)
Net interest paid on derivatives	(23,461)	(41,782)
Administration charges	(1,023)	(1,241)
Net cash flows (used in) / generated from financing activities	(4,191,534)	1,117,263
Net increase in cash and cash equivalents	4	4
Change in cash and cash equivalents	4	4
Cash and cash equivalents at start of year	48	44
Cash and cash equivalents at end of year	52	48

The cash flow statement is presented using the direct method

The accompanying notes on pages 16 to 39 are an integral part of the financial statements

ARKLE MASTER ISSUER PLC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013

1. SIGNIFICANT ACCOUNTING POLICIES

Arkle Master Issuer plc is a company domiciled in England and Wales

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Statement of compliance

The financial statements for the year ended 31 December 2013 have been prepared in accordance with International Financial Reporting Standards (IFRSs) and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) as adopted by the European Union and effective at the date the financial statements are approved by the Board.

The Company has adopted the following new and relevant IFRS pronouncements which became effective for financial years beginning on or after 1 January 2013. None of these standards or amendments has had a material impact on these company financial statements.

- **IFRS 10 Consolidated Financial Statements** IFRS 10 supersedes IAS 27 Consolidated and Separate Financial Statements and SIC-12 Consolidation – Special Purpose Entities and establishes the principles for when the entity is controlled by LBG and is therefore required to be consolidated in the group financial statements of LBG. Under IFRS 10, LBG controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through the exercise of power.

Special purpose entities are entities that are designed so that their activities are not governed by way of voting rights. In assessing whether LBG has power over such entities in which it has an interest, LBG considers factors such as the purpose and design of the entity, its practical ability to direct the relevant activities of the entity, the nature of the relationship with the entity, and the size of its exposure to the variability of returns of the entity. In doing so LBG has concluded that the Company should continue to be consolidated within the group financial statements of LBG.

- **IFRS 13 Fair Value Measurement** IFRS 13 has been applied with effect from 1 January 2013. IFRS 13 defines the fair value as the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Company has access at that date. IFRS 13 requires that the fair value of a non-financial asset is determined based on the highest and best use of the asset, and that the fair value of a liability reflects its non-performance risk. These changes had no significant impact on the measurement of the Company's assets and liabilities. The IFRS 13 disclosures are given in note 12 (e) to the financial statements.

The financial statements also comply with the relevant provisions of Part 15 of the Companies Act 2006.

ARKLE MASTER ISSUER PLC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013 (CONTINUED)

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Statement of compliance (continued)

The financial statements have been prepared using the going concern basis. The directors have reviewed the expected future cash flows and believe they are adequate to meet the anticipated payments due in accordance with the Programme Documentation.

The financial statements are presented in Sterling which is the Company's functional and presentation currency and have been prepared on the historical cost basis (except that derivative financial instruments are stated at their fair value).

(b) Interest receivable and payable

Interest receivable and similar income and interest payable have been calculated using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset or liability and of allocating the interest income or interest expense over the expected life of the financial instrument. The effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts over the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the future cash flows are estimated after considering all the contractual terms of the instrument but not future credit losses.

(c) Accrued interest

Accrued interest has been incorporated within the loans to Related Company and within outstanding balance of debt securities in issue on the balance sheet. An analysis of principal and accrued interest can be found in note 6 and note 9.

(d) Taxation

Current tax which is payable on taxable profits is recognised as an expense in the period in which the profits arise.

The Company's tax charge is based on the permanent tax regime for securitisation companies.

(e) Financial instruments

The Company's financial instruments comprise intercompany loans to Funding 1, Notes issued in the capital markets, derivative contracts, other receivables and payables and cash and liquid resources. The main purpose of these financial instruments is to raise finance for Lloyds. These financial instruments are classified in accordance with the principles of IAS 39 as described below.

(e)(i) Loans to related company

The loans to Funding 1 are classified within "loans and receivables". The initial measurement is at fair value with subsequent measurement being at amortised cost with any difference between cost and redemption value being recognised in the Statement of Comprehensive Income over the period of the borrowings on an effective interest basis.

ARKLE MASTER ISSUER PLC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013 (CONTINUED)

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Financial instruments (continued)

(e)(ii) Derivative financial instruments

All derivatives are recognised at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and using valuation techniques, including discounted cash flow and options pricing models, as appropriate. Derivatives are carried in the balance sheet as assets when their fair value is positive and as liabilities when their fair value is negative. Changes in the fair value of any derivative instrument that is not part of a hedging relationship are recognised immediately in the Statement of Comprehensive Income.

The fair value of derivative contracts is the estimated amount that the Company would receive or pay to terminate the swap at the Balance Sheet date, taking into account current interest rates and exchange rates.

(e)(iii) Cash and cash equivalents

The Company holds a transaction bank account. For the purposes of the cash flow statement, cash and cash equivalents comprise cash and amounts due from banks with a maturity of less than three months. As the cash can only be used to meet certain specific liabilities and is not available to be used with discretion, it is viewed as restricted cash. This bank account is classified within "loans and receivables" in accordance with IAS 39.

(e)(iv) Impairment of financial assets

At each Balance Sheet date the Company assesses whether, as a result of one or more events occurring after initial recognition, there is objective evidence that the intercompany loans to Funding 1 have become impaired.

Delinquencies and defaults on the underlying securitised assets will not result in an impairment loss if the cash flows from the asset pool are still expected to be sufficient to meet the Company's obligations under the Notes, taking into account the other credit enhancement available. If there is objective evidence that an impairment loss has been incurred, an allowance account is established which is calculated as the difference between the balance sheet carrying value of the intercompany loan asset and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at that loan's original effective interest rate.

ARKLE MASTER ISSUER PLC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013 (CONTINUED)

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Financial instruments (continued)

(e)(v) Debt securities in issue

Debt securities in issue are recognised initially at fair value less directly related incremental transaction costs. Subsequent to initial recognition, debt securities in issue are stated at amortised cost with any difference between cost and redemption value being recognised in the Statement of Comprehensive Income over the period of the borrowings on an effective interest basis.

(e)(vi) Foreign currency translation

Foreign currency transactions are translated into the appropriate functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Statement of Comprehensive Income.

(f) Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that is subject to risks and returns that are different from those of segments operating in other economic environments.

The directors of the Company consider that the entity has only one geographical and one business segment and therefore is not required to produce additional segmental disclosure.

(g) Critical accounting estimates and judgements

The preparation of the financial statements necessarily requires the exercise of judgement both in the application of accounting policies and in the selection of assumptions used in the calculation of accounting estimates. These judgements are reviewed on an ongoing basis and are continually evaluated based on historical experience and other factors. The most significantly affected components of the financial statements and associated critical judgements are as follows:

Fair value calculations

Fair value is defined as the value at which assets, liabilities or positions could be closed out or sold in a transaction with a willing and knowledgeable counterparty. Fair value is based where available on quoted market prices and upon cash flow models which use, wherever possible, independently sourced market parameters such as interest rate yield curves and currency rates. Other factors are also considered, such as counterparty credit quality and liquidity.

ARKLE MASTER ISSUER PLC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013 (CONTINUED)

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Critical Accounting Estimates and Judgements (continued)

Impairment of intercompany loans

The Company's accounting policy for losses arising on the intercompany loans is described in note 1(e)(iv). Impairment allowances are established to recognise incurred impairment losses in the Company's loan portfolios carried at amortised cost. In determining whether impairment has occurred at the balance sheet date the Company considers whether there is any observable data indicating that there has been a measurable decrease in the estimated future cash flows or their timings. Where this is the case, the impairment loss is the difference between the carrying value of the loan and the present value of the estimated future cash flows discounted at the loan's original effective interest rate.

At 31 December 2013, impairment allowances against the loans to related company totalled £nil (2012: £nil).

(h) Dividends

Dividends on ordinary shares are recognised in equity in the period in which they are paid.

2. INTEREST RECEIVABLE AND SIMILAR INCOME

	2013 £'000	2012 £'000
Interest receivable from loans to related company	213,773	293,266
	<hr/>	<hr/>
	213,773	293,266
	<hr/>	<hr/>

3 INTEREST PAYABLE AND SIMILAR CHARGES

	2013 £'000	2012 £'000
Interest payable on debt securities in issue	190,992	250,117
	<hr/>	<hr/>
	190,992	250,117
	<hr/>	<hr/>

ARKLE MASTER ISSUER PLC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013 (CONTINUED)

4. OPERATING EXPENSES

	2013 £'000	2012 £'000
Administration charges	978	1,252
	<hr/>	<hr/>
	978	1,252
	<hr/>	<hr/>

The Company had no employees during the year (2012 Nil) No management fee is charged to the Company for the services of the directors A management fee for administration services is charged

Corporate service expenses are borne by Arkle Funding (No 1) Limited in respect of the Company and are payable to Sanne Group (UK) Limited Prior to 8 August 2013, these fees were payable to State Street Administration Services (UK) Limited

Audit fees for the Company are borne for by Funding 1 The fee for the current year was £14k (2012 £14k)

ARKLE MASTER ISSUER PLC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013 (CONTINUED)

5 TAXATION

	2013 £'000	2012 £'000
Current Tax		
Corporation tax charge for the year at a rate of 23.25% (2012: 24.5%)	1	1
	<hr/>	<hr/>
Total tax charge	1	1
	<hr/>	<hr/>
	2013 £'000	2012 £'000
Reconciliation of effective tax rate		
The tax assessed for the year is equal to the standard average rate of corporation tax in the UK of 23.25% (2012: 24.5%)		
(Loss) / Profit before tax	(56,492)	5,192
	<hr/>	<hr/>
(Loss) / Profit before tax multiplied by the standard average rate of corporation tax in the UK of 23.25% (2012: 24.5%)	(13,134)	1,272
	<hr/>	<hr/>
Effects of		
Items not allowable under permanent tax regime for securitisation companies	13,135	(1,271)
	<hr/>	<hr/>
Total tax expense in the Statement of Comprehensive Income	1	1
	<hr/>	<hr/>

ARKLE MASTER ISSUER PLC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013 (CONTINUED)

6 LOANS TO RELATED COMPANY

	2013 £'000	2012 £'000
Intercompany loans to Funding 1		
Principal	7,990,589	11,960,354
Interest	21,396	29,398
	<hr/>	<hr/>
	8,011,985	11,989,752
	<hr/>	<hr/>

The intercompany loans to Funding 1 are all denominated in sterling and are at variable rates of interest, based on LIBOR for three-month sterling deposits. Such loans have ultimately been secured against a beneficial interest in a mortgage portfolio held in trust on behalf of Funding 1.

Funding 1's ability to pay amounts due on the intercompany loans will depend mainly upon it receiving sufficient revenue and principal receipts from the mortgage portfolio, receiving the required funds from the Funding 1 swap provider. In the case of a shortfall, holders of the Notes may, subject to what other sources of funds are available to the Company, receive less than the full interest and/or principal than would otherwise be due on the Notes. The repayment of the intercompany loans will coincide with the repayment of the Notes.

ARKLE MASTER ISSUER PLC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013 (CONTINUED)

7. DERIVATIVES

The principal derivatives used by the Company are exchange rate and interest rate contracts

These contracts include forward exchange contracts including interest rate basis swaps. A forward foreign exchange contract is an agreement to buy or sell a specified amount of foreign currency on a specified future date at an agreed rate. Currency swaps generally involve the exchange of interest payment obligations denominated in different currencies, the exchange of principal is actual.

The principal amount of the contract does not represent the Company's real exposure to credit risk which is limited to the current cost of replacing contracts with a positive value to the Company should the counterparty default. To reduce credit risk the Company only deals with highly rated counterparties and uses credit enhancement techniques such as collateralisation, where security is provided against the exposure. No collateral is currently being held as the swap conditions are met. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and using valuation techniques, including discounted cash flow and options pricing models, as appropriate.

The notional principal amount and fair value of instruments entered into was

Exchange and /or Interest rate contracts.	2013 £'000	2012 £'000
Notional principal amount	4,890,589	8,635,353
Fair value		
Assets	29,993	69,368
Liabilities	(288,687)	(305,032)
	(258,694)	(235,664)

ARKLE MASTER ISSUER PLC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013 (CONTINUED)

8 TRADE AND OTHER RECEIVABLES

	2013 £'000	2012 £'000
Unpaid share capital	37	37
	<hr/>	<hr/>
	37	37
	<hr/>	<hr/>

The Company has issued share capital of £50k comprising 50,000 ordinary shares of £1 each, of which 49,999 were partly paid to £0.25 each

9. DEBT SECURITIES IN ISSUE

	2013 £'000	2012 £'000
Principal		
GBP – fixed	800,000	800,000
Weighted average rate 4.3335%		
GBP – priced against 3 month GBP LIBOR	3,100,000	3,325,000
Weighted average margin +1.39% (2012 +1.39%)		
USD – priced against 1 month USD LIBOR	-	463,905
Weighted average margin - N/A (2012 +0.20%)		
USD – priced against 3 month USD LIBOR	1,191,692	3,770,002
Weighted average margin +1.55% (2012 +1.33%)		
EUR – priced against 3 month EURIBOR	2,290,200	2,731,757
Weighted average margin +1.44% (2012 +1.45%)		
JPY – priced against 3 month JPY LIBOR	345,750	574,774
Weighted average margin +1.25% (2012 +1.22%)		
	<hr/>	<hr/>
	7,727,642	11,665,438
Interest		
Interest payable on debt securities	27,807	34,266
	<hr/>	<hr/>
	7,755,449	11,699,704
	<hr/>	<hr/>

Debt securities in issue at 31 December 2013 comprise of floating and fixed rate Notes with scheduled maturity dates between May 2014 and November 2021. The final legal maturity date is May 2060. The Notes are issued by the Company in connection with the securitisation of mortgages originated within Lloyds and are shown net of retranslation adjustments. For more information about the Company's exposure to risk, see note 12(a).

There have been no defaults in the payment of principal and interest or other breaches with respect to liabilities in the year or the previous year.

ARKLE MASTER ISSUER PLC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013 (CONTINUED)

10. TRADE AND OTHER PAYABLES

	2013 £'000	2012 £'000
Amounts owed to related company	96	141
	<hr/>	<hr/>
	96	141
	<hr/>	<hr/>

11 SHARE CAPITAL

	2013 £'000	2012 £'000
AUTHORISED		
50,000 ordinary shares of £1 each	50	50
	<hr/>	<hr/>
ALLOTTED		
1 fully paid ordinary share of £1	-	-
49,999 quarter paid ordinary shares of £1 each	50	50
	<hr/>	<hr/>
	50	50
	<hr/>	<hr/>

ARKLE MASTER ISSUER PLC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013 (CONTINUED)

12. MANAGEMENT OF RISK

The principal risks arising from the Company's financial instruments are credit risk, interest rate risk, currency risk and liquidity risk. Considerable resource is given to maintaining effective controls to manage, measure and mitigate each of these risks. Further detailed analysis of the risks facing the Company in relation to its financial instruments is provided below.

The directors do not consider there is a capital management risk as adequate solvency and capital levels are maintained.

The Company's exposure to risk on its financial instruments and the management of such risk is largely determined at the inception of the securitisation transaction. The Company's activities and the role of each party to the transaction are clearly defined and documented. Cash flow modelling, including multiple stress scenarios, is carried out as part of the structuring of the transaction, and as such is required by the rating agencies. In addition, derivative contracts are entered into as part of the securitisation transaction to hedge all interest rate and currency risk arising in the transaction including the obligations under the Notes.

The derivative counterparties are selected as highly rated, regulated financial institutions and this reduces the risk of default and loss for the Company.

12(a) Credit risk

Credit risk arises where there is a possibility that a counterparty may default on its financial obligations resulting in a loss to the Company.

The ability of the Company to meet its obligations to make principal and interest payments on the Notes and to meet its operating and administrative expenses is dependent on funds being received under the intercompany loans held with Funding 1. The primary credit risk of the Company therefore relates to the default on the intercompany loan with Funding 1. The primary credit risk of Funding 1 relates to the credit risk associated with the securitised pool of mortgages originated within Lloyds.

The likelihood of defaults in the mortgage pool and the amounts that may be recovered in the event of default are related to a number of factors and may vary according to characteristics and product type. Significant changes in the economy, or in the health of a particular geographical zone that represents a concentration in the securitised assets, could also affect the cashflows from the mortgage pool.

ARKLE MASTER ISSUER PLC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013 (CONTINUED)

12. MANAGEMENT OF RISK (CONTINUED)

12(a) Credit risk (continued)

To mitigate this risk, credit enhancement is provided to the transaction within Funding 1 in the form of Excess Spread, a reserve fund and a Z Loan. Funding 1's share of the income on the mortgage pool is expected to exceed the interest payable on the loan from Arkle Master Issuer plc. This Excess Spread is available to make good any reduction in the principal balance of the mortgage pool as a result of defaults by customers.

In addition, Lloyds has provided start up loans and Z Loans to Funding 1 to provide credit enhancement which can be used in certain circumstances to meet any deficit in revenue or to repay amounts of principal. Therefore, delinquencies and defaults on the underlying securitised assets will not result in a default on the intercompany loan as long as they do not exceed the credit enhancement provided. Funding 1's share of losses in the mortgage pool covered by Excess Spread in the year to 31 December 2013 was £3,626k (2012 £5,787k). There have been no principal drawings on the reserve fund or deficiency on the subordinated Z loan which are fully funded and at 31 December 2013 was £1,729,900k (2012 £1,729,900k). The subordinated Z loan nets out within the deemed loan to originator on the Statement of Financial Position.

The Company has a concentration of risk to Lloyds. The underlying mortgage assets of the securitisation are all in the UK market. The nature of the residential mortgage portfolio means there is no significant counterparty credit risk in relation to the underlying mortgage pool.

The Company assesses its counterparties for credit risk before contracting with them. Credit rating is the main method used to measure credit risk. In accordance with the criteria of the rating agencies that rate the Notes, the Programme Documentation contains various rating triggers linked to each counterparty, which require certain actions to be taken if triggers are breached.

In the event that a swap counterparty is downgraded by a rating agency below the rating(s) specified in the relevant swap agreement, the relevant swap provider will be required to take certain remedial measures as defined in that agreement which may include providing collateral for its obligations under the relevant swap, arranging for its obligations to be transferred to an entity with sufficient rating, or taking such other action as it may agree with the relevant rating agency.

ARKLE MASTER ISSUER PLC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013 (CONTINUED)

12 MANAGEMENT OF RISK (CONTINUED)

12(a) Credit risk (continued)

	Counterparty	Rating as at 31 Dec 2013	Rating as at date of approval of financial statements
		(Moody's/S&P/ Fitch)	Moody's/S&P/ Fitch)
Account bank and currency swap provider	Lloyds Bank plc	P-1/A-1/F1 A2/A/A	P-1/A-1/F1 A2/A/A
Currency swap provider	Natixis, London	P-1/A-1/F1 A2/A/A	P-1/A-1/F1 A2/A/A

Financial assets subject to credit risk

The maximum exposure to credit risk arising on the Company's financial assets at the reporting date is disclosed in the table below and equates to carrying value. At the Balance Sheet date all financial assets subject to credit risk were neither past due, nor impaired.

	2013 £'000	2012 £'000
Assets held at amortised cost		
Loans to related company	8,011,985	11,989,752
Trade and other receivables	37	37
Cash and cash equivalents	52	48
Assets held at fair value		
Derivative assets	29,993	69,368
	<hr/>	<hr/>
	8,042,067	12,059,205
	<hr/>	<hr/>

ARKLE MASTER ISSUER PLC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013 (CONTINUED)

12. MANAGEMENT OF RISK (CONTINUED)

12(a) Credit risk (continued)

The Company meets its obligation on the Notes issued from the cash flows it receives from Funding 1. These represent the only recourse for the Company. As a consequence, the credit quality of the mortgage loans indicates the capacity of the Company to service its payments, although the mortgages remain on the balance sheet of Lloyds and the structure of the securitisation provides for other credit enhancements.

Securitised mortgage assets

Securitised mortgage loans can be analysed according to the rating systems used by Lloyds when assessing customers and counterparties. The total mortgage book held in trust against which the intercompany loans are ultimately secured has been analysed below.

For the purposes of the Company's disclosures regarding credit quality, securitised mortgage loans subject to credit risk have been analysed as follows:

	2013 £'000	2012 £'000
Neither past due, nor impaired	17,401,004	19,620,153
Past due, but not impaired	446,313	474,499
Impaired	153,131	221,358
	<hr/>	<hr/>
	18,000,448	20,316,010
	<hr/>	<hr/>

Securitised loans and advances which are past due, but not impaired

	2013 £'000	2012 £'000
0-30 days	218,698	238,327
30-60 days	95,250	98,903
60-90 days	54,541	54,611
90-180 days	77,824	82,658
Over 180 days	-	-
	<hr/>	<hr/>
	446,313	474,499
	<hr/>	<hr/>

ARKLE MASTER ISSUER PLC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013 (CONTINUED)

12. MANAGEMENT OF RISK (CONTINUED)

12(a) Credit risk (continued)

Securitised mortgage assets (continued)

In respect of LBG's secured mortgage portfolio, 'past due' is when a borrower has failed to make a payment when contractually due. The definition of impaired loans refers to those which are six months or more in arrears (or certain cases where the borrower is bankrupt or is in possession).

The number and value of loans currently in arrears will have a bearing on the receipt of cash by the Company. Key indicators are as follows:

- At 31 December 2013, 2,438 accounts were in arrears by three or more months which represented 1.54% of the mortgage pool (31 December 2012: 2,766 accounts, 1.58%).
- At 31 December 2013, the number of properties in possession amounted to 55 (31 December 2012: 101 properties).

Collateral held against retail mortgage lending comprises residential properties.

12(b) Foreign currency and interest rate risk

Interest rate risk exists where assets and liabilities have interest rates set under a different basis or which reset at different times. The Company's principal assets are denominated in floating rate Sterling. However, during the year, the Company had fixed and floating interest rate Notes denominated in Sterling and also US Dollars, Euros and Japanese Yen. It is therefore exposed to interest rate and currency risk as the value of the Notes will fluctuate due to changes in foreign currency exchange rates and in Sterling, US dollar, Euro and Yen LIBOR rates.

The Company's policy is to eliminate all exposures arising from movements in exchange rates and interest rates by the use of derivative contracts to hedge payments of interest and principal on the Notes.

The effect of currency and interest rate movements has no bearing on the results of the Company due to the use of the derivative contracts. However, the Company is exposed to volatility in the fair value of the derivative contracts which is shown below. This fair value will reverse over the life of the derivative contracts to nil.

ARKLE MASTER ISSUER PLC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013 (CONTINUED)

12. MANAGEMENT OF RISK (CONTINUED)

12(b) Foreign currency and interest rate risk (continued)

The Company's elimination of foreign currency and interest rate risk is as follows

2013	US Dollar Floating £'000	Euro Floating £'000	Yen Floating £'000	Sterling Fixed £'000	Sterling Floating £'000	Total £'000
Debt securities in issue	(1,194,296)	(2,294,841)	(346,339)	(812,822)	(3,107,151)	(7,755,449)
Derivatives						
Derivative notional balance	1,250,644	2,349,456	498,322	812,822		
Net fair value of derivative contracts	(58,777)	(68,376)	(157,596)	19,548		
	<hr/>	<hr/>	<hr/>	<hr/>		
Valuation difference	(2,429)	(13,761)	(5,613)	19,548		
	<hr/>	<hr/>	<hr/>	<hr/>		
2012	US Dollar Floating £'000	Euro Floating £'000	Yen Floating £'000	Sterling Fixed £'000	Sterling Floating £'000	Total £'000
Debt securities in issue	(4,241,390)	(2,737,117)	(575,745)	(812,977)	(3,332,475)	(11,699,704)
Derivatives						
Derivative notional balance	4,348,244	2,848,054	652,869	812,977		
Net fair value of derivative contracts	(102,241)	(116,345)	(71,017)	48,930		
	<hr/>	<hr/>	<hr/>	<hr/>		
Valuation difference	4,613	(5,408)	6,107	48,930		
	<hr/>	<hr/>	<hr/>	<hr/>		
Mark to market volatility	(7,042)	(8,353)	(11,720)	(29,382)		(56,497)
	<hr/>	<hr/>	<hr/>	<hr/>		<hr/>

ARKLE MASTER ISSUER PLC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013 (CONTINUED)

12. MANAGEMENT OF RISK (CONTINUED)

12(c) Liquidity risk

The Company's ability to meet payments on the Notes as they fall due is dependent on the timely receipt of funds under the intercompany loan agreements which may be delayed due to the level of repayment on the underlying mortgage portfolio (see 12(d) prepayment risk below). If insufficient funds are received by Funding 1 to repay the intercompany loans, then the Notes may not be paid in full and a part of the Notes may be deferred to subsequent periods. Such deferred amounts will be due but not payable until funds are available in accordance with the relevant priority of payments as set out in the Programme Documentation. Variations in the rate of repayment of principal on the mortgage loans may affect each series and class of Notes differently.

The liquidity tables reflect the undiscounted cash payments which will fall due if the structure continues until the expected repayment date as defined in the Programme Documentation (unless it is known that a Note will be repaid prior to this date when the earlier date will be used). The expected repayment date is the earliest date on which the Company could be required to repay the liability and commercially the most likely.

It is anticipated that the interest and principal received on the intercompany loans will be sufficient to allow repayment of the Notes by the expected payment date and thereby avoid any increase in the interest rate margin payable on the Notes.

2013	Carrying Value	Contractual repayment value	<1 Month	1-3 Months	3 Months – 1 Year	1-5 Years	> 5 Years
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Principal							
Debt securities in issue	7,727,642	7,727,642	-	-	764,601	6,763,041	200,000
Trade and other payables	96	96	-	96	-	-	-
Derivative liability	284,749	262,946	-	-	60,630	202,316	-
Interest payable							
Interest payable on debt securities in issue	27,807	404,555	-	50,090	108,652	232,154	13,659
Interest payable on derivative liabilities	3,938	46,076	-	8,144	21,021	16,911	-
	<u>8,044,232</u>	<u>8,441,315</u>	<u>-</u>	<u>58,330</u>	<u>954,904</u>	<u>7,214,422</u>	<u>213,659</u>

ARKLE MASTER ISSUER PLC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013 (CONTINUED)

12. MANAGEMENT OF RISK (CONTINUED)

12(c) Liquidity risk (continued)

2012	Carrying Value	Contractual repayment value	<1 Month	1-3 Months	3 Months – 1 Year	1-5 Years	> 5 Years
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Principal							
Debt securities in issue	11,665,438	11,665,438	-	1,608,204	1,776,303	8 080,931	200,000
Trade and other payables	141	141	-	141	-	-	-
Derivative liability	305,032	305,032	-	78,887	15,777	210,368	-
Interest payable							
Interest payable on debt securities in issue	34,266	688,539	-	65,147	136,990	420,375	66,027
	<u>12 004,877</u>	<u>12,659,150</u>	<u>-</u>	<u>1,752,379</u>	<u>1,929,070</u>	<u>8,711,674</u>	<u>266,027</u>

12(d) Prepayment risks

In the normal course of business, a proportion of borrowers repay their loan in advance of their contractual maturity date. As a result the weighted average life of the intercompany loan and of the Notes is likely to be significantly less than that implied by the contractual maturity dates of the mortgage pool.

The term of the Notes specifies that payments on the Notes will only be made to the extent that sufficient cash flows have been received from the Company's assets. The terms of the derivative contracts also specify that the principal amounts of the derivative contracts will amortise to match the outstanding amount of the Notes to which they relate.

The rate of prepayment of loans is influenced by a wide variety of economic, social and other factors, including prevailing mortgage market interest rates, the availability of alternative financing programmes, local and regional economic conditions and homeowner mobility. In the event that prepayment rates on the mortgage pool reduce, principal repayments on the intercompany loan and on the Notes may be spread over a longer period.

ARKLE MASTER ISSUER PLC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013 (CONTINUED)

12. MANAGEMENT OF RISK (CONTINUED)

12(d) Prepayment risks (continued)

The Principal Prepayment Rate ("PPR") for the underlying mortgage pool is as follows

	Monthly PPR %	1-month annualised %	3-month annualised %	12-month annualised %
31 December 2013	1 26	14 09	15 24	13 43
31 December 2012	1 04	11 83	12 60	12 81

12(e) Fair values

The fair values of the Company's main financial instruments are detailed below

Financial assets and liabilities carried at fair value

Derivatives

Fair value of derivative assets and liabilities is based where available on quoted market prices and upon cash flow models which use, wherever possible, independently sourced market parameters such as interest rate yield curves and currency rates. Other factors are also considered, such as counterparty credit quality and liquidity. The valuation method is consistent with commonly used market techniques. For this reason, in accordance with "IFRS 7 Financial Instruments: Disclosures", the fair value measurement is considered to be Level 2 in the Fair Value Hierarchy.

Financial assets and liabilities carried at amortised cost

Loans to related company

The carrying value of the variable rate loans is assumed to be their fair value. The loans to related company are all denominated in Sterling and are at variable rates of interest (LIBOR), therefore these loans are considered to be a close approximation to fair value.

Trade and other payables

Trade and other payables are recognised on an amortised cost basis that is considered to be a close approximation to fair value due to short nature of these liabilities.

Debt securities in issue

The book value as at 31 December 2013 was £7,990,589k (2012: £11,960,353k) and the fair value as at 31 December 2013 was £7,929,020k (2012: £11,970,062k). Debt securities in issue categorised as level 2 are valued using quoted market prices on active markets where available and therefore there is minimal judgement applied in determining fair value.

**ARKLE MASTER ISSUER PLC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013 (CONTINUED)**

13. RELATED PARTY TRANSACTIONS

A number of transactions are entered into with related parties as part of the Company's normal business

The related parties are Funding 1, LBG, Lloyds and Sanne Group (UK) Limited by virtue of their various roles and inputs into securitisation arrangements to which the Company is a party. Prior to 8 August 2013, State Street Administration Services (UK) Limited were also a related party.

Lloyds provides cash management services defined under the Programme Documentation, services. Fees for these services amounted to £978k in the year (2012 £1,252k).

Total corporate service expenses payable during the year amounted to £91k (2012 £36k). This represents £33k payable to State Street Administration Services (UK) Limited prior to its resignation on 8 August 2013. Sanne Group (UK) Limited was appointed as corporate service provider on the same day and received £58k in fees during the year. These fees are paid on behalf of the Company by Funding 1.

ARKLE MASTER ISSUER PLC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013 (CONTINUED)

13. RELATED PARTY TRANSACTIONS (CONTINUED)

During the year, the Company undertook the following transactions with companies within the LBG group

	LBG and subsidiary undertakings	LBG and subsidiary undertakings
At 31 December or for the year then ended	2013	2012
	£'000	£'000
Interest receivable and similar income		
Interest on intercompany loans	213,773	293,266
Interest payable and similar charges		
Interest payable on Notes held by LBG and subsidiary undertakings	53,021	62,792
Fair value losses	(75,944)	(23,782)
Operating expenses		
Administration charges – Lloyds	978	1,252
Assets		
Loans to related company	7,990,589	11,960,354
Interest receivable on loans to related company	21,396	29,398
Derivatives	29,993	69,368
Cash and cash equivalents	52	48
Liabilities		
Notes held by LBG and subsidiary undertakings	2,445,600	2,912,453
Interest payable on Notes held by LBG and subsidiary undertakings	5,726	6,540
Derivatives	285,638	291,560
Trade and other payables	96	141

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14 FUTURE ACCOUNTING PRONOUNCEMENTS

The following pronouncements will be relevant to the Company but are not applicable for the year ended 31 December 2013 and have not been applied in preparing these financial statements. The full impact of these accounting changes is currently being assessed by the Company.

Pronouncement	Nature of change	IASB effective date
Amendment to IAS 32 <i>Financial Instruments Presentation – 'Offsetting Financial Assets and Financial Liabilities'</i> (1)	Inserts application guidance to address inconsistencies identified in applying the offsetting criteria used in the standard. Some gross settlement systems may qualify for offsetting where they exhibit certain characteristics akin to net settlement.	Annual periods beginning on or after 1 January 2014
IFRS 9 <i>Financial Instruments</i> (1), (2)	Replaces those parts of IAS 39 <i>Financial Instruments: Recognition, Measurement</i> relating to the classification, measurement and derecognition of financial assets and liabilities and hedge accounting. IFRS 9 requires financial assets to be classified into two measurement categories, fair value and amortised cost, on the basis of the objectives of the entity's business model for managing its financial assets and the contractual cash flow characteristics of the instruments and eliminated the available-for-sale financial asset and held-to-maturity investment categories in IAS 39. The requirements for recognition are broadly unchanged from IAS 39. The standard also retains most of IAS 39 requirements for financial liabilities except for those designated at fair value through profit or loss whereby that part of the fair value change attributable to the entity's own credit risk is recorded in the other comprehensive income. The hedge accounting requirements are more closely aligned with risk management practices and follow a more principle-based approach.	Date yet to be determined

(1) As at 28 February 2014, these pronouncements with the exception of IFRS 9 have all received EU endorsement.

(2) IFRS 9 is the standard which will replace IAS 39. Further changes to IFRS 9 are expected dealing with impairment of financial assets measured at amortised cost, which will be based on expected rather than incurred credit losses, and limited amendments to classification and measurement which include the introduction of a third measurement category, fair value through other comprehensive income. Until the standard is complete, it is not possible to determine the overall impact of the standard on the financial statements.

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15. PARENT UNDERTAKING AND CONTROLLING PARTY

The immediate parent company is Arkle PECO Holdings Limited for which Sanne Trustee Company UK Limited holds the shares in trust for the benefit of certain discretionary objects (which do not include Lloyds or any entity connected with Lloyds)

The Company meets the definition of a special purpose entity under IFRSs. In accordance with the requirements of SIC12 "Consolidation – Special Purpose Entities", the Company's financial statements are consolidated within the group financial statements of Lloyds Banking Group plc for the year ended 31 December 2013.

The company regarded by the directors as the ultimate controlling party under IFRSs at 31 December 2013 was Lloyds Banking Group plc, a public liability company incorporated and domiciled in Scotland, which was the parent undertaking of the largest group of undertakings for which group financial statements are drawn up and in which the Company's financial statements are included. Lloyds Bank plc was the parent undertaking of the smallest such group of undertakings. Copies of the annual report and financial statements of Lloyds Banking Group plc may be obtained from Group Secretariat, Lloyds Banking Group plc, 25 Gresham Street, London EC2V 7HN.