

Arkle Master Issuer plc

Annual report and financial statements for the year ended 31 December 2016

Registered office

Asticus Building
2nd Floor
21 Palmer Street
London
SW1H 0AD

Registered number

05941709

Directors

Beejadhursingh M Surnam
Martin C Schnaier

Company Secretary

Sanne Group Secretaries (UK) Limited



Strategic Report

For the year ended 31 December 2016

The directors present their Strategic Report and the audited financial statements of Arkle Master Issuer plc ("the Company") for the year ended 31 December 2016.

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 PECOH 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 PECOH 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 8. The loss for the financial year amounted to £11,072,000 (2015: loss of £3,174,000). Total equity at 31 December 2016 was £5,176,000 (2015: £16,248,000).

The directors do not recommend the payment of a dividend (2015: £nil).

As required under International Financial Reporting Standards (IFRSs), the loss for the year includes a fair value profit on financial instruments of £3,880k (2015: loss of £6,159k) which reflects the movement in the market value of the derivatives and swap interest payable. The Notes issued were economically 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 year.

During the year £1,250 million (2015: £3,766 million) of Notes were repaid on their expected payment dates and no Notes ahead of their expected payment dates (2015: nil) following the receipt of the equivalent amount on the loans to the Funding Company. No further Notes were issued during the year (2015: £nil).

Since the year end, £800 million of Notes have been repaid with no further Notes issued.

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 on the LBG investor returns website (www.lloydsbankinggroup.com). An extract of these is shown in note 13(a) - credit risk and 13(d) - prepayment risk of the financial statements.

In order to assist the directors to mitigate key risks, there is 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, whether 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.

Strategic Report (continued)

For the year ended 31 December 2016

Key Performance Indicators (KPIs) (continued)

The KPIs include the excess spread on the Trust assets available as the first line of credit enhancement to the Notes, the losses that have occurred and the level of arrears in the underlying mortgages, the rate of repayment of the loans within the Trust and an analysis of the characteristics of the underlying mortgages in the Trust.

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 or before the expected dates during 2016.

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.

In relation to the Company's principal outflows (interest and principal payments on the Notes) the Company has hedged the risk of exchange rate fluctuations using a series of derivative contracts, providing certainty over the amounts due.

Taxation

The Company's tax charge is based on the permanent tax regime for securitisation companies. All fair value adjustments on derivative contracts are ignored for taxation purposes as tax is assessed on the cash retained as profit in the Company.

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 loans to the Funding company, Notes issued in the capital markets, derivatives ("swaps"), 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, and interest rate 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 of the financial statements.

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. LBG has the option to repurchase loans in arrears of greater than three months.

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 2016.

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.

Strategic Report (continued)

For the year ended 31 December 2016

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. Sanne Group (UK) Limited provides 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 Documentation. There are additional triggers including some which relate to the underlying performance of the mortgage pool. The occurrence of trigger events may lead to a different priority of payments of the Notes in accordance with established priorities. There have been no such trigger events since inception of the Programme.

As approved by the Board of Directors and signed by order of the Board:



BEETA CHURSINGH SURNAM

Sanne Group Secretaries (UK) Limited
Company Secretary

Registered office
Asticus Building
2nd Floor
21 Palmer Street
London
SW1H 0AD

26 April 2017

Directors' Report

For the year ended 31 December 2016

The directors present their Annual Report and the audited financial statements for Arkle Master Issuer plc ("the Company") for the year ended 31 December 2016.

Directors and directors' interests

The directors of the Company who were in office during the year and up to the date of signing the financial statements are shown on the cover.

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.

Beejadhursingh M Surnam and Martin C Schnaier are employees of Sanne Trustee Company UK Limited and are directors of Sanne Group Secretaries (UK) Limited and Sanne Group (UK) Limited. Sanne Group (UK) Limited provides administration services to the Company at commercial rates.

Jason Bingham resigned from the board on 2nd November 2016 and on the same day Beejadhursingh M Surnam was appointed.

Ian G Stewart resigned from the board on 31st December 2016.

Statement of directors' responsibilities in respect of financial statements

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and

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;
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Company will continue in business.

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

The directors are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Disclosure of information to auditors

In accordance with Section 418(2) 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 directors have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Directors' indemnities

Qualifying third party indemnity provisions for the benefit of the directors were in force during the year under review and remain in force as at the date of approval of the annual report and financial statements.

Future Developments

The Company will continue to issue Notes and invest the proceeds as loans to the Funding company.

Directors' Report (continued)

For the year ended 31 December 2016

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 Programme Documentation.

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.

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.

From the perspective of the Company, the daily operational internal controls and risk management systems are integrated with those of LBG, the Company's ultimate controlling party. Therefore additional information may be found in section "Internal Control" of the 2016 Annual Report of LBG, which does not form part of this report. Details of where to get access to the 2016 Annual Report of LBG can be found in note 16.

Dividends

The directors did not recommend the payment of a dividend during the year or at 31 December 2016 (2015: £nil).

Risk Management

Further details on the risks facing the Company and how these risks are managed are detailed in the Strategic Report.

Employees

The Company had no employees during the year ended 2016 or the previous year. None of the directors received any emoluments from the Company in the current or previous year in respect of qualifying services provided to the Company (2015: nil).

Independent auditors

PricewaterhouseCoopers LLP have indicated their willingness to continue in office until the next annual general meeting. Pursuant to section 489 of the Companies Act, a resolution for the re-appointment of PricewaterhouseCoopers LLP as auditors of the Company will be proposed at the forthcoming annual general meeting.

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.

This report has been prepared in accordance with the special provisions relating to small companies within Part 15 of the Companies Act 2006.

As approved by the Board of Directors and by order of the Board:



BEETADHURSINGH SURNAM

Sanne Group Secretaries (UK) Limited
Company Secretary

Asticus Building
2nd Floor
21 Palmer Street
London
SW1H 0AD
26 April 2017

Independent auditors' report to the members of Arkle Master Issuer plc

Report on the financial statements

Our opinion

In our opinion, Arkle Master Issuer plc's financial statements (the "financial statements"):

- give a true and fair view of the state of the company's affairs as at 31 December 2016 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.

What we have audited

The financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), comprise:

- the Balance sheet as at 31 December 2016;
- the Statement of comprehensive income for the year then ended;
- the Cash flow statement for the year then ended; and
- the Statement of changes in equity 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 the preparation of the financial statements is IFRSs as adopted by the European Union, and applicable law.

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.

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 the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Directors' Report. We have nothing to report in this respect.

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.

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 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.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK and 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.

What an audit of financial statements involves

We conducted our audit in accordance with 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.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual 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. With respect to the Strategic Report and Directors' Report, we consider whether those reports include the disclosures required by applicable legal requirements.



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

27 April 2017

Statement of comprehensive income

For the year ended 31 December 2016

	Note	2016 £'000	2015 £'000
Interest receivable and similar income	2	50,963	109,191
Interest payable and similar charges	3	(65,665)	(105,716)
Net interest (expense)/ income		(14,702)	3,475
Fair Value gain/ (losses)	4	3,880	(6,159)
Operating expenses	5	(249)	(489)
Loss before tax		(11,071)	(3,173)
Taxation	6	(1)	(1)
Loss for the financial year attributable to owners , being total comprehensive expense		(11,072)	(3,174)

The loss shown above is derived from continuing operations. The Company operates in a single business segment and 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 11 to 24 are an integral part of the financial statements.

Balance sheet

As at 31 December 2016

	Note	2016 £'000	2015 £'000
Assets			
Cash and cash equivalents		63	59
Loans to related company	7	1,703,964	2,957,618
Derivative financial assets	8	15,747	26,687
Trade and other receivables	9	37	37
Total assets		1,719,811	2,984,401
Liabilities			
Debt securities in Issue	10	1,714,613	2,968,116
Derivative financial liabilities	8	-	-
Current tax liability		1	1
Trade and other payables	11	21	36
Total liabilities		1,714,635	2,968,153
Equity			
Share capital	12	50	50
Retained earnings		5,126	16,198
Total equity		5,176	16,248
Total equity and liabilities		1,719,811	2,984,401

The accompanying notes on pages 11 to 24 are an integral part of the financial statements.

The financial statements on pages 8 to 24 were approved by the board of directors on and were signed on its behalf by:



Beejadhursingh M Surnam
Director
26 April 2017

Statement of changes in equity

For the year ended 31 December 2016

	Share capital £'000	Retained earnings £'000	Total equity £'000
At 1 January 2016	50	16,198	16,248
Loss for the year being total comprehensive expense	-	(11,072)	(11,072)
At 31 December 2016	50	5,126	5,176
At 1 January 2015	50	19,372	19,422
Loss for the year being total comprehensive expense	-	(3,174)	(3,174)
At 31 December 2015	50	16,198	16,248

The accompanying notes on pages 11 to 24 are an integral part of the financial statements.

Cash flow statement

For the year ended 31 December 2016

	Note	2016 £'000	2015 £'000
Cash flows used in operating activities			
Tax paid		(1)	(1)
Net cash used in operating activities		(1)	(1)
Cash flows from investing activities			
Repayment of loans to funding 1		1,250,000	3,766,158
Interest received on loan to Funding 1		69,421	120,118
Net cash generated from investing activities		1,319,421	3,886,276
Cash flows used in financing activities			
Principal repayment of debt securities		(1,250,000)	(3,766,158)
Interest paid on debt securities		(83,987)	(112,712)
Net interest received / (paid) on derivatives		14,820	(6,865)
Administration charges		(249)	(536)
Net cash used in financing activities		(1,319,416)	(3,886,271)
Change in cash and cash equivalents		4	4
Cash and cash equivalents at beginning of year		59	55
Cash and cash equivalents at end of year		63	59

The cash flow statement is presented using the direct method.

The accompanying notes on pages 11 to 24 are an integral part of the financial statements.

Notes to the financial statements

For the year ended 31 December 2016

1. Significant Accounting policies

Arkle Master Issuer plc ("the Company") is a public limited liability company domiciled in England and incorporated 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 in both years presented, unless otherwise stated.

(a) Basis of preparation

The financial statements for the year ended 31 December 2016 have been prepared in accordance with EU adopted International Financial Reporting Standards (IFRSs) and interpretations issued by the IFRS Interpretations Committee (IFRS IC). The standards applied by the Company are those endorsed by the European Union and effective at the date the financial statements are approved by the Board. All the accounting policies have been consistently applied in the financial statements.

There are no new or amended accounting standards that have required a change to accounting policies for the year.

The financial statements have been prepared in accordance with the Companies Act 2006 as applicable to companies using IFRS and comply with the relevant provisions of Part 15 of the Companies Act 2006.

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 directors believe that the Company has additional safeguards in place to cover any unexpected issues which may arise including access to a general cash reserve and the ability to defer payment in certain circumstances.

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 and similar charges 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 7 and note 10.

(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. As such, deferred tax is not recognised on the difference between the accounting recognition of the mark to market fair value movement and the tax non-recognition of the movement. Therefore a 'tax base' under IAS12 is not generated and hence deferred tax is not recognised on the difference between the tax and accounting treatment.

(e) Financial instruments

The Company's financial instruments comprise intercompany loans to Arkle Funding (No.1) Limited ("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 and LBG. 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.

Notes to the financial statements (continued)

For the year ended 31 December 2016

(e)(ii) Derivative financial instruments

All derivatives are recognised at their fair value. Fair values are obtained where possible 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 to which hedge accounting as permitted by IAS 39 is not applied 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.

(e)(iii) Cash & 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.

(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:

Effective interest rate method

In calculating the effective interest rate of financial instruments the Company takes into account interest received or paid, fees and commissions paid or received, expected early redemptions and related penalties and premiums and discounts on acquisition or issue that are integral to the yield as well as incremental transaction costs.

For the purpose of the effective yield calculation, it has been assumed that the average expected life of the debt securities in issue by the Company will end at the date of the first step-up or step-down in interest rates (unless specified earlier in the Programme Documentation when the earlier date will be used), based on the payment experience to date. This may not be the case in practice.

Notes to the financial statements (continued)

For the year ended 31 December 2016

(g) Critical accounting estimates and judgements (continued)

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. Other factors are also considered, such as counterparty credit quality and liquidity.

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 2016, impairment allowances against the loans to related company totalled £nil (2015: £nil).

(h) Dividends

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

(i) Capital Management

The Company is not subject to externally imposed capital requirements in the current and prior year. The Company manages its ordinary share capital in order that there is sufficient capital, in the opinion of the directors, to support the transactions and level of business undertaken by the Company.

2 Interest receivable and similar income

	2016 £'000	2015 £'000
Interest receivable from loans related to company	50,963	109,191
	<u>50,963</u>	<u>109,191</u>

3 Interest payable and similar charges

	2016 £'000	2015 £'000
Interest payable on debt securities in issue	(65,665)	(105,716)
	<u>(65,665)</u>	<u>(105,716)</u>

4 Fair Value gain/ (losses)

	2016 £'000	2015 £'000
Gain/(loss) on retranslation of Euro loan notes to Sterling	-	(178,698)
Gain on retranslation of US\$ loan notes to GBP	-	13,027
Gain/(loss) on retranslation of YEN loan notes to GBP	-	(116,954)
Net foreign exchange gain/ losses	<u>-</u>	<u>(282,625)</u>
Fair value gain / (loss) on Euro currency swap	-	171,180
Fair value gain / (loss) on US\$ currency swap	-	(14,331)
Fair value gain on YEN currency swap	-	115,529
Fair value gain on GBP currency swap	3,880	4,088
Net fair value on currency swap derivatives	<u>3,880</u>	<u>276,466</u>
Fair Value gain (losses)	<u>3,880</u>	<u>(6,159)</u>

Fair value movements reflect the market value of the derivatives and swap interest payable. The Notes issued were economically hedged using derivative contracts and so gains or losses recognised to date are expected to reverse in the future.

Notes to the financial statements (continued)

For the year ended 31 December 2016

5. Operating expenses

	2016 £'000	2015 £'000
Administration Charges	249	489
	<u>249</u>	<u>489</u>

The Company had no employees during the year (2015: 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.

Audit fees for the Company are borne for by Funding 1. The fee for the current year was £16k net of VAT (2015: £16k).

6. Taxation

	2016 £'000	2015 £'000
Current Tax		
Corporation tax charge for the year at a rate of 20.00% (2015: 20.25%)	1	1
	<u>1</u>	<u>1</u>
Total tax charge	<u>1</u>	<u>1</u>
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 20.00% (2015: 20.25%)		
Loss before tax	(11,071)	(3,173)
	<u>(11,071)</u>	<u>(3,173)</u>
Loss before tax multiplied by the standard average rate of corporation tax in the UK of 20.00% (2015: 20.25%)	(2,214)	(643)
	<u>(2,214)</u>	<u>(643)</u>
Effects of:		
Items not allowable under permanent tax regime for securitisation companies	2,215	644
	<u>2,215</u>	<u>644</u>
Total tax expense in the Statement of Comprehensive Income	<u>1</u>	<u>1</u>

The Finance Act 2013 which was substantively enacted on 2 July 2013 reduced the main rate of corporation tax to 21% with effect from 1 April 2014 and 20% with effect from 1 April 2015.

The Finance (No. 2) Act 2015 which was substantively enacted on 26 October 2015 reduced the main rate of corporation tax to 19% with effect from 1 April 2017 and 18% with effect from 1 April 2020.

The Finance Act 2016, which was substantively enacted on 6 September 2016, further reduced the corporate tax rate to 17% with effect from 1 April 2020.

7. Loans to related company

	2016 £'000	2015 £'000
Intercompany loans to Funding 1		
Non- Current		
Principal	200,000	1,700,000
Current		
Principal	1,500,000	1,250,000
Interest	3,964	7,618
	<u>1,503,964</u>	<u>1,257,618</u>
	<u>1,703,964</u>	<u>2,957,618</u>

The intercompany loans to Funding 1 are all denominated in sterling and are at variable rates of interest, based on the London Interbank Offered Rate (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.

Notes to the financial statements (continued)

For the year ended 31 December 2016

7. Loans to related company (continued)

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.

8. Derivatives

The principal derivatives used by the Company are interest rate contracts. These contracts include forward exchange contracts including interest rate basis swaps.

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:

	2016 £'000	2015 £'000
Interest Rate contracts:		
Notional principal amount	800,000	800,000
Fair value		
Assets	15,747	26,687
Liabilities	-	-
	<u>15,747</u>	<u>26,687</u>

The expected payment date of the contract is less than 12 months.

9. Trade and other receivables

	2016 £'000	2015 £'000
Unpaid share capital	37	37
	<u>37</u>	<u>37</u>

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.

Notes to the financial statements (continued)

For the year ended 31 December 2016

10. Debt securities in Issue

	2016 £'000	2015 £'000
Non Current		
Principal -		
GBP Fixed	-	800,000
GBP - priced against 3 month GBP LIBOR	<u>200,000</u>	<u>900,000</u>
	200,000	1,700,000
Current		
Principal -		
GBP Fixed	800,000	-
GBP - priced against 3 month GBP LIBOR	<u>700,000</u>	<u>1,250,000</u>
	1,500,000	1,250,000
Interest		
Interest payable on debt securities	<u>14,613</u>	<u>18,116</u>
	<u>1,714,613</u>	<u>2,968,116</u>

Debt securities in issue at 31 December 2016 comprise of floating and fixed rate Notes with scheduled maturity dates between February 2017 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 13(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.

11. Trade and other payables

	2016 £'000	2015 £'000
Amounts owed to related parties	21	36
	<u>21</u>	<u>36</u>

All amounts due to the related company are repayable with 12 months of the balance sheet date.

Notes to the financial statements (continued)

For the year ended 31 December 2016

12. Share capital

	2016 £'000	2015 £'000
Authorised		
50,000 (2015:50,000) ordinary shares of £1 each	50	50
	<hr/>	<hr/>
	2016 £'000	2015 £'000
Allotted		
1 (2015:1) fully paid ordinary share of £1	-	-
49,999 (2015:49,999) quarter paid ordinary shares of 1 each	50	50
	<hr/>	<hr/>
	50	50
	<hr/>	<hr/>

13. Management of risk

The principal risks arising from the Company's financial instruments are credit risk, interest rate risk and liquidity risk. Considerable resource is given to maintaining effective controls to manage, measure and mitigate each of these risks and therefore there is minimal sensitivity to risk. 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 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.

13a. 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 share of mortgage assets of the trust by 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 performance of a particular geographical region that represents a concentration in the securitised assets, could also affect the cash flows from the mortgage pool.

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. For December 2016, the post interest rate swap yield was 1.92% (2015: 1.92%).

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 2016 was £nil (2015: £0.188m). 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 2016 was £1,729.9m (2015: £1,729.9m). The subordinated Z loan nets out within the deemed loan to originator on the balance sheet.

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.

Notes to the financial statements (continued)

For the year ended 31 December 2016

13a. Credit risk (continued)

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.

Counterparty		Rating as at Date 31 December 2016	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 A1/A/A+	P-1/A-1/F1 A1/A/A+

There is an additional GIC account for Funding 1 which benefits from collateral provided by Lloyds and secured in favour of Funding 1 with such collateral to be posted to a custody account held with Bank of New York Mellon, London Branch and marked to market on a daily basis. The cash held in the collateralised GIC at 31 December 2016 was £1,180.2m (2015: £832.2m).

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.

	2016 £'000	2015 £'000
Assets Held at amortised cost		
Loans to related company	1,703,964	2,957,618
Trade and other receivables	37	37
Cash and cash equivalents	63	59
Assets held at fair value		
Derivative assets	15,747	26,687
	<u>1,719,811</u>	<u>2,984,401</u>

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.

Notes to the financial statements (continued)

For the year ended 31 December 2016

13a. Credit risk (continued)

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:

	2016 £'000	2015 £'000
Neither past, due nor impaired	10,629,997	12,577,903
Past due, but not impaired	113,758	181,144
Impaired	-	355
	<hr/>	<hr/>
	10,743,755	12,759,402
	<hr/>	<hr/>
Securitised loans and advances which are past due, but not impaired:		
Past due 0-30 days	84,769	127,813
Past due 30 to 60 days	22,958	45,706
Past due 60 to 90 days	6,031	7,625
Past due 90 to 180 days	-	-
	<hr/>	<hr/>
	113,758	181,144
	<hr/>	<hr/>

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).

LBG has an option to repurchase mortgage loans from the programme which are greater than or equal to 3 months in arrears. The value of loan repurchases in the year amounted to £104m (2015: £309m).

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 2016 61 accounts were in arrears by three or more months which represented 0.05% of the mortgage pool (31 December 2015: 88 accounts, 0.06%).
- At 31 December 2016 the number of properties in possession amounted to nil (31 December 2015: 1 property).

Collateral held against retail mortgage lending comprises residential properties.

Notes to the financial statements (continued)

For the year ended 31 December 2016

13b. 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. It is therefore exposed to interest rate as the value of the Notes will fluctuate due to changes in Sterling.

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

The effect of 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.

The Company's elimination interest rate risk is as follows:

	Sterling Fixed	Sterling Floating	Total
2016	£'000	£'000	£'000
Debt Securities in issue	(812,977)	(901,636)	(1,714,613)
Derivatives			
Derivatives notional balance	812,977	-	
Net fair value of derivative contracts	5,075	-	
Valuation Difference	5,075	-	
2015	£'000	£'000	£'000
Debt Securities in issue	(813,012)	(2,155,104)	(2,968,116)
Derivatives			
Derivatives notional balance	813,012	-	
Net fair value of derivative contracts	16,151	-	
Valuation Difference	16,151	-	
Mark to market volatility	(11,076)	-	(11,076)

Notes to the financial statements (continued)

For the year ended 31 December 2016

13c. 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 13(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 years. 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.

	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
2016							
Principal							
Debt securities in issue	1,700,000	1,700,000	-	800,000	700,000	200,000	-
Trade and other payables	21	21	-	21	-	-	-
Derivative liability	-	-	-	-	-	-	-
Interest payable							
Interest payable on debt securities in issue	14,613	46,071	-	13,182	15,462	17,427	-
Interest payable on derivative liabilities	-	-	-	-	-	-	-
	1,714,634	1,746,092	0	813,203	715,462	217,427	-
2015							
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Principal							
Debt securities in issue	2,950,000	2,950,000	-	-	1,250,000	1,500,000	200,000
Trade and other payables	36	36	-	36	-	-	-
Derivative liability	-	-	-	-	-	-	-
Interest payable							
Interest payable on debt securities in issue	18,116	122,316	-	20,261	53,657	44,166	4,233
Interest payable on derivative liabilities	-	-	-	-	-	-	-
	2,968,152	3,072,352	0	20,297	1,303,657	1,544,166	204,233

Notes to the financial statements (continued)

For the year ended 31 December 2016

13d. 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.

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 2016	1.30	14.54	15.57	15.82
31 December 2015	1.49	16.50	16.70	16.57

13e. Fair values

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

Financial assets and liabilities carried at fair value

The financial instruments below are analysed by valuation method. The different levels are defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
- Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

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 the short nature of these liabilities.

Notes to the financial statements (continued)

For the year ended 31 December 2016

13e. Fair values (continued)

Debt securities in issue

The book value as at 31 December 2016 was £1,700m (2015: £2,950m) and the fair value as at 31 December 2016 was £1,712m (2015: £3,000m). The Notes have been valued where possible based on quoted market prices in active markets, including recent market transactions. However, notes held within LBG cannot be valued in this way using observable inputs.

For this reason, in accordance with "IFRS 7 Financial Instruments: Disclosures" and "IFRS 13 Fair Value Measurement", the debt securities in issue are considered to be Level 3 in the Fair Value Hierarchy.

14. 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, Sanne Group (UK) Limited, Sanne Group Secretaries (UK) Limited and Sanne Trustee Company UK Limited by virtue of their various roles and inputs into securitisation arrangements to which the Company is a party.

Jason C Bingham, Beejadhursingh M Surnam and Martin C Schnaier as directors of the Company are employees of Sanne Trustee Company UK Limited and are directors of Sanne Group Secretaries (UK) Limited and Sanne Group (UK) Limited. Sanne Group (UK) Limited provides administration services to the Company at commercial rates.

Lloyds provides cash management services defined under the Programme Documentation, services. Fees for these services amounted to £249k in the year (2015: £489k).

Total corporate service expenses payable during the year amounted to £65k (2015: £53k). These fees are paid on behalf of the Company and associated companies by Funding 1.

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

	Parent	Other Related parties	Parent	Other Related parties
At 31 December 2016 or for the year then ended	2016 £'000	2016 £'000	2015 £'000	2015 £'000
Interest receivable and similar income				
Interest on intercompany loans	-	50,963	-	109,191
Interest payable and similar charges				
Interest payable on Notes held by LBG and subsidiary undertakings	26,077	-	37,074	-
Fair value (losses) / profit	3,880	-	(4,770)	-
Operating expenses				
Administration charges – Lloyds	249	-	489	-
Assets				
Loans to related company	-	1,700,000	-	2,950,000
Interest receivable on loans to related company	-	3,944	-	7,618
Derivatives	-	-	26,687	-
Cash and cash equivalents	63	-	59	-
Liabilities				
Notes held by LBG and subsidiary undertakings	726,411	-	1,948,177	-
Interest payable on Notes held by LBG and subsidiary undertakings	1,049	-	4,656	-
Trade and other payables	21	-	36	-

Notes to the financial statements (continued)

For the year ended 31 December 2016

15. Future Accounting Pronouncements

The following pronouncements are not applicable for the year ended 31 December 2016 and have not been applied in preparing these financial statements. Save as disclosed below, the full impact of these accounting changes is being assessed by the Company.

IFRS 9 Financial Instruments

IFRS 9 replaces IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 requires financial assets to be classified into one of three measurement categories, fair value through profit or loss, fair value through other comprehensive income and amortised cost, on the basis of the objectives of the entity's business model for managing its financial assets and the contractual cash flow characteristics of the instruments. These changes are not expected to have a significant impact on the Company.

IFRS 9 also replaces the existing 'incurred loss' impairment approach with an expected credit loss approach. This change in approach is not expected to have a significant impact on the Company.

The hedge accounting requirements of IFRS 9 are more closely aligned with risk management practices and follow a more principle-based approach than IAS 39. The revised requirements are not expected to have a significant impact on the Company.

IFRS 9 is effective for annual periods beginning on or after 1 January 2018. This standard was endorsed in November 2016.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 replaces IAS 18 Revenue and IAS 11 Construction Contracts. IFRS 15 establishes principles for reporting useful information about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised at an amount that reflects the consideration to which the entity expects to be entitled in exchange for goods and services. Financial instruments, leases and insurance contracts are out of scope and so this standard is not expected to have a significant impact on the LLP.

IFRS 15 is effective for annual periods beginning on or after 1 January 2018. As at March 2017, this standard is awaiting EU endorsement.

16. Ultimate 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 IFRS 10 Consolidated Financial Statements, the Company's financial statements are consolidated within the group financial statements of LBG for the year ended 31 December 2016.

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 may be obtained from Group Secretariat, Lloyds Banking Group plc, 25 Gresham Street, London, EC2V 7HN or downloaded via www.lloydsbankinggroup.com.

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