

Registered Number 7934524

SANDOWN GOLD 2012-1 PLC
ANNUAL REPORTS AND FINANCIAL STATEMENTS
FOR THE YEAR TO 31 DECEMBER 2016



SANDOWN GOLD 2012-1 PLC
DIRECTORS AND COMPANY INFORMATION

DIRECTORS

Intertrust Directors 1 Limited (previously named SFM Directors Limited)
Intertrust Directors 2 Limited (previously named SFM Directors (No.2) Limited)
Claudia Wallace

COMPANY SECRETARY

Intertrust Corporate Services Limited (previously named SFM Corporate Services Limited)

REGISTERED OFFICE

35 Great St. Helen's
LONDON
EC3A 6AP

INDEPENDENT AUDITORS

PricewaterhouseCoopers LLP
Hays Galleria
1 Hays Lane
LONDON
SE1 2RD

BANKERS

Lloyds Bank plc
25 Gresham Street
LONDON
EC2V 7HN

SANDOWN GOLD 2012-1 PLC STRATEGIC REPORT

Company Number 7934524

The Directors present their Strategic Report for Sandown Gold 2012-1 PLC (the "Company") for the year ended 31 December 2016.

PRINCIPAL ACTIVITIES

The principal activity of the Company is to acquire an interest in a portfolio of corporate loans to small and medium-sized enterprise borrowers in the UK (the "Collateral Loan Portfolio"), to issue notes (the "Notes") in Sterling and to enter into financial arrangements connected with the issue of Notes. No future changes in activity are envisaged.

The Company commenced trading on 3 April 2012 when it issued £1,471,200,000 of Notes on the Irish Stock Exchange. The Notes comprised of £825,000,000 Class A Notes, £100,000,000 Class B Notes, £130,000,000 Class C Notes, £144,500,000 Class D Notes and £271,700,000 Class S Notes. The proceeds of the Notes issuance, after funding a general reserve fund (the "Reserve Account") up to its initial required amount, were used to purchase an interest in the Collateral Loan Portfolio originated in the UK by Lloyds Bank plc (the "Offeror" or "Lloyds").

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

BUSINESS REVIEW AND FUTURE DEVELOPMENTS

During the year £211,200,000 (2015: £227,700,000) of Class A Notes were repaid. No Class B, C, D or S Notes (2015: £nil) were repaid. The Company has made all necessary interest payments on the Notes in accordance with the scheduled payment dates for the year ended 31 December 2016.

The remainder of the Notes have a final legal maturity of 20 October 2039. The Offeror, who is also one of the Noteholders, is in possession of a Call Option, allowing for early redemption of the Notes in their entirety in certain circumstances, as outlined in the Transaction Documentation.

KEY PERFORMANCE INDICATORS ("KPIs")

The Company's Directors are of the opinion that analysis using KPIs is not necessary for an understanding of the development, performance and position of the Company. However, a defined set of KPIs for the securitisation transaction are set out in the Transaction Documentation and published as a quarterly investor report. All KPIs have been met.

Performance against the KPIs include the yield on the Collateral Loan Portfolio as the first line of credit enhancement to the Notes, the rate of repayment of the loans within the Collateral Loan Portfolio and an analysis of the characteristics of the underlying loans in the Collateral Loan Portfolio.

**SANDOWN GOLD 2012-1 PLC
STRATEGIC REPORT (CONTINUED)**

Company Number 7934524

KEY PERFORMANCE INDICATORS ("KPIs") (CONTINUED)

The key performance indicator used by management in assessing the performance of the Company is the monitoring of actual cashflows against planned cashflows.

At the time of issue each class of Notes is assigned a credit rating which reflects the likelihood of full and timely payment to the Noteholders of interest on each interest payment date and the payment of principal on 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.

The Company's Class A, B and C notes are all rated as Aaa by Moody's Investors Services Limited. Class D and S notes are not rated and are unlisted.

The Company's Class A, B and C notes are all rated as AAA by Fitch Ratings. Class D and S notes are not rated and are unlisted.

On 15 September 2016, the Class C notes were upgraded by Moody's from Aa2 to Aaa.

On 15 December 2016, Fitch Ratings upgraded the Class C notes from AA to AAA.

No change in credit ratings has since been applied to the Company's Notes up to the date of approval of these financial statements.

On behalf of the Board



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Helena Whitaker
Per pro Intertrust Directors 1 Limited
As Director

19 May 2017

SANDOWN GOLD 2012-1 PLC

DIRECTORS' REPORT

Company Number 7934524

The Directors present their report and the audited financial statements for the Company, a public limited company registered in England and Wales, for the year to 31 December 2016.

The Company is a wholly owned subsidiary of Sandown Gold 2012-1 Holdings Limited, a company registered in England and Wales. The shares of Sandown Gold 2012-1 Holdings Limited are held on a discretionary trust basis by Intertrust Corporate Services Limited for charitable purposes.

Sandown Gold 2012-1 Holdings Limited holds 49,999 quarter paid and one fully paid £1 ordinary share. These shares comprise the entire issued share capital of the Company.

RESULTS AND DIVIDENDS

Profits on a cashflow basis are pre-determined under the Transaction Documentation. The Company has the right to a profit before tax for the year of £1,200 (2015: £1,200) from the available revenue receipts for the accounting year covered by this set of financial statements. This is reflected in the Statement of Comprehensive Income.

The results for the year are set out on page 10. The profit after taxation for the year amounted to £960 (2015: £957). No dividend was proposed by the Directors for the current year (2015: £nil).

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.

FUTURE DEVELOPMENTS

An indication of the Company's likely future developments is included in the Strategic Report.

CORPORATE GOVERNANCE

The Directors have been charged with governance in accordance with the Transaction Documentation detailing the mechanism, the structure and operation of the transaction. The governance structure of the transaction 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 Documentation.

The Transaction Documentation provides 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 on the Irish Stock Exchange, the Directors are satisfied that there is no requirement to publish a corporate governance statement and that the Company is largely exempt from the disclosure requirements of The Irish Corporate Governance Annex and the provisions of the UK Corporate Governance Code.

**SANDOWN GOLD 2012-1 PLC
DIRECTORS' REPORT (CONTINUED)**

Company Number 7934524

DIRECTORS AND DIRECTORS' INTERESTS

The Directors who served during the year and up to date of the signing the financial statements were as follows:

Intertrust Directors 1 Limited
Intertrust Directors 2 Limited
Claudia Wallace

The Directors are also all Directors of Sandown Gold 2012-1 Holdings Limited. None of the Directors has any beneficial interest in the ordinary share capital of the Company. None of the Directors had any interest in any material contract or arrangement with the Company either during or at the end of the year.

THIRD PARTY 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.

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 a Deemed Loan to the Offeror (the "Deemed Loan") of the loans (equivalent to the value of its investment in the loans), derivatives ("Swaps"), cash and cash equivalents, Notes issued and various other receivables and payables.

The principal risks arising from the Company's financial instruments 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.

CREDIT RISK

Credit risk arises on the individual loans within the Collateral Loan Portfolio which are in turn secured on the underlying commercial assets. The performance of these loans is therefore influenced by the UK economic background.

To mitigate this, the Reserve Account of £20m (2015: £20m) is maintained subject to available cash to ensure the Company can meet its obligations on the Notes. The requirement to use the Reserve Account would only arise in the event that there was no longer sufficient income to pay certain items listed in the priority of payments as detailed in the Transaction Documentation. There have been no principal drawings on the Reserve Account in the year.

**SANDOWN GOLD 2012-1 PLC
DIRECTORS' REPORT (CONTINUED)**

Company Number 7934524

RISK MANAGEMENT (CONTINUED)

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 the amount and timing of the interest and principal repayments on the loans which underlie the Deemed Loan as well as timely receipts from the swap counterparty (the "Swap Counterparty").

In the event that sufficient receipts are not available to redeem the Notes or to make the interest payments or third party charges due, the Issuer can utilise an amount drawn from the Reserve Account to settle the majority of such obligations. In addition, the Company has entered into a Liquidity Facility Agreement (the "Liquidity Facility") with Lloyds to provide further funds to cover certain shortfalls should the Reserve Account be already fully utilised. To the extent that the income on the Deemed Loan does not provide sufficient funds to recover the Company's investment in the loan portfolio, the Company has no claim on the assets of Lloyds.

An optional redemption in full or in part is available to the Company should it wish to repay any of the Notes earlier than the expected maturity date. Noteholders must be informed by giving not more than 30 nor less than 10 business days' notice.

The Company has made all necessary payments on the Notes in accordance with the scheduled payment 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 assets and liabilities are similar; where this is not possible the Company uses derivative financial instruments to mitigate interest rate risk. An interest rate swap has therefore been entered into with Lloyds to manage the Company's exposure to interest rate risk. Accordingly the Company does not have any significant interest rate exposures. As part of the swap arrangement the Company acquires a beneficial interest in the loans and enters into an interest rate swap with Lloyds under which it exchanges the variable rate income received on the loans for a LIBOR-based interest flow in order to settle interest due on the Notes.

OPERATIONAL RISK

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 Transaction Documentation. Intertrust Management Limited ("Intertrust") has been appointed to provide corporate services in accordance with a corporate services agreement. Lloyds has been appointed to act as 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 Transaction Documentation.

There have been no such trigger events since inception of the transaction. The Directors continue to actively monitor the Company for trigger events.

**SANDOWN GOLD 2012-1 PLC
DIRECTORS' REPORT (CONTINUED)**

Company Number 7934524

EMPLOYEES

The Company has employed no staff during the year ended 31 December 2016 or in the previous year.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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

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

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

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

INDEPENDENT AUDITORS AND DISCLOSURE OF INFORMATION TO AUDITORS

PricewaterhouseCoopers LLP have indicated their willingness to continue in office until the next annual general meeting. A resolution for their re-appointment will be proposed at the forthcoming annual general meeting of the Company.

So far as the Directors are each aware, there is no relevant audit information of which the Company's auditors are unaware. The Directors have each taken all the steps that he or she ought to have taken as a Director in order to make himself or herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

This confirmation is given, and should be interpreted, in accordance with the provisions of section 418(2) of the Companies Act 2006.

On behalf of the Board



Helena Whitaker
Per pro Intertrust Directors 1 Limited
As Director

19 May 2017

Independent auditors' report to the members of Sandown Gold 2012-1 plc

Report on the financial statements

Our opinion

In our opinion, Sandown Gold 2012-1 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 profit and cash flows for the year then ended;
 - have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union; and
 - have been prepared in accordance with the requirements of the Companies Act 2006.
-

What we have audited

The financial statements, included within the 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 Cashflow Statement for the year then ended;
- 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.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 7, 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 & 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

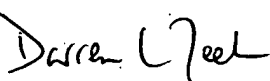
We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error.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



Darren Meek (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
19 May 2017

SANDOWN GOLD 2012-1 PLC
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2016

		2016 £'000	2015 £'000
	Note		
Interest receivable and similar income	2	27,822	35,694
Interest payable and similar charges	3	(27,739)	(35,610)
Net interest income		<u>83</u>	<u>84</u>
Operating expenses	4	(82)	(83)
Profit before tax for the year		<u>1</u>	<u>1</u>
Taxation	5	-	-
Profit for the year		<u><u>1</u></u>	<u><u>1</u></u>

There are no items of comprehensive income which have not already been presented in arriving at the profit for the year. Accordingly, the profit for the year is the same as total comprehensive income for the year.

The profit 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.

The accompanying notes on pages 14 to 31 are an integral part of the financial statements.

SANDOWN GOLD 2012-1 PLC
BALANCE SHEET
AS AT 31 DECEMBER 2016

Company Number 7934524

		2016 £'000	2015 £'000
Assets	Note		
Current assets			
Deemed loan to offeror	6	490	824
Cash and cash equivalents	7	69,382	81,982
Other receivables	8	<u>1</u>	<u>1</u>
Total current assets		<u>69,873</u>	<u>82,807</u>
Non-current assets			
Deemed loan to offeror	6	<u>792,925</u>	<u>992,985</u>
Total non-current assets		<u>792,925</u>	<u>992,985</u>
Total assets		<u><u>862,798</u></u>	<u><u>1,075,792</u></u>
Liabilities			
Current liabilities			
Debt securities in issue	9	4,553	6,385
Current tax liability	5	-	-
Other payables	10	<u>53</u>	<u>54</u>
Total current liabilities		<u>4,586</u>	<u>6,439</u>
Non-current liabilities			
Debt securities in issue	9	<u>858,173</u>	<u>1,069,335</u>
Total non-current liabilities		<u>858,173</u>	<u>1,069,335</u>
Total liabilities		<u>862,779</u>	<u>1,075,774</u>
Equity			
Share capital	11	13	13
Retained profits		<u>6</u>	<u>5</u>
Total equity		<u>19</u>	<u>18</u>
Total liabilities and equity		<u><u>862,798</u></u>	<u><u>1,075,792</u></u>

The accompanying notes on pages 14 to 31 are an integral part of the financial statements.

The financial statements on pages 10 to 31 were approved by the Board of Directors on 19 May 2017 and signed on its behalf by



 Helena Whitaker
 Per pro Intertrust Directors 1 Limited
 As Director

SANDOWN GOLD 2012-1 PLC
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2016

	Share capital £'000	Retained earnings £'000	Total equity £'000
Balance at 1 January 2016	13	5	18
Profit for the year	-	1	1
	<hr/>	<hr/>	<hr/>
Balance at 31 December 2016	13	6	19
	<hr/>	<hr/>	<hr/>
	Share capital £'000	Retained earnings £'000	Total equity £'000
Balance at 1 January 2015	13	4	17
Profit for the year	-	1	1
	<hr/>	<hr/>	<hr/>
Balance at 31 December 2015	13	5	18
	<hr/>	<hr/>	<hr/>

The accompanying notes on pages 14 to 31 are an integral part of the financial statements.

SANDOWN GOLD 2012-1 PLC
CASHFLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2016

	Note	2016 £'000	2015 £'000
Operating Activities			
External audit fees paid		(20)	(20)
Other external fees paid		(63)	(63)
Tax paid		-	-
		<hr/>	<hr/>
Net cashflows used in operating activities		(83)	(83)
Investing Activities			
Increase in Deemed Loan to Offeror		-	-
Principal repayments on Deemed Loan to Offeror		201,096	212,001
Interest on Deemed Loan to Offeror		31,413	40,417
Bank interest received		434	380
Interest payments on interest rate swap		(18,240)	(25,810)
Interest receipts on interest rate swap		13,513	20,104
		<hr/>	<hr/>
Net cashflows generated from investing activities		228,216	247,092
Financing Activities			
Repayments of debt securities in issue		(211,200)	(227,700)
Interest payments on debt securities in issue		(29,533)	(37,090)
		<hr/>	<hr/>
Net cashflows used in financing activities		(240,733)	(264,790)
		<hr/>	<hr/>
Net decrease in cash and cash equivalents		(12,600)	(17,781)
Cash and cash equivalents at start of year		81,982	99,763
		<hr/>	<hr/>
Cash and cash equivalents at 31 December	7	69,382	81,982
		<hr/>	<hr/>

The cashflow statement is presented using the direct method to improve the transparency of the financial statements.

The accompanying notes on pages 14 to 31 are an integral part of the financial statements.

SANDOWN GOLD 2012-1 PLC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016

1. SIGNIFICANT ACCOUNTING POLICIES

The Company, incorporated in England and Wales, is domiciled in England.

The financial statements were authorised for issue by the Directors on 19 May 2017.

(a) Statement of compliance

The financial statements for the year ended 31 December 2016 have been prepared in accordance with International Financial Reporting Standards ("IFRSs") and interpretations issued by the IFRS Interpretations Committee ("IFRS IC") prepared in accordance with the Companies Act 2006 as adopted by the European Union.

All accounting policies have been consistently applied in the financial statements.

The Company has adopted the following new standards and amendments to standards which became effective for financial years beginning on or after 1 January 2016. None of these standards or amendments to standards has had a material impact on these financial statements.

Changes in accounting policy

Amendments to IAS 32 Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities

The amendments to IAS 32 clarify the requirements for offsetting financial instruments and address inconsistencies identified in applying the offsetting criteria used in the standard.

The financial statements also 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 cashflows and believe they are adequate to meet the anticipated payments due in accordance with the Transaction 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.

SANDOWN GOLD 2012-1 PLC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Revenue recognition

Interest receivable and similar income has 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 cashflows 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 Deemed Loan to Offeror and within the outstanding balance of debt securities in issue on the Balance Sheet. A split between principal and accrued interest can be found in note 6 and 9 respectively.

(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. Tax is assessed on the cash retained as profit in the Company, ignoring all fair value adjustments on derivative contracts.

(e) Financial instruments

The Company's financial instruments comprise a Deemed Loan to Lloyds, cash and cash equivalents, Notes issued, derivatives ("Swaps") and other receivables and payables that arise directly from its operations. 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) Deemed Loan to Offeror

Under IAS 39, if a transferor retains substantially all the risks and rewards associated with the transferred assets, the transaction is accounted for as a financing transaction, notwithstanding that it is a sale transaction from a legal perspective. The Directors of the Company have concluded that Lloyds has retained substantially all the risks and rewards of the Collateral Loan Portfolio and as a consequence, the Company does not recognise the loans on its Balance Sheet but rather a Deemed Loan, where recourse to Lloyds is limited to the cashflows from the loans and any additional credit enhancement provided by Lloyds.

The initial amount of the Deemed Loan to Lloyds corresponds to the consideration paid by the Company for the loans. The Company recognises principal and interest cashflows from the underlying Collateral Loan Portfolio only to the extent that it is entitled to retain such cashflows. Cashflows attributable to Lloyds are not recognised by the Company.

The Deemed Loan is classified within "loans and receivables" and is stated at amortised cost using the effective interest method. The effective interest on the Deemed Loan is calculated with reference to the interest earned on the beneficial interest in the Collateral Loan Portfolio.

SANDOWN GOLD 2012-1 PLC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Financial instruments (continued)

(e)(ii) Derivative financial instruments

IAS 39 requires all derivative financial instruments to be recognised initially at fair value on the Balance Sheet and to be re-measured to fair value at subsequent reporting dates. Where the value of the derivative is positive, it is carried as a derivative asset and where negative, as a derivative liability. The gain or loss on remeasurement to fair value is recognised immediately in the Statement of Comprehensive Income.

The Company uses derivative financial instruments to manage its exposure to interest rate risk arising from operational, financing and investing activities. The Company does not hold or issue derivative financial instruments for trading purposes. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

Interest rate risk associated with the Deemed Loan is managed by means of a fixed to floating interest rate swap with Lloyds, which requires the Company to pay the effective yield on the beneficial interest in the Collateral Loan Portfolio and receive payments based on a rate linked to the three-month Sterling LIBOR.

This swap is not recognised separately as a financial instrument as the amounts payable under the swap reflect interest flows from the Collateral Loan Portfolio which are not recognised by the Company for accounting purposes. Instead, the Deemed Loan is recognised with an effective interest rate which reflects the amount received or paid under the swap.

Interest receivable or payable under the interest rate swap is accounted for on an accruals basis within interest receivable or payable in the Statement of Comprehensive Income.

(e)(iii) 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 Deemed Loan has become impaired.

Delinquencies and defaults on the underlying securitised assets will not result in an impairment loss if the cashflows from the Collateral Loan Portfolio are still expected to be sufficient to meet obligations under the limited recourse loan. Losses incurred on the securitised assets will not trigger an impairment as long as they do not exceed the credit enhancement granted by the Offeror.

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 Deemed 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.

SANDOWN GOLD 2012-1 PLC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Financial instruments (continued)

(e)(iv) Cash and cash equivalents

The Company holds deposits with the provider of a guaranteed investment contract ("GIC") and a transaction bank account with the same provider. These accounts are held in the Company's name and meet the definition of cash and cash equivalents. For the purposes of the cashflow statement, cash and cash equivalents comprise cash and non-mandatory balances with central banks 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 in accordance with the Transaction Documentation and is not available to be used with discretion, it is viewed as restricted cash.

(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.

(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 are 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 Company 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.

The effective yield has been calculated based on the expected life of the Notes issued by the Company.

SANDOWN GOLD 2012-1 PLC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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 upon cash flow models which use, wherever possible, independently sourced market parameters such as interest yield curves and currency rates. Other factors are also considered, such as counterparty credit quality and liquidity.

Impairment of Deemed Loan

The Company's accounting policy for losses arising on the Deemed Loan classified as loans and receivables is described in note 1(e)(iii). The allowance for impairment losses on loans and receivables is management's best estimate of losses incurred in the Collateral Loan Portfolio at the Balance Sheet date. Impairment allowances are established to recognise incurred impairment losses in the Company's Collateral 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 cashflows 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 cashflows discounted at the loan's original effective interest rate.

At 31 December 2016, impairment allowances against the Deemed Loan totalled £nil (2015: £nil).

(h) Issue costs

Directly attributable issue costs in respect of the Notes have been deferred and are being charged to the Statement of Comprehensive Income over a period equal to the expected life of the Notes.

(i) Dividends

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

2. INTEREST RECEIVABLE AND SIMILAR INCOME

	2016 £'000	2015 £'000
Interest receivable on Deemed Loan	27,484	35,318
Bank interest receivable	338	376
	<hr/>	<hr/>
	27,822	35,694
	<hr/>	<hr/>

SANDOWN GOLD 2012-1 PLC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

3. INTEREST PAYABLE AND SIMILAR CHARGES

	2016 £'000	2015 £'000
Interest payable on Notes in issue	27,701	35,572
Amortisation of issue costs	38	38
	<hr/>	<hr/>
	27,739	35,610
	<hr/>	<hr/>

4. OPERATING EXPENSES

	2016 £'000	2015 £'000
Audit fees	20	20
Administration charges	62	63
	<hr/>	<hr/>
	82	83
	<hr/>	<hr/>

Audit fees relate to the statutory audit of the Company. The Company has also borne the audit fee of £3,000 (2015: £3,000) on behalf of its holding company, Sandown Gold 2012-1 Holdings Limited. There are no fees payable to the auditors and their associates for services other than the statutory audit

5. TAXATION

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.

The current tax liability of £240 (2015: £243) represents the amount of income tax payable in respect of the year ended 31 December 2016.

SANDOWN GOLD 2012-1 PLC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

5. TAXATION (CONTINUED)

	2016 £'000	2015 £'000
Current tax		
Corporation tax charge for the year at a rate of 20% (2015: 20.25%)	-	-
	<hr/>	<hr/>
Total tax charge	-	-
	<hr/>	<hr/>
	2016 £'000	2015 £'000
Reconciliation of effective tax rate		
The tax assessed for the year is equal to the standard rate of corporation tax in the UK of 20% (2015: 20.25%)		
Profit before tax	1	1
	<hr/>	<hr/>
Profit before tax multiplied by the standard rate of corporation tax in the UK of 20% (2015: 20.25%)	-	-
	<hr/>	<hr/>
Total income tax charge	-	-
	<hr/>	<hr/>

6. DEEMED LOAN TO OFFEROR

	2016 £'000	2015 £'000
Non current assets		
Principal	792,925	992,985
Current assets		
Interest	490	824
	<hr/>	<hr/>
TOTAL	793,415	993,809
	<hr/>	<hr/>

The current asset balance above includes accrued swap interest payable, in-line with the accounting policy in note 1(e)(i), which has resulted in a net debit position as at 31 December 2016 and 31 December 2015.

The Collateral Loan Portfolio, which is accounted for as a Deemed Loan to Offeror and in which the Company holds a beneficial interest, is held by Lloyds. The loans are secured on a number of different asset classes. Loans in the portfolio have to fulfil certain criteria. If they fail to do so they are reacquired by the Offeror at carrying value plus accrued interest.

Contained within the Deemed Loan principal balance above is £2,346,944 relating to deferred consideration payable by the Company to the Offeror (2015: £3,382,482).

SANDOWN GOLD 2012-1 PLC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

7. CASH AND CASH EQUIVALENTS

	2016 £'000	2015 £'000
Cash on deposit	20,000	20,000
Bank accounts	49,369	61,969
Share capital account	13	13
	<hr/>	<hr/>
Cash and cash equivalents in the cashflow statement	69,382	81,982
	<hr/>	<hr/>

The cash on deposit is held with Lloyds. The Company earns a variable rate of interest of LIBOR for three-month Sterling deposits, which is recorded as interest receivable in the Statement of Comprehensive Income. The bank accounts are held with Lloyds.

Withdrawals from these deposits are restricted by a detailed priority of payments set out in the Transaction Documentation.

The share capital account is held in a client account administered by Intertrust, a related party. This balance is held to the benefit of the Company. No interest on this account is earned by the Company.

8. OTHER RECEIVABLES

	2016 £'000	2015 £'000
Prepaid expenses	1	1
	<hr/>	<hr/>

9. DEBT SECURITIES IN ISSUE

	2016 £'000	2015 £'000
Non-current liabilities		
Principal		
Class A Notes	212,850	424,050
Class B Notes	100,000	100,000
Class C Notes	130,000	130,000
Class D Notes	144,500	144,500
Class S Notes	271,700	271,700
	<hr/>	<hr/>
Deferred issue costs	(877)	(915)
	<hr/>	<hr/>
	858,173	1,069,335

SANDOWN GOLD 2012-1 PLC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

9. DEBT SECURITIES IN ISSUE (CONTINUED)

	2016 £'000	2015 £'000
Current liabilities		
Interest		
Accrued interest payable on Notes in issue	4,553	6,385
	<hr/>	<hr/>
TOTAL	862,726	1,075,720
	<hr/>	<hr/>
The balance can be analysed as follows:		
Non-current liabilities	858,173	1,069,335
Current liabilities	4,553	6,385
	<hr/>	<hr/>
	862,726	1,075,720
	<hr/>	<hr/>

Debt securities in issue at 31 December 2016 comprise the floating rate Notes issued by the Company in connection with the securitisation of loans originated within Lloyds. For more information about the Company's exposure to risk, see note 12.

These Notes are asset backed floating rate Notes issued by the Company to fund its operations. Each class of Notes is due for repayment on 20 October 2039. The Offeror is in possession of a Call Option, allowing for early redemption of the Notes in their entirety in certain circumstances, as outlined in the Transaction Documentation.

As outlined in the strategic report, £211,200,000 (2015: £227,700,000) Class A Notes were redeemed during the year.

The Notes constitute direct, secured, limited recourse obligations of the Issuer. The Class A Notes rank in priority to the Class B Notes, the Class C Notes, the Class D Notes and the Class S Notes; the Class B Notes rank in priority to the Class C Notes, the Class D Notes and the Class S Notes; the Class C Notes rank in priority to the Class D Notes and the Class S Notes; and the Class D Notes rank in priority to the Class S Notes.

In the event of the security being enforced, the Notes of each Class will at all times rank *pari passu* and rateably without any ranking preference among themselves.

The Notes will be obligations of the Company only. The Notes will not be obligations of, or the responsibility of, or guaranteed by, any person other than the Company.

Interest is payable on the Class A Notes at a variable rate based on three-month Sterling LIBOR plus a margin of 1.95 percent. Interest is payable on the Class B Notes at a variable rate based on three-month Sterling LIBOR plus a margin of 2.00 percent. Interest is payable on the Class C Notes at a variable rate based on three-month Sterling LIBOR plus a margin of 2.05 percent. No interest is due on the Class D Notes. Interest is payable on the Class S Notes in accordance with the detailed priority of payments set out in the Transaction Documentation.

SANDOWN GOLD 2012-1 PLC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

9. DEBT SECURITIES IN ISSUE (CONTINUED)

The Class D Notes shall, at all times, be held by Lloyds, in its capacity as the Offeror. The purpose of the Class D Notes is to serve as a mitigant against the risk of set-off by the Borrowers (the "Borrowers") in the Collateral Loan Portfolio. In the event that the Offeror elects not to reimburse the Issuer for a set-off amount pursuant to the Transaction Documentation and (where applicable) there are insufficient amounts held by the Issuer to pay the set-off amount, the Issuer shall write down the value of the Class D Notes by an amount corresponding to such set-off amount.

The Company's obligations to Noteholders and to other secured creditors are secured under the terms of the deed of charge issued by the Company which grants security over all of its assets in favour of the security trustee.

10. OTHER PAYABLES

	2016 £'000	2015 £'000
Audit fee accrual	20	20
Accruals and deferred income	33	34
	<hr/>	<hr/>
	53	54
	<hr/>	<hr/>

11. SHARE CAPITAL

	2016 £'000	2015 £'000
ISSUED, ALLOTTED, CALLED UP AND PAID		
1 (2015: 1) ordinary share of £1 each (fully paid)	-	-
49,999 (2015: 49,999) ordinary shares of £1 each (quarter paid)	13	13
	<hr/>	<hr/>
	13	13
	<hr/>	<hr/>

SANDOWN GOLD 2012-1 PLC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

12. MANAGEMENT OF RISK

The main risks arising from the Company's financial instruments are credit risk, liquidity risk and interest rate risk. However 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. Cashflow 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 an interest rate swap is entered into with the Offeror as part of the securitisation transaction to hedge interest rate risk arising in the transaction including the obligations under the Notes. The derivative counterparty is selected as a highly rated, regulated financial institution 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 on the Deemed Loan. The primary credit risk of the Company therefore relates to the credit risk associated with the securitised Collateral Loan Portfolio originated within Lloyds.

The likelihood of defaults in the Collateral Loan Portfolio 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 could also affect the cashflows from the Collateral Loan Portfolio.

To mitigate this risk, credit enhancement is provided to the Company in the form of excess spread and a reserve fund. The income on the Collateral Loan Portfolio is expected to exceed the Company's expenses and the interest payable on the Notes. This excess income (excess spread) is available to make good any reduction in the principal balance of the Collateral Loan Portfolio which may arise as a result of defaults by customers.

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

SANDOWN GOLD 2012-1 PLC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

12. MANAGEMENT OF RISK (CONTINUED)

12(a) Credit risk (continued)

Counterparty	Short-term rating as at 31 December 2016	Short-term rating as at date of approval of financial statements
	(Moody's / Fitch)	(Moody's / Fitch)
Lloyds Bank Plc	P-1(Moody's) F1 (Fitch)	P-1(Moody's) F1 (Fitch)

In the event that a swap counterparty is downgraded by a rating agency below the ratings 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.

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:		
Deemed Loan to Offeror	793,415	993,809
Cash and cash equivalents	69,382	81,982
Other receivables	1	1
	<hr/> 862,798 <hr/>	<hr/> 1,075,792 <hr/>

The Company meets its obligation on the Notes issued from the cashflows it receives from the Collateral Loan Portfolio. As a consequence, the credit quality of the loans indicates the capacity of the Company to service its payments, although the loans remain on the Balance Sheet of Lloyds and the structure of the securitisation provides for other credit enhancements.

The Company has engaged the Offeror as servicer of the loans in the portfolio to help reduce the risk of loss. The number of loans currently in arrears will have a bearing on the receipt of cash by the Company.

As noted in the Directors' Report, the activities of the Company are conducted primarily by reference to the Transaction Documentation.

SANDOWN GOLD 2012-1 PLC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

12. MANAGEMENT OF RISK (CONTINUED)

12(a) Credit risk (continued)

Financial assets subject to credit risk (continued)

Under the terms of the General Call Option Agreement entered into between the Company and the Offeror, the Offeror may repurchase any collateral loan and re-acquire the Issuer's beneficial interest in the related security (if any) in respect of such collateral loan if such collateral loan has become a Credit Impaired Obligation. A Credit Impaired Obligation is defined as a collateral loan which, (i) in the opinion of the Offeror (a) has a significant risk of declining in credit quality and, with the lapse of time, may become a defaulted collateral loan, or (b) is declining in credit quality, or (ii) is a defaulted collateral loan.

In addition, the Offeror may repurchase the relevant Collateral Loans Portfolio and re-acquire the Issuer's beneficial interest in the related security (if any) in respect of such collateral loan if, the Offeror intends to sell, sub-participate, dispose of, create a beneficial interest or enter into any analogous transaction with respect to any collateral loan or part thereof to a third party if such action is necessary or desirable from the point of view of a reasonably prudent lender.

During the year to 31 December 2016 loans totalling £10,467,010 (2015: £7,234,236) plus accrued interest of £18,839 (2015: £13,635) were repurchased by the Offeror under the General Call Option Agreement.

12(b) 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 Deemed Loan, the Notes and the cash and cash equivalents are exposed to cashflow interest rate risk caused by floating interest rates that are reset periodically.

An interest rate swap has therefore been entered into with the Offeror to manage the Company's exposure to interest rate risk associated with the Deemed Loan and Notes. The interest rate swap is in place to reduce interest rate risk as a result of the possible variance between (a) the weighted average, during an interest period, of (i) the rates of interest receivable on LIBOR loans, (ii) the rates of interest receivable on the base rate loans (iii) the rates of interest receivable on the fixed rate loans, and (b) the three month LIBOR based rate payable on the asset backed floating rate Notes.

The Issuer will enter into the Interest Rate Swap Agreement to hedge a part of its interest rate exposure in a notional amount equal to the aggregate of the Class A Notes and the Class B Notes, or, if greater, the collateral loans which have a fixed rate of interest. There will be some residual unhedged interest rate exposure given that the Class C Notes and the Class S Notes shall remain unhedged, and this may adversely affect the position of these Notes.

Under the terms of the swap, the Company pays the interest received from the Collateral Loan Portfolio and receives a LIBOR based rate for three-month Sterling deposits.

The interest rate swap substantially eliminates the sensitivity to movements in interest rates. The swap is not separately recognised in the financial statements as it forms part of the Deemed Loan.

SANDOWN GOLD 2012-1 PLC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (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 from the Deemed Loan which may be delayed due to the level of repayment on the Collateral Loan Portfolio (see 12(d) prepayment risk below).

If insufficient funds are received to repay the Notes, 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 Transaction Documentation. Variations in the rate of prepayment of principal on the 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 final repayment date as defined in the Transaction Documentation (unless it is known that a Note will be repaid prior to this date when the earlier date will be used). The final legal maturity date of the Notes is 20 October 2039.

Lloyds has been engaged to make available £20m (2015: £20m) by way of a liquidity facility to the Company in the event that the Company has insufficient funds available to meet its obligations to pay interest and / or principal. The Company has not drawn on this facility.

2016	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	858,173	859,050	-	-	-	-	859,050
Other payables	53	53	-	-	53	-	-
Interest payable							
Interest payable on debt securities in issue	4,553	243,704	2,649	-	7,947	42,383	190,725
	<u>862,779</u>	<u>1,102,807</u>	<u>2,649</u>	<u>-</u>	<u>8,000</u>	<u>42,383</u>	<u>1,049,775</u>
2015	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	1,069,335	1,070,250	-	-	-	-	1,070,250
Other payables	54	54	-	-	54	-	-
Interest payable							
Interest payable on debt securities in issue	6,385	401,754	4,185	-	12,555	66,959	318,055
	<u>1,075,774</u>	<u>1,472,058</u>	<u>4,185</u>	<u>-</u>	<u>12,609</u>	<u>66,959</u>	<u>1,388,305</u>

SANDOWN GOLD 2012-1 PLC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

12. MANAGEMENT OF RISK (CONTINUED)

12(d) Prepayment risk

In the normal course of business a proportion of borrowers repay their loan in advance of their contractual maturity. As a result the weighted average life of the Deemed Loan and of the Notes is likely to be significantly less than that implied by the contractual maturity dates of the Collateral Loan Portfolio.

The terms of the Notes specify that payments on the Notes will only be made to the extent that sufficient cashflows have been received from the Company's assets.

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 and local and regional economic conditions. In the event that prepayment rates on the Collateral Loan Portfolio reduce, principal repayments on the Deemed Loan and on the Notes may be spread over a longer period.

The Constant Prepayment Rate ("CPR") for the underlying Collateral Loan Portfolio is as follows:

	Monthly CPR %	1-month annualised %	3-month annualised %	12-month annualised %
31 December 2016	1.46	16.16	19.21	20.52
31 December 2015	1.55	17.13	19.11	18.07

12(e) Fair values

The Company's financial statements have been prepared under the historic cost convention.

Estimation of fair values

The manner in which financial instruments are designated for measurement purposes is set out in the accounting policies. The following comments summarise the main methods and assumptions used in estimating the fair value of financial instruments which take into account current market values.

Debt securities in issue

The notional principal at 31 December 2016 was £859,050,000 (2015: £1,070,250,000) and the fair value at 31 December 2016 was £865,197,366 (2015: £1,072,483,580).

For debt securities in issue, as prices are not observable in the market fair values have been calculated based on expected future cashflows adjusted for spreads observed from similar tranches of debt securities.

Other financial instruments held at amortised cost

The Deemed Loan, cash and cash equivalents and other receivables and payables are recognised on an amortised cost basis that is considered to be a close approximation to fair value.

SANDOWN GOLD 2012-1 PLC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

12. MANAGEMENT OF RISK (CONTINUED)

12(f) Offsetting

The Company has no financial assets or financial liabilities that are subject to offsetting, enforceable master netting arrangements and similar agreements.

13. RELATED PARTY TRANSACTIONS

The Company pays a corporate services fee to Intertrust in connection with its provision of corporate management services, which include the provision of Directors. This amounted to an expense in the Statement of Comprehensive Income of £14,750 for the year ended 31 December 2016 (2015: £14,825). Of these fees, £7,057 relates to the provision of Directors.

Lloyds is the swap counterparty to an interest rate swap agreement. In addition, Lloyds is contracted to provide a liquidity facility for use by the Company should there be insufficient funds to meet certain obligations. The various scenarios under which drawings may be required on this facility is contained within the Transaction Documentation.

The Company may be required to pay cash management and loan servicing fees to Lloyds in connection with its provision of services defined under the Transaction Documentation. It was agreed that no fee would be paid to Lloyds in this capacity in 2016 (2015: £nil).

During the year, the Company undertook the transactions set out below with companies within LBG.

	LBG and Subsidiary Undertakings 2016 £'000	LBG and Subsidiary Undertakings 2015 £'000
Interest receivable and similar income		
Income from Deemed Loan to Offeror	27,484	35,318
Bank interest receivable	338	376
Interest payable and similar charges		
Interest on debt securities in issue	20,736	23,554
Assets		
Deemed Loan to Offeror	795,272	996,368
Interest due on cash deposit	-	96
Cash and cash equivalents	69,369	81,969
Net interest receivable	490	727
Liabilities		
Deferred consideration	2,347	3,382
Debt securities in issue	662,196	678,068
Interest payable on debt securities in issue	3,640	4,426

Sandown Gold 2012-1 Holdings Limited holds one fully paid and 49,999 quarter paid £1 ordinary shares in the Company.

SANDOWN GOLD 2012-1 PLC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

14. FUTURE ACCOUNTING DEVELOPMENTS

The following pronouncements may have a significant effect on the Company's financial statements but are not applicable for the year ending 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.

Pronouncement	Nature of change	IASB effective date
IFRS 9 <i>Financial Instruments</i> ¹	<p>Replaces IAS 39 <i>Financial Instruments: Recognition and Measurement</i>.</p> <p>IFRS 9 requires financial assets to be classified into three measurement categories, fair value through profit and 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. The requirements for derecognition are broadly unchanged from IAS 39. The standard also retains most of the 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 other comprehensive income. The classification and measurement change is not expected to have a significant impact on the Company.</p> <p>IFRS 9 also replaces the existing IAS 39 'incurred loss' impairment approach with an expected credit loss approach. Loan commitments and financial guarantees not measured at fair value through profit or loss are also in scope. Those changes may result in an increase in the Company's balance sheet provisions for credit losses at the initial application date (1 January 2018) depending upon the composition of the Company's amortised cost financial assets, as well as the general economic conditions and the future outlook.</p> <p>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 general hedging change is not expected to have a significant impact on the Company.</p>	Annual periods beginning on or after 1 January 2018

SANDOWN GOLD 2012-1 PLC
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)

15. PARENT UNDERTAKING AND CONTROLLING PARTY

The Company's immediate parent is Sandown Gold 2012-1 Holdings Limited, a company incorporated and registered in England and Wales. The entire issued share capital of Sandown Gold 2012-1 Holdings Limited is held by Intertrust Corporate Services Limited, a company incorporated and registered in England and Wales, on a discretionary trust basis for charitable purposes under a declaration of trust.

The Company meets the definition of a special purpose entity under IFRSs. In accordance with the requirements of IFRS 10 "Consolidated Financial Statements", the Company's financial statements are consolidated within the group financial statements of Lloyds Banking Group plc ("LBG") for the year ended 31 December 2016.

The Directors consider that the Company's ultimate controlling party is LBG which is incorporated in Scotland. LBG has produced consolidated financial statements for the year ended 31 December 2016 which include the financial statements of the Company and therefore consolidated financial statements of the Company and its parent have not been prepared. Copies of the annual report and financial statements of LBG may be obtained from the LBG registered office at The Mound, Edinburgh, EH1 1YZ.