Registered Number 08039641

SANDOWN 2012-2 PLC

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR TO 31 DECEMBER 2017

SANDOWN 2012-2 PLC
DIRECTORS AND COMPANY INFORMATION

DIRECTORS

Intertrust Directors 1 Limited
Intertrust Directors 2 Limited
Claudia Wallace

COMPANY SECRETARY

Intertrust Corporate Services Limited

REGISTERED OFFICE

35 Great St. Helen's
LONDON
EC3A 6AP

INDEPENDENT AUDITORS

PricewaterhouseCoopers LLP
Hay's Galleria
1 Hay's Lane
LONDON
SE1 2RD

BANKERS

Lloyds Bank plc
25 Gresham Street
LONDON
EC2V 7HN

SANDOWN 2012-2 PLC
STRATEGIC REPORT

Company Number 08039641

The Directors present their Strategic Report for Sandown Gold 2012-2 Plc (the "Company") for the year ended 31 December 2017.

PRINCIPAL ACTIVITIES

The principal activity of the Company is to acquire an interest in a portfolio of 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 24 October 2012 when it issued £1,510,620,000 of Notes on the Irish Stock Exchange. The Notes comprised of £825,000,000 Class A Notes, £220,000,000 Class B Notes, £100,000,000 Class C Notes, £110,000,000 Class D Notes and £255,620,000 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").

BUSINESS REVIEW AND FUTURE DEVELOPMENTS

During the year £169,950,000 (2016: £188,925,000) of Class A Notes were repaid. No Class B, C, D or S Notes (2016: £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 2017.

The remainder of the Notes have a final legal maturity of 20 January 2040. 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.

It is expected that the Notes will be redeemed in accordance with the Priority of Payments, outlined in the Transaction Documentation, subject to the availability of funds.

During the period under review the Transaction Documentation was amended to update the Account Bank replacement trigger definition to A3 long term senior unsecured debt rating from P-1 short term senior unsecured debt rating, and to extend the period to take remedial action to 60 days from 30 days in the event of a downgrade of the Account Bank below the required rating.

There was no ratings impact on the Notes following these amendments.

Company Number 08039641

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.

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 was 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 were all rated as Aaa by Moody's Investors Services Limited at 31 December 2017. Class D and S notes are not rated and are unlisted.

Following the payment date in April 2018 when the A notes were reduced to nil, Moody's withdrew their rating on the A Notes.

No other 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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Sue Abrahams
Per pro Intertrust Directors 1 Limited
As Director

5 June 2018

Company Number 08039641

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 2017.

The Company is a wholly owned subsidiary of Sandown 2012-2 Holdings Limited, a company registered in England and Wales. The shares of Sandown 2012-2 Holdings Limited are held on a discretionary trust basis by Intertrust Corporate Services Limited for charitable purposes.

Sandown 2012-2 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 (2016: £1,200) from the available revenue receipts for the financial 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 13. The profit for the year amounted to £966 (2016: £960). No dividend was paid by the Directors for the current year (2016: £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 mechanisms, 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 Euronext Dublin (on 27 March 2018 the Irish Stock Exchange (ISE), joined Euronext's federal model and now operate under the trading name Euronext Dublin), 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 that the provisions of the UK Corporate Governance Code do not apply to the Company.

Company Number 08039641

DIRECTORS AND DIRECTORS' INTERESTS

The Directors who served during the year and up to the date of 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 2012-2 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), 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.

All of the Company's financial assets and liabilities are denominated in Sterling and are linked to Sterling 3 month LIBOR either directly or via the use of derivative instruments. As such the Company has no currency risk and no significant market risk.

CREDIT RISK

Credit risk arises principally 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 risk, the Reserve Account of £10m (2016: £10m) is maintained subject to available cash to ensure that 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.

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RISK MANAGEMENT (CONTINUED)

CREDIT RISK (continued)

Excess spread arises on the remaining income from the Deemed Loan after all interest is paid on the Notes and third party expenses have been settled. Additionally, under the terms of the Transaction Documentation the Originator may (and in some circumstances shall) reacquire any or all of the individual loans, at an amount not less than the drawn value of the loan plus accrued interest, where in the opinion of the Collateral Administrator Lloyds Bank plc ("Lloyds") the loan has a significant risk of declining in credit quality. The exposure to credit risk is therefore considered to be sufficiently mitigated.

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 Collateral Loan Portfolio, the Company has no claim on the assets of Lloyds.

The Company has made all the necessary payments on the Notes in accordance with the scheduled payment dates for the year ended 31 December 2017.

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 exchanges a defined proportion of the income received on the Collateral Loan Portfolio 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.

Company Number 08039641

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.

EMPLOYEES

The Company has employed no staff during the year ended 31 December 2017 or in the previous year.

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.
Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with International 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.

Company Number 08039641

STATEMENT OF DIRECTORS' RESPONSBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS (continued)

INDEPENDENT AUDITORS AND DISCLOSURE OF INFORMATION TO AUDITORS

PricewaterhouseCoopers LLP, the auditors, 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

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Sue Abrahams
Per pro Intertrust Directors 1 Limited
As Director
5 June 2018

Independent auditors' report to the members of Sandown 2012-2 plc

Report on the audit of the financial statements

Opinion

In our opinion, Sandown 2012-2 plc's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2017 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the balance sheet as at 31 December 2017; the statement of comprehensive income, the statement of changes in equity, the cashflow statement for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Directors.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

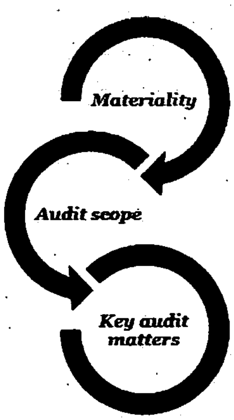
We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the company.

We have provided no non-audit services to the company in the period from 1 January 2017 to 31 December 2017.

Our audit approach

Overview



- Overall materiality: £7.3 million (2016: £9.1 million), based on 1% of total assets.

- The company is a special purpose entity that forms part of a securitisation structure, established primarily as a means of raising wholesale funding for Bank of Scotland plc ("BOS") and, ultimately, Lloyds Banking Group plc ("LBG"), being the ultimate parent undertaking. LBG and its related entities manage the securitisation structure performing roles including originator and servicer of the underlying loans, and cash administrator.
- We tailored the scope of our audit to ensure that we performed sufficient work to enable us to opine on the annual report and financial statements, ensuring appropriate audit procedures were performed in respect of every material financial statement line item.
- In establishing the overall approach to the audit, we determined the type of work that needed to be performed by us taking into account the accounting and reporting arrangements and controls, and the industry in which the company operates.

- The key audit matters which involved the greatest allocation of our resources and effort were:
  - Risk of management override of controls, including reporting of trigger events

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

We gained an understanding of the legal and regulatory framework applicable to the company and the industry in which it operates, and considered the risk of acts by the company which were contrary to applicable laws and regulations, including fraud. We designed audit procedures to respond to the risk, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. We focused on laws and regulations that could give rise to a material misstatement in the company's financial statements, including, but not limited to, the Companies Act 2006 and the underlying legal documents and agreements governing this securitisation transaction. Our tests included, but were not limited to, management inquiries, review of board meeting minutes and review and testing, where applicable, of the transaction documentation. There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it.

We did not identify any key audit matters relating to irregularities, including fraud. As in all of our audits we addressed the risk of management override of internal controls, including testing journals and evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

Key audit matter	***How our audit addressed the key audit matter***
Risk of management override of controls, including reporting of trigger events This risk is deemed most likely to manifest itself in the manual elements of the control environment, such as journal entries and adjustments posted as part of the financial reporting process. In addition, the contractual terms of the securitisation structure include specific 'trigger events' which mandate actions by the parties to the securitisation transaction in the event that certain conditions are reached. The consequences of any such 'trigger events' vary in severity depending on the nature of the specific 'trigger event' in question. Management are not incentivised to distort reported profits, as special purpose entities of this nature are structured to support a securitisation transaction and its priority is to remit the cash received in respect of its assets so as to repay its liabilities, with profit contractually pre-determined. However management could seek to override controls to misreport any breach of 'trigger events'. Based on our assessment of the risk of management override of controls we have focused our audit procedures on journal entries and other adjustments posted as part of the financial reporting process as well as considering the monitoring and reporting of performance against 'trigger events'.	We assessed journal entries posted as part of the financial reporting process to identify journal entries which we believe represented the greatest risk of fraud as a result of management override of controls. Any journal entries identified through this assessment were subject to testing to identify whether any of these journal entries indicated that a fraud had been carried out. From the testing performed we have not identified any evidence of actual or suspected fraud as a result of management override of controls. We incorporated elements of unpredictability into our audit approach, including performing substantive testing of a sample of immaterial transactions. In relation to 'trigger events', we have evaluated the design of the securitisation structure through inquiry of management and review of the primary transaction documentation. We have also reviewed investor reports and minutes of board meetings to identify any unusual trends which may indicate management override of controls. We also validated, and where relevant tested calculations supporting, selected assessments performed by management regarding the existence of 'trigger events'. No exceptions were noted.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the company, the accounting and reporting arrangements and controls, and the industry in which it operates.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall materiality	£7.3 million (2016: £9.0 million).
How we determined it	1% of total assets.
Rationale for benchmark applied	The Company's purpose is to support a securitisation transaction and its priority is to remit the cash received in respect of its assets so as to repay its liabilities. As such total assets is considered an appropriate benchmark. Where total assets is used, if the company is a public interest entity, a rule of thumb of up to 1% can be applied. We have deemed this to be a public interest entity and have therefore applied 1% due to the fact the entity has listed debt.

We agreed with those charged with governance that we would report to them misstatements identified during our audit above £0.4 million (2016: £0.5 million) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

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

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2017 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors' responsibilities in respect of the financial statements set out on page 7, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Appointment

We were appointed by the directors during 2012 to audit the financial statements for the period ended 31 December 2012 and subsequent financial periods. The period of total uninterrupted engagement is 6 years, covering the periods ended 31 December 2012 to 31 December 2017.

Darren Meek

Darren Meek (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
5 June 2018

SANDOWN 2012-2 PLC
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2017

	Note	2017 £'000	2016 £'000
Interest receivable and similar income	2	24,449	32,232
Interest payable and similar charges	3	(24,405)	(32,178)
Net interest income		44	54
Operating expenses	4	(43)	(53)
Profit before tax for the year		1	1
Taxation	5	-	-
Profit for the year		1	1

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 17 to 35 are an integral part of the financial statements.

SANDOWN 2012-2 PLC
BALANCE SHEET
AS AT 31 DECEMBER 2017

Company Number 08039641

	Note	2017 £'000	2016 £'000
Assets			
Current assets			
Deemed loan to offeror	6	**918**	966
Other receivables	7	**4**	4
Cash and cash equivalents	8	**47,396**	62,995
Total current assets		**48,318**	63,965
Non-current assets			
Deemed loan to offeror	6	**685,887**	841,115
Total non-current assets		**685,887**	841,115
Total assets		**734,205**	905,080
Liabilities			
Current liabilities			
Debt securities in issue	9	**4,461**	5,419
Current tax liability	5	**-**	-
Other payables	10	**41**	31
Total current liabilities		**4,502**	5,450
Non-current liabilities			
Debt securities in issue	9	**729,684**	899,612
Total non-current liabilities		**729,684**	899,612
Total liabilities		**734,186**	905,062
Equity			
Share capital	11	**13**	13
Retained earnings		**6**	5
Total equity		**19**	18
Total liabilities and equity		**734,205**	905,080

The accompanying notes on pages 17 to 35 are an integral part of the financial statements.

The financial statements on pages 13 to 35 were approved by the Board of Directors on 5 June 2018 and signed on its behalf by:

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Sue Abrahams
Per pro Intertrust Directors 1 Limited
As Director

SANDOWN 2012-2 PLC
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2017

	Share capital £'000	Retained earnings £'000	Total equity £'000
Balance at 1 January 2017	13	5	18
Profit for the year	-	1	1
Dividends Paid	-	-	-
Balance at 31 December 2017	13	6	19

	Share capital £'000	Retained earnings £'000	Total equity £'000
Balance at 1 January 2016	13	4	17
Profit for the year	-	1	1
Dividends Paid	-	-	-
Balance at 31 December 2016	13	5	18

The accompanying notes on pages 17 to 35 are an integral part of the financial statements.

SANDOWN 2012-2 PLC
CASHFLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2017

	Note	2017	2016
		£'000	£'000
Operating Activities			
External Audit fees paid		-	(20)
Other External Fees paid		(33)	(32)
Tax paid		-	-
Net cashflows used in operating activities		(33)	(52)
Investing Activities			
Principal repayments on Deemed Loan		155,719	184,191
Interest on Deemed Loan		25,949	33,703
Bank interest received		165	343
Interest payments on interest rate swap		(9,468)	(12,539)
Interest receipts on interest rate swaps		7,360	10,180
Net cashflows generated from investing activities		179,725	215,878
Financing Activities			
Repayment of debt securities in issue		(169,950)	(188,925)
Interest payments on debt securities in issue		(25,341)	(33,962)
Net cashflows used in financing activities		(195,291)	(222,887)
Net decrease in cash and cash equivalents		(15,599)	(7,061)
Cash and cash equivalents at start of year		62,995	70,056
Cash and cash equivalents at 31 December	8	47,396	62,995

The Cashflow Statement is presented using the direct method to improve the transparency of the financial statements.

The accompanying notes on pages 17 to 35 are an integral part of the financial statements.

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 5 June 2018.

(a) Statement of compliance

The financial statements for the year ended 31 December 2017 have been prepared in accordance with IFRSs and interpretations issued by the IFRS Interpretations Committee ("IFR IC") prepared in accordance with the Companies Act 2006 as applicable to companies using IFRS as adopted by the European Union.

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

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.

(b) Interest income 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 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 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 notes 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 calculated based on cash reserves maintained throughout the year. Tax is assessed on the cash retained as profit in the Company, ignoring all fair value adjustments on derivative contracts.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Financial instruments

The Company's financial instruments comprise a Deemed Loan to Lloyds, cash and cash equivalents, Notes issued, 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 Originator

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 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 loan portfolio. Deferred consideration payable by the Company to the Originator is offset against the Deemed Loan.

(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. In accordance with its treasury policy, 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 loan portfolio and receive payments based on a rate linked to the three-month Sterling LIBOR.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Financial instruments (continued)

(e)(ii) Derivative financial instruments (continued)

This swap is not recognised separately as a financial instrument as the amounts payable under the swap reflect interest flows from the loans 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 asset 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 Originator.

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.

(e)(iv) Cash and cash equivalents

The Company holds deposits and transaction bank accounts with Lloyds in its capacity as the account bank provider in accordance with the Transaction Documentation. These accounts are held in the Company's name and meet the definition of cash and cash equivalents. For the purpose 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 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.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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 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.

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

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)(i). The allowance for impairment losses on loans and receivables is management's best estimate of losses incurred in the portfolio at the Balance Sheet date. 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 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 2017, impairment allowances against the Deemed Loan totalled £nil (2016: £nil).

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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

	2017 £'000	2016 £'000
Interest receivable on Deemed Loan and swaps	24,284	31,964
Bank interest receivable	165	268
	24,449	32,232

3. INTEREST PAYABLE AND SIMILAR CHARGES

	2017 £'000	2016 £'000
Interest payable on Notes in issue	24,383	32,156
Amortisation of issue costs	22	22
	24,405	32,178

4. OPERATING EXPENSES

	2017 £'000	2016 £'000
Audit fees	20	20
Administration charges	23	33
	43	53

Audit fees relate to the statutory audit of the Company. The Company will also bear the audit fee of £3,000 (2016: £3,000) on behalf of its parent company, Sandown 2012-2 Holdings Limited. There are no fees payable to the auditors and their associates for services other than the statutory audit.

5. TAXATION

	2017	2016
	£'000	£'000
Current Tax		
Corporation tax charge for the year at a rate of 19.25% (2016: 20.00%)	-	-
Total tax charge	-	-

	2017	2016
	£'000	£'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 19.25% (2016: 20.00%)		
Profit before tax	1	1
Profit before tax multiplied by the standard rate of corporation tax in the UK of 19.25% (2016: 20.00%)	-	-
Total income tax charge	-	-

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.

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 £231 (2016: £240) represents the amount of corporation tax payable in respect of the year ended 31 December 2017.

6. DEEMED LOAN TO OFFEROR

	2017 £'000	2016 £'000
Non current assets		
Principal	685,887	841,115
Current assets		
Interest	918	966
TOTAL	686,805	842,081

The current asset balance above has been offset by accrued swap interest receivable and payable, in-line with the accounting policy in note 1(e)(i).
The Collateral Loan Portfolio, which is accounted for as a Deemed Loan 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.

Offset within the Deemed Loan principal balance above is £2,315,346 relating to deferred consideration payable by the Company to the Offeror (2016: £2,806,064).

7. OTHER RECEIVABLES

	2017 £'000	2016 £'000
Prepayments	4	4
	4	4

8. CASH AND CASH EQUIVALENTS

	2017 £'000	2016 £'000
Cash on deposit	10,000	10,000
Bank accounts	37,383	52,982
Share capital account	13	13
Cash and cash equivalents in the cashflow statement	47,396	62,995

8. CASH AND CASH EQUIVALENTS (CONTINUED)

The cash on deposit and bank accounts are 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.

Withdrawals from the cash on deposit 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.

9. DEBT SECURITIES IN ISSUE

	2017 £'000	2016 £'000
Non-current liabilities		
Principal		
Class A Notes	44,550	214,500
Class B Notes	220,000	220,000
Class C Notes	100,000	100,000
Class D Notes	110,000	110,000
Class S Notes	255,620	255,620
Deferred issue costs	(486)	(508)
	729,684	899,612
Current liabilities		
Interest		
Accrued interest payable on Notes in issue	4,461	5,419
TOTAL	734,145	905,031
The balance can be analysed as follows:		
Non-current liabilities	729,684	899,612
Current liabilities	4,461	5,419
	734,145	905,031

Debt securities in issue at 31 December 2017 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.

9. DEBT SECURITIES IN ISSUE (CONTINUED)

These Notes are asset backed floating rate Notes issued by the Company to fund its operations. Each class of Notes is due for repayment by January 2040. 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.

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 1.20 percent. Interest is payable on the Class B Notes at a variable rate based on three-month Sterling LIBOR plus a margin of 1.25 percent. Interest is payable on the Class C Notes at a variable rate based on three-month Sterling LIBOR plus a margin of 1.30 percent. No interest is due on the Class D Notes.
The Class S Notes shall receive by way of interest, excess amounts (if any) equal to the available revenue funds remaining following payment of certain fees, expenses and other liabilities of the Company in accordance with the detailed priority of payments set out in the Transaction Documentation.

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

	2017 £'000	2016 £'000
Accruals and deferred income	-	11
Audit fee accrual	41	20
	41	31

11. SHARE CAPITAL

	2017 £'000	2016 £'000
ISSUED, ALLOTTED, CALLED UP AND PAID		
1 (2016: 1) ordinary share of £1 each (fully paid)	-	-
49,999 (2016: 49,999) ordinary shares of £1 each (quarter paid)	13	13
	13	13

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 the Company has no regulatory capital requirements and 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.

12. MANAGEMENT OF RISK (CONTINUED)

12(a) Credit risk (continued)

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.

Counterparty	Short-term rating as at 31 December 2017 (Moody's/Fitch)	Short-term rating as at date of approval of financial statements (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.

	2017 £'000	2016 £'000
Assets held at amortised cost:		
Deemed Loan to Offeror	686,805	842,081
Other receivables	4	4
Cash and cash equivalents	47,396	62,995
	733,287	905,080

12. MANAGEMENT OF RISK (CONTINUED)

12(a) Credit risk (continued)

Financial assets subject to credit risk (continued)

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.

Under the terms of the General Call Option Agreement entered into between the Company and the Offeror, the Offeror may (and in some cases shall) 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 Loan Portfolio and re-acquire the Issuer's beneficial interest in the related security (if any) in respect of such collateral loans 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 2017 loans totalling £9,632,108 (2016: £12,814,890) plus accrued interest of £15,263 (2016: £22,127) 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.

12. MANAGEMENT OF RISK (CONTINUED)

12(b) Interest rate risk (continued)

The Issuer has entered 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 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 a proportion of 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.

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 January 2040.

Lloyds has been engaged to make available £8m (2016: £8m) 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.

12. MANAGEMENT OF RISK (CONTINUED)

12(c) Liquidity risk (continued)

2017	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	729,684	730,170	-	-	-	-	730,170
Trade payables	41	41	-	-	41	-	-
Interest payable							
Interest payable on debt securities in issue	4,461	139,768	1,503	-	4,509	24,046	109,711
	734,186	869,979	1,503	-	4,550	24,046	839,881

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	899,612	900,120	-	-	-	-	900,120
Trade payables	30	30	-	-	30	-	-
Interest payable							
Interest payable on debt securities in issue	5,419	203,965	2,193	-	6,580	35,091	160,101
	905,061	1,104,115	2,193	-	6,610	35,091	1,060,221

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 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.

12. MANAGEMENT OF RISK (CONTINUED)

12(d) Prepayment risk (continued)

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 2017	1.53	16.88	16.36	17.69
31 December 2016	1.44	15.97	19.35	18.19

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 2017 was £730,170,000 (2016: £900,120,000) and the fair value at 31 December 2017 was £730,579,185 (2016: £903,020,343).

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.

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 £9,112 for the year ended 31 December 2017 (2016: £14,390). Of these fees, £5,930 (2016: £6,969 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. Lloyds is also contracted to provide an indemnity loan 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 either of these facilities are 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 2017 (2016: £nil).

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

	LBG and Subsidiary Undertakings 2017 £'000	LBG and Subsidiary Undertakings 2016 £'000
Interest receivable and similar income		
Income from Deemed Loan to Offeror and swaps	24,284	31,964
Bank interest receivable	165	268
Interest payable and similar charges		
Interest on debt securities in issue	24,383	32,156
Assets		
Deemed Loan to Offeror	688,202	843,921
Interest due on cash deposit	-	-
Cash and cash equivalents	47,383	62,982
Net interest receivable	918	966
Liabilities		
Deferred consideration	2,315	2,806
Debt securities in issue	730,170	900,120
Interest payable on debt securities in issue	4,461	5,419

Sandown 2012-2 Holdings Limited holds one fully paid and 49,999 quarter paid £1 ordinary shares in the Company.

14. FUTURE ACCOUNTING DEVELOPMENTS

The following pronouncement is applicable for the year ending 31 December 2017 but has a minimal impact on the Company's financial statements.

Pronouncement	Nature of change	IASB effective date
IFRS 9 Financial Instruments	Replaces IAS 39 Financial Instruments: Recognition and Measurement. 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. 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 depending upon the composition of the Company's amortised cost financial assets, as well as the general economic conditions and the future outlook. 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. There is an option to retain the existing IAS 39 hedge accounting requirements until the IASB completes its project on macro hedging The Company has conducted an analysis of these changes and does not consider there to be any significant impact of applying IFRS 9. The Company has chosen 1 January 2018 as its initial application date of IFRS9 and will not restate comparative periods.	Annual periods beginning on or after 1 January 2018

14. FUTURE ACCOUNTING DEVELOPMENTS (CONTINUED)

Pronouncement	Nature of change	IASB effective date
IFRS 15 Revenue from Contracts with Customers	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 does not have a significant impact on the Company.	Annual periods beginning on or after 1 January 2018

15. PARENT UNDERTAKING AND CONTROLLING PARTY

The Company's immediate parent is Sandown 2012-2 Holdings Limited, a company incorporated and registered in England and Wales. The entire issued share capital of Sandown 2012-2 Holdings Limited is held by Intertrust Corporate Services Limited, a company 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 LBG for the year ended 31 December 2017.

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 financial statements of Lloyds Bank plc may be obtained from its head office at 25 Gresham Street, London EC2V 7HN or downloaded via www.lloydsbankinggroup.com.

The Directors consider that the Company's ultimate 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 financial statements of LBG may be obtained from the LBG registered office at The Mound, Edinburgh, EH1 1YZ or downloaded via www.lloydsbankinggroup.com.

16. EVENTS AFTER BALANCE SHEET DATE

There are no events after the Balance Sheet that the directors are aware of and require to bring to the attention of the users of the Financial Statements.