Salisbury II-A Securities 2017 Limited

Annual report and financial statements for the year ended 31 December 2019

Registered office

44 Esplanade
St Helier
Jersey
JE4 9WG

Registered number

123385

Current Directors

Ellen Chislett
Stephen Langan

Company Secretary

Intertrust SPV Services Limited

Strategic report

For the year ended 31 December 2019

The Directors present their Strategic report of Salisbury II-A Securities 2017 Limited (the "Company") for the year ended 31 December 2019.

Business overview

The principal activity of the Company is to issue floating rate notes (the "Notes") in Sterling to investors (the "Noteholders") and to enter into financial guarantee and credit protection agreements (together the "Financial Guarantee"). The Notes transfer the risk associated with the Financial Guarantee to the external investors.

The Company commenced trading on 27 March 2017 when it issued £60,000,000 of Notes on the International Stock Exchange. The proceeds of the Note issuance were paid into a deposit account. On the same day, the Company entered into the Financial Guarantee with Lloyds Bank plc ("Lloyds" and the "Beneficiary") resulting in the Noteholders acquiring credit exposure, via the Company, to a portfolio (the "Reference Portfolio") of loans to small and medium sized enterprises, or the specified part thereof (each a "Reference Obligation"). The credit exposure has been created by way of the Financial Guarantee. In return for regular guarantee fee payments from the Beneficiary, the Company has agreed to reimburse the Beneficiary for principal losses suffered in respect of each Reference Obligation subject to certain conditions being satisfied as outlined in the Financial Guarantee. The Company will fund such payments by liquidating collateral held within the deposit account, reducing the collateral available to redeem the Notes on their scheduled redemption date.

The value of the Reference Portfolio covered by the Financial Guarantee at closing was £701,754,000. Noteholders are exposed to a maximum of 95% of losses on each Reference Obligation (the "Protected Proportion") up to the value of the Notes outstanding. The remaining exposure to the Reference Portfolio remains with Lloyds in its capacity as the originating bank (the "Originator").

The activities of the Company are conducted exclusively by reference to a series of securitisation transaction documents (the "Transaction Documentation"). The securitisation structure has been established as a means of establishing credit protection 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 Noteholders. As such, these have not been reproduced in full in the financial statements. The Transaction Documentation is available at the Company's registered office.

Business review and future development

As outlined in the Transaction Documentation, the Company may receive formal notifications (each a "Credit Event Notice") from the Beneficiary detailing occurrences of credit events on Reference Obligations within the Reference Portfolio. A credit event means, in respect of a Reference Obligation, one or more of the following events: (a) failure to pay; (b) bankruptcy; or (c) restructuring.

An independent verification agent appointed by the Company and the Beneficiary will assess each Credit Event Notice and provide a report for each Credit Event Notice confirming the a credit event has occurred, the Reference Obligations are within the Reference Portfolio on the date the credit event occurs, the Reference Obligations meet the transaction eligibility criteria and that Lloyds is the originating lender, each report being a "Credit Event Verification Report".

Delivery of a Credit Event Notice and the associated Credit Event Verification Report constitute the satisfaction of the required conditions to settlement (the "Conditions to Settlement") in respect of each Reference Obligation.

Upon satisfaction of the Conditions to Settlement for the Reference Obligations where a failure to pay or bankruptcy occurs, the calculation agent calculates the initial payment due from the Company to the Beneficiary as an initial loss protection payment (the "Initial Loss Amount") in accordance with the Transaction Documentation. This is an amount equal to either 35% or 45% of the protected proportion amount, depending on the borrower rating model used by Lloyds. No Initial Loss Amount is calculated, or is payable, in respect of Reference Obligations that have been subject to a restructuring.

No such Conditions to Settlement were met in the current or prior year and, as a consequence, no Initial Loss Amounts have been payable or paid during the current or prior year.

Determination of each final loss will be established following confirmation that no further recoveries are expected and the calculation of all recoveries for that Reference Obligation have been finalised. Following confirmation of the final loss by the verification agent, the net protection payment then due will be the protected proportion of the total loss less the Initial Loss Amount (the "Final Protection Amount"). If the Final Protection Amount is a positive value, the Company will be required to pay such amount to the Beneficiary. Should such Final Protection Amount be a negative value, the Beneficiary will be required to pay such absolute value to the Company.

No Final Protection Amounts have been payable or paid in the current or prior year.

Strategic report (continued)

For the year ended 31 December 2019

Business review and future development (continued)

The Company has made all necessary interest payments on the Notes in accordance with the scheduled payment dates for the year ended 31 December 2019. The Notes are due for repayment during April 2025. The Beneficiary is in possession of a call option, allowing for early redemption of the Notes, in certain circumstances, as outlined in the Transaction Documentation. No Notes were repaid during the year and the call option was not exercised.

During the replenishment period, which will run until 17 April 2020, the Reference Portfolio will replenish such that, as the Originator's exposure to a Reference Obligation decreases, the exposure for other Reference Obligations may be increased, or new Reference Obligations added, subject to meeting the eligibility criteria as specified in the Financial Guarantee.

Key performance indicators ("KPIs")

A defined set of KPIs for the securitisation transaction are set out in the Transaction Documentation and published as a quarterly investor report. The KPIs monitor adherence to the eligibility and replenishment criteria of the transaction. The key performance indicator used by management in assessing the performance of the Company is the monitoring of actual interest payments made on the Notes in comparison to the scheduled payments. All payments have been made in line with expectations.

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 Financial Guarantee, cash and cash equivalents, derivatives, notes issued and various other receivables and payables.

The principal risks arising from the Company's financial instruments are credit risk, liquidity risk, operational 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 11.

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. Details of credit risk, liquidity risk, interest rate risk, operational risk and business risk are explained below. The Company has no currency risk and no significant market risk.

The economic impacts of the Covid-19 pandemic, including increased levels of unemployment and corporate insolvencies, could increase the volume of credit events on Reference Obligations within the Reference Portfolio and so increase the amounts payable by the Company to the Beneficiary under the Financial Guarantee. However, this rise in volume of credit events could be reduced by specific measures taken by governments to alleviate the economic impact of the Covid-19 pandemic, such as payment holidays, lower interest rates and restrictions on fees associated with certain products.

Since 31 December 2019, the Company has received 1 Credit Event Notice from the Beneficiary where the Conditions to Settlement have been met.

The primary impact of the Covid-19 pandemic has been to the blended credit default swaps rate used in the calculation of the fair value of the Financial Guarantee and the embedded derivative. The approximate valuation from applying blended credit default swaps rates which include the effect of the disruption to financial markets caused by of Covid-19, to the Reference Portfolio at the 31 December 2019 is shown below.

	Financial Guarantee Asset/(Liability)	**Embedded Derivative Asset/(Liability)**
	£'000	**£'000**
Fair value at 31 December 2019	4,717	(4,717)
Approximate valuation from applying blended credit default swaps rates which include the effect of the disruption to financial markets caused by of Covid-19	(12,324)	12,324

Credit Risk

Credit risk arises principally through the company's exposure to the individual loans within the Reference Portfolio which are in turn secured predominantly on UK commercial property. The performance of these loans is, therefore, influenced by the UK economic background. The terms of the Financial Guarantee specify that, if a credit event occurs, the Company will reimburse the Beneficiary for principal losses, subject to the Conditions to Settlement being satisfied. To mitigate this risk the Company has issued Notes which transfer the risk to Noteholders. Noteholders are therefore exposed to credit risk on the Reference Portfolio to the full extent of their investment in the Notes.

Strategic report (continued)

For the year ended 31 December 2019

Credit Risk (continued)

The transaction also incorporates a maximum of a two year work-out period at the end of the loss protection period (the "Scheduled Termination Date"). This is to provide sufficient time for all losses and recoveries to be accurately calculated for any Reference Obligation that has suffered a credit event within the two year period immediately prior to the Scheduled Termination Date, where the Conditions to Settlement have been satisfied but the final losses and recoveries have not been determined on the Scheduled Termination Date. If, at the end of that two year work-out period from the date of the credit event, final losses have still not been determined, the verification agent will provide its own calculation of the expected recoveries to determine the final loss and any final protection payments.

Liquidity Risk

The ability of the Company to meet its obligations to make interest payments on the Notes and to settle all operating and administrative expenses, as they fall due, is dependent on the amount and timing of the receipt of payments from the Beneficiary under the terms of the Financial Guarantee.

To the extent that the income from the Financial Guarantee does not provide sufficient funds to cover the Company's interest and operating expenses, the Company has no claim on the assets of Lloyds and is not permitted to make withdrawals from the cash deposit account.

The Company made all necessary payments on the Notes in accordance with the scheduled payment dates, and all payments in relation to interest and operating expenses, for the year ended 31 December 2019.

Interest Rate Risk

Interest rate risk exists where assets and liabilities have interest rates set under different bases and/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. This is achieved through the inclusion of a Libor shortfall amount in the Financial Guarantee that matches the interest rate and reset date of the Notes. The terms of the Financial Guarantee ensure that the amounts received from the Beneficiary are sufficient to enable the Company to meet its obligations in the priority of payments, including payments to Noteholders which are based on a variable interest rate.

Transition from Interbank Offered Rate to Alternative Risk Free Reference Rates

Widely used benchmark rates, such as Libor have been subject to increasing regulatory scrutiny, with regulators signalling the need to use alternative benchmark rates. As a result, existing benchmark rates may be discontinued or the basis on which they are calculated may change. Uncertainty as to the nature of such potential changes may adversely affect the value of a broad array of financial products, including any Libor-based securities, loans and derivatives. This may impact the availability and cost of hedging instruments and borrowings.

Any changes could have important implications, for example: necessitating amendments to existing documents and contracts; and differential in performance of benchmark rates and financial products which reference them. The Company is continuing to monitor the appropriateness of the continued use of Libor in its products and is working to establish suitable alternatives where necessary.

Operational Risk

The Company is 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 Offshore Limited has been appointed to provide corporate administration services in accordance with a corporate services agreement. Lloyds has been appointed to act as account bank and cash and collateral manager on behalf of the Company.

Business Risk

The principal business risks of the Company are set out in a number of 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.

Approved by the Board of Directors and signed on its behalf by:

Stephen Langan
Director 28 July 2020

Directors' report

For the year ended 31 December 2019

The Directors present their annual report and audited financial statements of the Company for the year ended 31 December 2019.

General information

The Company is a limited company incorporated and domiciled in Jersey (registered number: 123385). The Company's registered address and Company Secretary are shown on the front cover. The principal activity of the Company is detailed in the Strategic report within the "Business overview" section.

The entire issued share capital is 2 ordinary shares of £1 each. One share is held by Intertrust Nominees (Jersey) Limited and the other by Intertrust Nominees 2 (Jersey) Limited, both acting as nominee shareholders for Intertrust Fiscal Trustee a.r.l as trustee of Salisbury II-A Securities 2017 Charitable Trust, a charitable trust established under the laws of Jersey.

Results

Profits on a cash flow basis are pre-determined under the Transaction Documentation. The Company has the right to a profit before tax of £1,000 per annum. The profit before tax for the year amounted to £1,000 (2018: £1,000).

The Company's tax charge is zero percent. All fair value adjustments on derivative contracts are ignored for tax purposes as tax is assessed on the cash retained as profit in the Company.

Dividends

The Directors recommend the payment of a dividend of £1,000 for the year (2018: £1,000). Dividends of £2,000 were paid during the year ended 31 December 2019 (2018: £nil).

Future outlook

Following the UK's exit from the EU, significant negotiation is now required on the terms of the future trade agreement. As a result, the possibility of a limited or no deal at the end of the transition period remains and could manifest in prolonged business uncertainty across the UK, including in the financial services sector. This continued lack of clarity over the UK's relationship with the EU and other foreign countries, and on-going challenges in the Eurozone, including weak growth, raise additional uncertainty for the UK's economic outlook. The Company is part of the wider Lloyds Banking Group, and, it is at that level that consideration of the many potential implications this may have has been undertaken. Work continues to assess the impact of EU exit at the level of the Lloyds Banking Group, as well as for the Company, upon customers, colleagues and products. This assessment includes all legal, regulatory, tax, finance and capital implications. No impact is expected for the Company.

Going concern

The Directors are satisfied that it is the intention of the Beneficiary to meet its legal obligations under the Transaction Documentation and that the Company will, therefore, continue to have access to adequate income liquidity and capital resources for the foreseeable future. It was noted that a letter of support had been issued by LBG (the Company's ultimate parent), dated 19 February 2020, confirming that it has the current intention to provide financial support to Lloyds and its subsidiaries to meet their respective financial liabilities as they fall due. Accordingly, the financial statements have been prepared on a going concern basis.

Corporate governance

The Directors have been charged with governance in accordance with the Transaction Documentation, which prescribes the structure and operation of the Company and the responsibilities of each third party.

The Transaction Documentation establishes 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 the Company to comply with its regulatory obligations.

Due to the nature of the securities, which are listed on the International Stock Exchange, the Directors are satisfied that there is no requirement to publish a corporate governance statement and that the Company is exempt from the provisions of the UK Corporate Governance Code.

Directors

The current Directors of the Company are shown on the front cover. There were no changes to the Directors who served from the beginning of the reporting period and the approval of the Annual report and financial statements. None of the Directors hold any interest in the shares of the Company.

Directors' report (continued)

For the year ended 31 December 2019

Information included in the Strategic report

The disclosures for Risk management and key performance indicators that would otherwise be required to be disclosed in the Directors' Report can be found in the Strategic Report.

Directors' indemnities

Qualifying third party indemnity provisions for the benefit of the Directors were in force during the period under review and remain in force as at the date of approval of the Annual Report and Financial Statements.

Statement of Directors' responsibilities

The Directors are responsible for preparing financial statements for each financial year, which give a true and fair view of the affairs and of the profit or loss of the Company, in accordance with the Companies (Jersey) Law 1991 and International Financial Reporting Standards ("IFRSs") as adopted by the European Union. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements; 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 confirm that they have complied with the above requirements in preparing the financial statements.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company at that time and to enable them to ensure that any financial statements comply with the Companies (Jersey) Law 1991. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditors and disclosure of information to auditors

In accordance with Companies (Jersey) Law 1991, in the case of each Director in office at the date the Directors' Report is approved:

- so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Independent 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.

Approved by the Board of Directors and signed on its behalf by:

SL

Stephen Langan
Director

28 July 2020

Statement of Comprehensive Income

For the year ended 31 December 2019

	Note	**2019 £'000**	2018 £'000
Income from Financial guarantee		**7,078**	7,063
Interest expense on Debt securities in issue		**(7,417)**	(7,319)
Net trading expense		**(339)**	(256)
Interest income	2	**450**	360
Gains/(losses) on financial instruments at fair value through profit and loss	3	**-**	-
Other operating expenses	4	**(110)**	(103)
Profit before tax		**1**	1
Taxation		**-**	-
Profit for the year, being total comprehensive income		**1**	1

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

All results derive from continuing operations. The Company operated in a single business segment and all of the Company's activities are in the United Kingdom.

Balance Sheet
As at 31 December 2019
Company No: 123385

	Note	**2019** £'000	2018 £'000
ASSETS			
Cash and cash equivalents	5	**60,164**	60,144
Trade and other receivables	6	**1,569**	1,547
Derivative financial assets	8	**4,717**	1,630
Total assets		**66,450**	63,321
LIABILITIES			
Debt securities in issue	7	**61,668**	61,649
Trade and other payables		**64**	40
Derivative financial liabilities	8	**4,717**	1,630
Total liabilities		**66,449**	63,319
EQUITY			
Share capital	9	**-**	-
Retained earnings		**1**	2
Total equity		**1**	2
Total equity and liabilities		**66,450**	63,321

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

The financial statements were approved by the Board of Directors and were signed on its behalf by:

SL

Stephen Langan
Director

Ellen Chislett
Director

28 July 2020

Statement of changes in equity

For the year ended 31 December 2019

	Share capital £'000	Retained earnings £'000	Total equity £'000
At 1 January 2018	-	1	1
Profit for the year being total comprehensive income	-	1	1
At 31 December 2018	**-**	2	2
Profit for the year being total comprehensive income	-	1	1
Dividend paid to equity holders of the Company	-	(2)	(2)
At 31 December 2019	**-**	**1**	**1**

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

Cash Flow Statement

For the year ended 31 December 2019

	2019 £'000	2018 £'000
Cash flows used in operating activities		
Administrative expenses paid	**(55)**	(64)
Net cash used in operating activities	**(55)**	(64)
Cash flows (used in)/generated from investing activities		
Bank interest received	**450**	360
Other income from financial guarantee	**7,025**	7,029
Net cash generated from investing activities	**7,475**	7,389
Cash flows used in financing activities		
Dividends paid	**(2)**	-
Interest paid on Debt securities in issue	**(7,398)**	(7,267)
Net cash used in financing activities	**(7,400)**	(7,267)
Change in Cash and cash equivalents	**20**	58
Cash and cash equivalents at beginning of year	**60,144**	60,086
Cash and cash equivalents at end of year	**60,164**	60,144
Cash and cash equivalents comprise		
Cash at bank	**60,164**	60,144
Cash and cash equivalents	**60,164**	60,144

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

Notes to the financial statements

For the year ended 31 December 2019

1. Accounting policies

1.1 Basis of preparation

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied in both years presented, with the exception of the presentation of Income from Financial guarantee and Interest on Debt Securities, which, in previous financial statements, were disclosed within "Net interest income".

In compliance with the requirements of IAS1 paragraph 82(a), which requires an entity to present separately, in the Statement of Comprehensive Income, interest revenue line items calculated using the effective interest method for assets that are subsequently measured at amortised cost or fair value through other comprehensive income, the presentation of "Income from Financial guarantee" and "Interest on Debt Securities" is presented separately within these financial statements with the prior year adjusted accordingly.

These financial statements have been prepared in accordance with applicable IFRSs as adopted by the European Union and the Companies (Jersey) Law 1991 applicable to companies reporting under IFRSs. IFRSs comprise accounting standards prefixed "IFRS" issued by the International Accounting Standards Board ("IASB") and those prefixed "IAS" issued by the IASB's predecessor body, as well as interpretations issued by the IFRS Interpretations Committee ("IFRS IC") and its predecessor body.

There are no new pronouncements relevant to the Company requiring adoption in these financial statements.

Details of those pronouncements which will be relevant to the Company but which were not effective at 31 December 2019 and which have not been applied in preparing these financial statements are given in note 13. No standards have been early adopted.

The financial statements have been prepared on a going concern basis as detailed in the Directors' Report and under the historical cost convention, modified for the fair value of derivative contracts.

1.2 Income recognition

Income and expense from financial instruments

Interest income and expense are recognised in the Statement of Comprehensive Income for all interest bearing financial instruments, including cash deposits, using the effective interest rate method. The effective interest rate method is a method of calculating the amortised cost of a financial asset or liability and of allocating the interest income or interest expense to a period of account. The effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts over the expected life of the instrument to the net carrying amount of the financial asset or financial liability.

Amounts receivable under the Financial Guarantee are accounted for on an accruals basis, reflect the requirements of the Transaction Documentation, and are recognised as Income from Financial guarantee which form part of interest income in the Statement of Comprehensive Income.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised on the net lending balance using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Accrued interest and other income from Financial Guarantee

Accrued interest and other income from the Financial Guarantee have been incorporated within Trade and other receivables.

1.3 Financial assets and liabilities

The Company's financial instruments comprise the Notes, Financial Guarantee and an embedded derivative. In addition the Company has cash and other receivables and payables that arise directly from its operations. These financial instruments are classified in accordance with the principles of IFRS 9 as described below.

On initial recognition, financial assets are classified as measured at amortised cost, fair value through other comprehensive income or fair value through profit or loss, depending on the Company's business model for managing the financial assets and whether the cash flows represent solely payments of principal and interest. The Company assesses its business models at a portfolio level, based on its objectives for the relevant portfolio, how the performance of the portfolio is managed and reported, and the frequency of asset sales. Financial assets with embedded derivatives are considered in their entirety when considering their cash flow characteristics. The Company reclassifies financial assets when, and only when, its business model for managing those assets changes.

A reclassification will only take place when the change is significant to the Company's operations and will occur at a portfolio level and not for individual instruments, and reclassifications are expected to be rare.

1. Accounting policies (continued)

1.3 Financial assets and liabilities (continued)

1.3(i) Derivative financial instruments

All derivatives are recognised at their fair value. Fair values are obtained where possible from quoted market prices in active markets, including recent market transactions, and using valuation techniques, including discounted cash flow and options pricing models, as appropriate. Derivatives are carried in the balance sheet as assets when fair value is positive and as liabilities when their fair value is negative. Changes in the fair value of any derivative instrument to which hedge accounting, as permitted by IFRS 9, is not applied are recognised immediately in the Statement of Comprehensive Income.

The Company has entered into a Financial Guarantee with Lloyds, which is regarded as a derivative financial instrument. The debt securities in issue contain embedded derivatives representing risk transfer to the Noteholders. The characteristics and risks of the Financial Guarantee and embedded derivatives are related to a portfolio of loans to small and medium sized enterprises originated by the Beneficiary. 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.

The fair value of the Financial Guarantee is the estimated amount that the Company would receive or pay to terminate the Financial Guarantee at the Balance Sheet date, taking into account the current creditworthiness of the underlying assets. The fair value of the embedded derivative is equal and opposite to the fair value of the Financial Guarantee and represents the credit risk embedded within the debt securities in issue.

Under the terms of the securitisation transaction the Company recognises £1,000 per annum as profit before tax. In order to achieve this level of profit, the amounts payable by the Beneficiary under the terms of the Financial Guarantee include a fixed issuer profit amount credited in equal portions on pre-determined dates (each a "Note Payment Date") throughout the year.

1.3(ii) Cash and cash equivalents

The Company holds transaction bank accounts with Lloyds in its capacity as 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 purposes of the cash flow 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.

1.3(iii) 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 rate basis.

1.3(iv) Impairment of financial assets

At initial recognition, allowance is made for expected credit losses resulting from default events that are possible within the next 12 months (12-month expected credit losses). In the event of a significant increase in credit risk since origination, allowance (or provision) is made for expected credit losses resulting from all possible default events over the expected life of the financial instrument (lifetime expected credit losses).

Financial assets where 12-month expected credit losses are recognised are considered to be Stage 1; financial assets which are considered to have experienced a significant increase in credit risk since initial recognition are in Stage 2; and financial assets which have defaulted or are otherwise considered to be credit impaired are allocated to Stage 3.

1.4 Taxation, including deferred income taxes

Profits arising for the Company are subject to Jersey Income Tax at a rate of 0%.

1.5 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.

1. Accounting policies (continued)

1.6. Critical accounting estimates and judgements in applying accounting policies

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although those estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates.

Fair value estimates

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, other than in a forced or liquidation sale. 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.

The Financial Guarantee and derivative embedded within the Notes have been valued using inputs other than quoted prices that are observable for the asset or liability, and internal data. This internal data specifically takes into consideration an assessment of the recoverability of the underlying assets. See note 11 for relevant sensitivity analysis and disclosure.

2. Interest income

	2019 £'000	2018 £'000
Bank interest receivable	**450**	360

There are no impaired financial assets in either the current or prior year. Therefore, there is no interest income in respect of impaired financial assets.

3. Gains/(losses) on financial instruments at fair value through profit and loss

	2019 £'000	2018 £'000
Fair value gain/(loss) on Financial guarantee	**6,347**	(4,392)
Fair value (loss)/gain on embedded derivative	**(6,347)**	4,392
	-	-

Fair value gains/(losses) are recognised in relation to the change in fair value of the Company's Financial Guarantee and the derivative embedded within the Notes.

These fair value gains/(losses) of £6,347,000 (2018: £4,392,000), which in total net to nil, are reflected through the Statement of Comprehensive Income. See Note 11 for details.

4. Other operating expenses

Operating expenses include audit fees payable by the Company for the year that total £24,000 (2018: £16,000).

5. Cash and cash equivalents

The Company's bank accounts and deposit account are held with Lloyds. Withdrawals from the deposit account are governed by the terms of the Transaction Documentation and relate solely to the payment of protection payments and redemption of the Notes.

During the year, the Company was not required to, and did not make, any protection payment amounts to the Beneficiary (2018: nil) or Note redemption amounts (2018: nil). The Company earns a variable rate of interest on these deposits, which is recorded as interest receivable in the Statement of Comprehensive Income.

	2019 £'000	2018 £'000
Cash at bank	**60,164**	60,144

Notes to the financial statements (continued)

For the year ended 31 December 2019

6. Trade and other receivables

	2019	2018
	£'000	£'000
Current		
Unamortised issue costs	**122**	153
Accrued income from Financial guarantee	**1,447**	1,394
	1,569	1,547

7. Debt securities in issue

	2019	2018
	£'000	£'000
Non-current liabilities		
Principal		
Class A notes	**60,000**	60,000
Current liabilities		
Interest		
Accrued interest payable on Debt securities in issue	**1,668**	1,649
	61,668	61,649

Debt securities in issue at 31 December 2019 comprise the Notes issued by the Company. The Noteholders exposure to risk is to the full extent of their investment in the Notes. For more information about the Company's exposure to risk, see note 11.

The Notes have a scheduled redemption date of 17 April 2025. As outlined in the Strategic report, there were no Notes repaid during the year to 31 December 2019.

The Notes constitute direct, secured, limited recourse obligations of the Company and are secured by U.S. Bank Trustees Limited (the "Trustee"), who, through the Transaction Documentation, holds first, fixed charge over the Company's bank accounts and deposit account. The Notes rank pari passu without preference or priority amongst themselves.

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

Interest is payable on the Notes at a variable rate based on three month Sterling Libor plus a fixed rate on the outstanding balance of the Notes.

8. Derivative financial assets/liabilities

	Total recognised derivative financial assets/(liabilities) as at 31 December 2019		
	Notional amount £'000	**Assets £'000**	**Liabilities £'000**
Financial guarantee	**60,000**	**4,717**	**-**
Embedded derivative	**60,000**	**-**	**(4,717)**
		4,717	**(4,717)**

	Total recognised derivative financial assets/(liabilities) as at 31 December 2018		
	Notional amount £'000	Assets £'000	Liabilities £'000
Financial guarantee	60,000	-	(1,630)
Embedded derivative	60,000	1,630	-
		1,630	(1,630)

Notes to the financial statements (continued)
For the year ended 31 December 2019

8. Derivative financial assets/liabilities (continued)

Reconciliation of movements on financial instruments from 1 January 2019 to 31 December 2019

	Financial Guarantee £'000	**Embedded Derivative £'000**
Opening balance as at 1 January 2019	**(1,630)**	**1,630**
Fair value gains/(losses) on financial instruments	**6,347**	**(6,347)**
Closing balance as at 31 December 2019	**4,717**	**(4,717)**

Reconciliation of movements on financial instruments from 1 January 2018 to 31 December 2018

	Financial Guarantee £'000	Embedded Derivative £'000
Opening balance as at 1 January 2018	2,762	(2,762)
Fair value (losses)/gains on financial instruments	(4,392)	4,392
Closing balance as at 31 December 2018	(1,630)	1,630

The derivative asset and liability are recognised in relation to the fair value of the Financial Guarantee and derivative embedded in the Notes. The change in the fair value of the Company's Financial Guarantee is reflected through the Statement of Comprehensive Income. The change in fair value of the embedded derivative is equal and opposite to that of the Financial Guarantee and is also reflected through the Statement of Comprehensive Income.

9. Share capital

	2019 £	2018 £
Allotted, issued and fully paid		
2 ordinary shares of £1 each	**2**	2

10. Related party transactions

Stephen Langan and Ellen Chislett, Directors of the Company, are also Directors of Intertrust SPV Services Limited, who provide ongoing administrative services to the Company on normal commercial terms.

The Company pays a corporate services fee to Intertrust SPV Services Limited in connection with its provision of corporate management and share trustee services. This amounted to an expense of £21,000 for the year ended 31 December 2019 (2018: £19,000). Of these fees, £5,000 relates to the provision of Directors (2018: £6,000).

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

Notes to the financial statements (continued)
For the year ended 31 December 2019

10. Related party transactions (continued)

	LBG and Subsidiary Undertakings 2019 £'000	LBG and Subsidiary Undertakings 2018 £'000
Trading income		
Income from Financial guarantee	**7,078**	7,063
Interest income		
Bank interest receivable (note 2)	**450**	360
Fair value gain/(loss) on Financial guarantee (note 3)	**6,347**	(4,392)
Assets		
Cash and cash equivalents (note 5)	**60,164**	60,144
Accrued income from Financial guarantee (note 6)	**1,447**	1,394
Derivative financial asset (note 8)	**4,717**	-
Liabilities		
Derivative financial liability (note 8)	**-**	1,630

11. Financial risk management

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 significant 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 outset of the securitisation transaction. The Company's activities and the role of each party to the transaction are clearly defined and documented within the Transaction Documentation. Cash flow modelling, including multiple stress scenarios, is carried out as part of the structuring process.

11.1 Credit risk

Credit risk management

The activities of the Company are conducted by reference to the Transaction Documentation. No business activities are undertaken by the Company beyond those set out in the Transaction Documentation.

Following initial set-up, the Directors monitor the Company's performance, reviewing monthly reports from Lloyds in its capacity as cash and collateral manager on the performance of the loans to small and medium-sized enterprises and the monthly management accounts. Such review is designed to ensure that the terms and conditions of the Transaction Documentation have been met, that no unforeseen risks have arisen and that all Noteholder and expense payments have been made as required. Where necessary, the Directors make appropriate enquiries of the servicer and the Company's professional advisers concerning specific matters which may affect the nature and extent of particular risks to the Company.

The characteristics and risks of the Financial Guarantee are related to a portfolio of loan assets held by Lloyds.

Credit risk arises on the individual loans within the loan Reference Portfolio. The likelihood of defaults in the Reference Portfolio and the amounts that may be recovered in the event of a default are related to a number of factors and may vary according to borrower and loan characteristics and product type. Significant changes in the economy, or in the health of a particular geographical area that represents a concentration in the securitised assets, could also affect the cash flows in the Reference Portfolio. The loans contained within the Reference Portfolio must adhere to a strict set of eligibility and replenishment criteria as set out in the Transaction Documentation.

Cash and cash equivalents (see note 5) are held with Lloyds. The credit risk associated with these financial assets is not considered to be significant.

Notes to the financial statements (continued)

For the year ended 31 December 2019

11. Financial risk management (continued)

11.1 Credit risk (continued)

Credit risk management (continued)

The Company's derivative asset is an embedded derivative which has an equal and opposite fair value to the Financial Guarantee, except where Initial Loss Amounts have been paid to the Beneficiary on loans where the final losses have yet to be determined. The embedded derivative transfers the credit risk acquired by the Financial Guarantee to the Noteholders.

The Company has a concentration of risk to Lloyds as the originator of the loans within the Reference Portfolio, who is also the counterparty to the Financial Guarantee, the servicer of the loans, and the cash and collateral manager.

For counterparties where a rating trigger exists, the Company assesses each counterparty for credit risk before contracting with them through a review of the ratings published for those counterparties by Moody's and S&P. The Transaction Documentation contains various rating triggers linked to certain counterparties, which require specific actions to be taken if triggers are breached.

	Rating as at 31 December 2019 Moody's/S&P	**Rating as at date of approval of financial statements Moody's/S&P**
Lloyds Bank plc	A-1 (S&P) P-1 (Moody's)	A-1 (S&P) P-1 (Moody's)

In the event that a counterparty is downgraded by a rating agency below the ratings specified by the relevant counterparty agreement, the relevant counterparty will be required to take certain remedial measures as defined in that agreement which may include providing collateral for its obligations, or taking such other action as it may agree with the Company.

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.

	2019 £'000	2018 £'000
Accrued income from Financial guarantee	**1,447**	1,394
Unamortised issue costs	**122**	153
Cash and cash equivalents	**60,164**	60,144
Derivative financial assets	**4,717**	1,630
	66,450	63,321

11.2 Liquidity risk

The Company's ability to meet payments on the Notes as they fall due is dependent on the timely receipt of income received from the Beneficiary under the terms of the Financial Guarantee and its ability to access the funds held within the cash deposit account as and when required. The terms of the Financial Guarantee require that the Beneficiary must make sufficient payment to enable the Company to meet its obligations.

Under the terms of the Financial Guarantee, the Beneficiary is required to pay to the Company the interest amount due and payable on the Notes along with all operating expenses of the Company, after deduction of income received on the cash deposit account.

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 17 April 2025.

Notes to the financial statements (continued)

For the year ended 31 December 2019

11. Financial risk management (continued)

11.2 Liquidity risk (continued)

As at 31 December 2019

	Up to 1 month £'000	**1-3 months £'000**	**3-12 months £'000**	**1-5 years £'000**	**Over 5 years £'000**	**Total £'000**
Principal						
Debt securities in issue	**-**	**-**	**-**	**-**	**60,000**	**60,000**
Other payables	**-**	**40**	**24**	**-**	**-**	**64**
Interest						
Interest payable on Debt securities in issue	**1,861**	**-**	**5,577**	**29,480**	**3,810**	**40,728**
	1,861	**40**	**5,601**	**29,480**	**63,810**	**100,792**

As at 31 December 2018

	Up to 1 month £'000	1-3 months £'000	3-12 months £'000	1-5 years £'000	Over 5 years £'000	Total £'000
Principal						
Debt securities in issue	-	-	-	-	60,000	60,000
Other payables	-	24	16	-	-	40
Interest						
Interest payable on Debt securities in issue	1,861	-	5,570	29,810	11,314	48,555
	1,861	24	5,586	29,810	71,314	108,595

11.3 Interest rate risk

Interest rate risk exists where assets and liabilities have interest rates set under different bases and/or which reset at different times.

The cash and cash equivalents and the Notes are exposed to interest rate cash flow risk caused by floating interest rates that are reset periodically. The Company minimises its exposure to interest rate risk by ensuring that the interest rate characteristics of assets and liabilities are similar. During the year, this was achieved through the inclusion of a Libor shortfall amount in the Financial Guarantee that matched the interest rate and reset date of the Notes. The Financial Guarantee payment is designed to vary to remove any interest rate risk.

11.4 Fair values of financial assets and liabilities

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, other than in a forced or liquidation sale.

Fair value of financial assets carried at fair value

The valuations of financial instruments have been classified into three levels according to the quality and reliability of information used to determine the fair values.

Other financial instruments held at amortised cost

The debt securities in issue, 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.

Notes to the financial statements (continued)
For the year ended 31 December 2019

11. Financial risk management (continued)

11.4 Fair values of financial assets and liabilities (continued)

Fair value hierarchy

Level 1 portfolios

Level 1 fair value measurements are those derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as Level 1 predominantly comprise listed equity shares, treasury bills and other government securities.

Level 2 portfolios

Level 2 valuations are those where quoted market prices are not available, for example where the instrument is traded in a market that is not considered to be active or valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable data.

Level 3 portfolios

Level 3 portfolios are those where at least one input which could have a significant effect on the instrument's valuation is not based on observable market data. Such instruments are valued using various valuation techniques that require significant management judgment in determining appropriate assumptions, including earnings multiples and estimated future cash flows.

The tables below provide an analysis of the financial assets of the Company that are carried at fair value in the Company's Balance sheet, grouped into Levels 1 to 3 based on the degree to which the inputs to fair value are observable.

At 31 December 2019	**Level 1 £'000**	**Level 2 £'000**	**Level 3 £'000**	**Total £'000**
Derivative financial assets	**-**	**-**	**4,717**	**4,717**
Derivative financial liabilities	**-**	**-**	**(4,717)**	**(4,717)**
	-	**-**	**-**	**-**

At 31 December 2018	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Derivative financial assets	-	-	1,630	1,630
Derivative financial liabilities	-	-	(1,630)	(1,630)
	-	-	-	-

Notes to the financial statements (continued)
For the year ended 31 December 2019

11. Financial risk management (continued)

11.4 Fair values of financial assets and liabilities (continued)

Fair value hierarchy (continued)

Level 3 portfolios (continued)

The following table shows the reconciliation from the opening balances to the closing balances for fair value movement in Level 3 of the fair value hierarchy:

	Derivative financial assets £'000	**Derivative financial liabilities £'000**	**Total £'000**
At 1 January 2019	**(1,630)**	**1,630**	**-**
Gains/(losses) recognised in: - Statement of Comprehensive income	**6,347**	**(6,347)**	**-**
At 31 December 2019	**4,717**	**(4,717)**	**-**

	Derivative financial assets £'000	Derivative financial liabilities £'000	Total £'000
At 1 January 2018	(2,762)	2,762	-
Gains/(losses) recognised in: - Statement of Comprehensive income	4,392	(4,392)	-
At 31 December 2018	1,630	(1,630)	-

The valuation is principally derived from Lloyds implementation of the Large Homogeneous Pool approximation method (Vasicek 1987) for the loss distribution of the portfolio under a Single Factor Model. The inputs to the model include: (a) the blended credit default swaps rate ("CDS") for the underlying portfolio; (b) the base correlation at the tranche detachment point; (c) the relevant GBP Libor curve; and (d) the scheduled premium payment dates, under the terms of the Financial Guarantee, for the remaining period.

The valuation includes a Model Reserve Adjustment Amount, which is added to the valuation produced by the model, and is calculated by flexing the base correlation set at the inception of the transaction to build in additional conservatism by allowing for movement in the base correlation over time.

The blended CDS of the underlying pool is based upon the weighted average of the loan-by-loan CDS. Each loan CDS is mapped from public CDS indices or internal sector CDS indices, based on the obligor internal rating and the transaction maturity. The internal sector indices, when applicable, are estimated using public bond asset-swap spreads after deducting an assumed funding component.

11. Financial risk management (continued)

11.4 Fair values of financial assets and liabilities (continued)

Fair value hierarchy (continued)

Level 3 portfolios (continued)

The base correlation drives the sensitivity of the first loss note to the underlying portfolio CDS. There is further information in publicly available sources (such as www.markit.com) who publish base correlation values for tranches on credit indices (tranche composites). At 31 December 2018, the valuation set out in this document is based upon a base correlation which was calibrated at issuance date and kept under review. During 2019, the basis of the valuation changed to a base correlation which is calibrated dynamically, based on the regression of tranche composites of a market comparable index (iTraxx Europe).

Sensitivity of Level 3 Valuations

Although the Company believes that its estimates of fair value are appropriate, the use of different methodologies or assumptions could lead to different measures of fair value.

In respect of the Financial Guarantee between the Company and Lloyds, and the equal and opposite embedded derivative, reasonably possible alternative valuations have been calculated by flexing the assumption around the obligor internal ratings in the reference portfolio.

This is on the basis that a movement in the internal rating is an updated assessment of the likelihood of default on the Reference Portfolio and the expected loss on the Financial Guarantee. The sensitivity is determined by moving the rating unfavourably by either one or three notches on the entire Reference Portfolio (2018: two notches both favourably and unfavourably on a portion of the Reference Portfolio).

Alternative valuations have also been assessed by flexing the assumption on the input base correlation, (the Heterogeneous Method). This attempts to capture potential market movements beyond the model assumptions. The sensitivity is determined by moving the base correlation both favourably and unfavourably by a certain percentage. At 31 December 2018, the sensitivity was determined by moving the base correlation both favourably and unfavourably by 10%. Given the change to a base correlation which is calibrated dynamically during 2019, at 31 December 2019, the sensitivity is determined by moving the base correlation both favourably and unfavourably by 5%.

For fair value measurements in Level 3 of the fair value hierarchy, changing one or more of the unobservable inputs to reasonably possible alternative assumptions would have the following effects:

			As at 31 December 2019			
			Effect of reasonably possible alternative assumptions			
			Large Homogeneous Pool Approximation Method		Heterogeneous Method	
		Carrying value £'000	Internal Rating from Internal Sector CDS Indices		Base correlation 5%	
			Increase £'000	Decrease £'000	Increase £'000	Decrease £'000
Financial Assets	Model valuation	**4,566**	**(9,898)**	**-**	**707**	**(608)**
	Model reserve	**151**				
		4,717				
Financial Liabilities	Model valuation	**(4,566)**				
	Model reserve	**(151)**	**9,898**	**-**	**(707)**	**608**
		(4,717)				

Notes to the financial statements (continued)
For the year ended 31 December 2019

11. Financial risk management (continued)

11.4 Fair values of financial assets and liabilities (continued)

Sensitivity of Level 3 Valuations (continued)

			As at 31 December 2018			
			Effect of reasonably possible alternative assumptions			
			Large Homogeneous Pool Approximation Method		Heterogeneous Method	
		Carrying value £'000	Internal Rating from Internal Sector CDS Indices		Base correlation 10%	
			Increase £'000	Decrease £'000	Increase £'000	Decrease £'000
Financial Assets	Model valuation	1,989	1,422	(519)	(3,855)	3,848
	Model reserve	(359)				
		1,630				
Financial Liabilities	Model valuation	(1,989)	(1,422)	519	3,855	(3,848)
	Model reserve	359				
		(1,630)				

11.5 Right of offset

Financial assets and liabilities are offset and the net amount reported in the Balance Sheet when there is a legally enforceable right of set-off and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously. In certain situations, even though master netting agreements exist, the lack of management intention to settle on a net basis results in the financial assets and liabilities being reported gross on the Balance Sheet.

Pursuant to the financial guarantee, in return for the payment of guarantee fee amounts by the Beneficiary to the Company, the Company agrees to pay protection payment amounts to the Beneficiary if credit events occur in respect of Reference Obligations comprised in the Reference Portfolio, subject to satisfaction of certain conditions as described in the financial guarantee.

Pursuant to the credit protection agreement, the Company has partially hedged its exposure to Credit Events which occur in respect of the same Reference Obligations referred to above. In return for the payment of credit protection fee amounts by the Company to the Beneficiary, the Beneficiary agrees to pay protection payment amounts to the Company, which are equal to 5% of the protection payment amounts payable by the Company to the Beneficiary under the financial guarantee, as noted above.

Any payments due under the financial guarantee will be netted against any payments due under the terms of the credit protection agreement.

12. Post balance sheet events

in the period subsequent to the balance sheet date, the Company has received 1 Credit Event Notice where the Conditions to Settlement have been met. Accordingly the Company will pay an Initial Loss Amount totalling £11,000 on the Note Payment Date falling in October 2020. The collateral on deposit recognised within cash and cash equivalents to redeem the Notes, at the date of signing these accounts, has remained at £60,000,000.

Since the balance sheet date there has been a global pandemic from the outbreak of Covid-19 which is causing widespread disruption to financial markets and normal patterns of business activity across the world, including the UK. The Directors assess this event to be a non-adjusting post balance sheet event. In view of its currently evolving nature, the Directors are unable to estimate its financial and other effects.

13. Future developments

The following pronouncement will be relevant to the Company but was not effective at 31 December 2019 and has not been applied in preparing these financial statements.

Pronouncement	Nature of change	Effective date
Minor amendments to other accounting standards	The IASB has issued a number of minor amendments to IFRSs (including IFRS 3 Business Combinations and IAS 1 Presentation of Financial Statements).	Annual periods beginning on or after 1 January 2020

The full impact of this pronouncement is being assessed by the Company. However, the initial view is that this is not expected to cause any material adjustments to the reported numbers in the financial statements.

14. Ultimate parent undertaking and controlling party

The entire issued share capital of Salisbury II-A Securities 2017 Limited is held by Intertrust Nominees (Jersey) Limited and Intertrust Nominees 2 (Jersey) Limited, held on trust for charitable purposes.

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 2019.

The parent undertaking, which is the parent undertaking of the smallest group to consolidate these financial statements, is Lloyds. Copies of the consolidated annual report and financial statements of Lloyds 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 its registered office at The Mound, Edinburgh, EH1 1YZ or downloaded via www.lloydsbankinggroup.com.

Independent auditors' report to the members of Salisbury II-A Securities 2017 Limited

Report on the audit of the financial statements

Opinion

In our opinion, Salisbury II-A Securities 2017 Limited's financial statements (the "financial statements"):

- give a true and fair view of the state of the company's affairs as at 31 December 2019 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 (Jersey) Law 1991.

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 2019; the statement of comprehensive income, the cash flow statement, the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

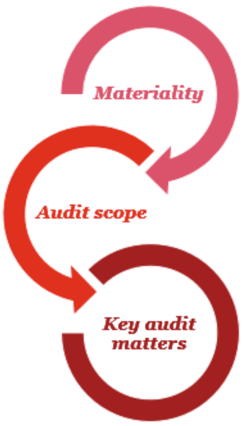
We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit 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, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Our audit approach

Overview



- Overall materiality: £0.7 million (2018: £0.6 million), based on 1% of total assets.

- The company is a special purpose entity that forms part of a securitisation structure established to issue floating rate notes to investors and enter into financial guarantee and credit protection agreements. The notes transfer the risk associated with the financial guarantee and credit protection agreements to external investors. The securitisation structure has been established as a means of providing credit protection for Lloyds Bank plc, a subsidiary of Lloyds Banking Group plc ("LBG") (which is the ultimate controlling party of the company). LBG and its related entities manage the securitisation structure, performing roles including originator and servicer of the underlying loans.
- We tailored the scope of our audit to ensure that we performed sufficient work to enable us to opine on the 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 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;
- Valuation of derivative assets and liabilities; and
- Impact of Covid-19 on the ongoing performance of the company.

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. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

Capability of the audit in detecting irregularities, including fraud

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to the Listing Rules of the International Stock Exchange, as well as underlying contractual documents and agreements governing the securitisation transaction, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the preparation of the financial statements such as the Companies (Jersey) Law 1991. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries. Audit procedures performed by the engagement team included:

- Discussions with management;
- Inspecting minutes of board meetings;
- Review of the transaction documents; and
- Identifying and testing journal entries.

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. Also, 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.

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 The risk is deemed most likely to manifest itself in the manual elements of the control environment, such as journal entries posted as part of the financial reporting process. Management are not considered to be 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 cash received in respect of its assets in order to repay its liabilities, with profit contractually pre-determined. However, management could seek to override controls to otherwise misreport the performance of the securitisation transaction. Based on our assessment of the risk of management override of controls we have focused our audit procedures on journal entries posted as part of the financial reporting process.	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 or gave evidence of management bias. We incorporated elements of unpredictability into our audit approach which included testing a sample of immaterial items from other operating expenses. From the testing performed we have not identified any evidence of actual or suspected fraud or bias as a result of management override of controls.

Key audit matter	How our audit addressed the key audit matter
Valuation of derivative assets and liabilities Under the terms of the securitisation transaction, the company has entered into financial guarantee and credit protection agreements with Lloyds Bank plc to pass loss protection on a reference portfolio of loan assets to Lloyds Bank plc from the noteholders. This loss protection arrangement is recognised as a derivative within the financial statements. There is also an embedded derivative within the notes in issue representing the risk transfer to the noteholders. The valuation of these derivatives principally reflects the creditworthiness of the underlying assets and is based on a combination of observable market data and internal data as well as assumptions applied by management. Any significant changes to the inputs used, the assumptions applied or the valuation methodology could result in a material impact on the valuation of the derivatives.	We understood and evaluated the valuation methodology applied by management in valuing the derivatives held. We engaged valuations experts to re-perform the derivative valuations using management's inputs as at 31 December 2019. We performed testing on the inputs used, and assessed the assumptions applied by management to evaluate whether these were reasonable. We also considered the adequacy of the disclosures regarding the valuations, and their sensitivity to selected inputs. We conclude that management's estimates in respect of the valuation of the derivatives are reasonable in the context of the information available.
Impact of Covid-19 on the ongoing performance of the company In relation to the potential impact of Covid-19 on both the company and calculation of the fair value of the financial guarantee and embedded derivative, refer to page 2 of the strategic report and note 12 of the financial statements. There is a global pandemic of Coronavirus which has taken hold in the UK, where the company operates. The Pandemic has disrupted both financial markets and normal patterns of human behaviour. This is anticipated to translate into an adverse impact on the global economy. In response, the UK government and the Bank of England, have announced measures designed to ameliorate resulting adverse impacts on the economy. The directors have specifically considered the impact on the financial statements, including its impact on their going concern assessment and post balance sheet event disclosures. Their conclusion is that the impacts of Covid-19 are a non-adjusting post balance sheet event, the financial effect of which cannot be reliably estimated at this stage. In addition, the directors have included in their strategic report a disclosure of the impact, as a result of the Covid-19 Pandemic, on using blended credit default swap (CDS) rates as an input to the calculation of the fair value of the financial guarantee and embedded derivative. The application of the blended CDS rates demonstrates the effect of the disruption to financial markets caused by Covid-19 on the underlying Reference Portfolio subsequent to 31 December 2019.	In response to the potential impact of Covid-19, we critically assessed management's conclusion that the matter be treated as a non-adjusting post balance sheet event and that the directors consider the impact of which cannot be reliably estimated at this stage. We considered: • The timing and development of the outbreak across the world; • The timing and nature, in particular, of UK government advice to UK citizens; and • How the financial statements might be impacted by the aforementioned disruption and the complexity in measuring such impacts. In evaluating the directors' going concern assessment, we evaluated whether it considered impacts arising from Coronavirus. Our procedures in this respect included: • Considering the impact of the Pandemic on the company's compliance with underlying transaction documents; • Enquiries of management to understand the current impact of Covid-19 on the company's recent financial performance and business operations; • Obtained and inspected the post-year end credit event notices and verification reports. • Considered whether the pandemic has impacted the credit profile of the ultimate controlling party, LBG, with reference to the transaction documents and required minimum credit ratings; and • Obtained the signed letter of support for the company issued by the ultimate controlling party LBG. We have also evaluated the adequacy management's disclosure in the strategic report surrounding the forward looking impacts of disruptions to financial markets, in particular, on CDS spreads as an input to calculation of the fair value of the financial guarantee and embedded derivative. Based on the work performed, we are satisfied that the matter has been appropriately evaluated and disclosed in the financial statements.

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 processes 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	£0.7 million (2018: £0.6 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 cash received in respect of its assets in order 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 due to the fact that the company has debt listed on the International Stock Exchange and have therefore applied a rule of thumb of 1%.

We agreed with the directors that we would report to them misstatements identified during our audit above £33,225 (2018: £32,000) 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 where:

- 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, 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.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Directors' Responsibilities Statement set out on page 6, the directors are responsible for the preparation of the financial statements 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 Article 113A of the Companies (Jersey) Law 1991 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 (Jersey) Law 1991 exception reporting

Under the Companies (Jersey) Law 1991 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
- proper accounting records have not been kept by the company, or proper 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.

Christopher J Dalton

Christopher Dalton
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants
Edinburgh
28 July 2020