Company Number 10712889

Sky Funding Limited

Annual report and financial statements

For the year ended 31 December 2022

Sky Funding Limited

Annual report and financial statements for the year ended 31 December 2022

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Sky Funding Limited

Officers and professional advisers

Directors

Intertrust Directors 1 Limited
Intertrust Directors 2 Limited
Helena Whitaker

Company secretary and registered office

Intertrust Corporate Services Limited
1 Bartholomew Lane
London
EC2N 2AX

Company number

10712889
(England and Wales)

Independent auditors

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

Strategic report for the year ended 31 December 2022

The directors present the strategic report of Sky Funding Limited (the "Company") for the year ended 31 December 2022.

Principal activities, business review and future developments

The Company, a private limited company, was incorporated on 6 April 2017 in the United Kingdom and registered in England and Wales under the Companies Act 2006.

The Company was established as a special purpose vehicle to raise funding by the entry into a senior facility ("Senior Facility") and subordinated loan agreements ("Subordinated Loan") (together "Loans") and to apply the amounts borrowed under such facilities to acquire the beneficial title to buy-to-let mortgage loans ("Mortgage Loans") secured by first charges over residential properties in England and Wales.

On 10 June 2019 the Company refinanced its Senior Facility from Gresham Receivables (no.44) UK Limited to Barclays Bank Plc ("Senior Lender") by entering into a new senior facility agreement ("Senior Facility") with a total commitment of £437,000,000. On 22 October 2019, with the written consent of the facility agent, the Senior Lender and Intertrust Trustee Limited ("Security Trustee") Sky Luxembourg S.à.r.l. ("Seller") assigned all its rights and obligations under the Subordinated Loan Agreement and the other related transaction documents to Oxalis Holdings S.à.r.l. ("Oxalis"). Subsequently, Oxalis entered into a repurchase transaction in respect of the subordinated loan with Credit Suisse Securities (Europe) Limited ("Credit Suisse").

On 20 April 2020, Oxalis repaid Credit Suisse and on 4 June 2020, Oxalis re-entered into a second repurchase transaction in respect of the Subordinated loan with Credit Suisse.

In April 2021, as per the Assignment and Assumption Agreement, Oxalis as the existing Subordinated Lender assigned to Credit Suisse, the New Subordinated Lender; all rights under the Subordinated Loan Agreement and other transaction documents which are relevant to the Subordinated Lender. The Company also amended and restated the Senior Facility Agreement to extend the final maturity date and amend certain of the commercial terms relating thereto.

On 19 March 2023, UBS agreed to buy Credit Suisse, the Subordinated Lender. Following this, an Assignment and Assumption Agreement was signed under which Credit Suisse as the existing Subordinated Lender assigned to Oxalis, the New Subordinated Lender, all rights under the Subordinated Loan Agreement and other transaction documents which are relevant to the Subordinated Lender.

On 28 April 2023, a Senior Loan Notes Issuance Agreement and a Subordinated Loan Notes Issuance Agreement were entered into, which amended and restated the Senior Facility Agreement and the Subordinated Loan Agreement respectively, extending the final maturity date of both facilities to April 2025.

The directors consider the transaction to result in the Mortgage Loans failing the de-recognition criteria in the books of Sky Luxembourg S.à r.l. ("Seller"). As a result, the acquisition of the Mortgage Loans is accounted for in the Company as a funding transaction, with a deemed loan (the "Deemed Loan") being recognised on the statement of financial position rather than the Mortgage Loans themselves.

At the year end the outstanding principal balance of drawings under the Senior Facility amounted to £204,691,531 (2021: £238,861,004), the Subordinated Loan amounted to £17,900,746 (2021: £20,295,929) and the balance of the Deemed Loan held by the Company amounted to £221,234,839 (2021: £256,557,241). Under the terms of the transaction documentation, the purchase of Mortgage Loans was initially funded exclusively through the Subordinated Loan until certain agreed criteria were met, following which the Senior Facility began to be drawn down (with the Subordinated Loan being subordinate in the priority of payments to the Senior Facility). The Company started to draw under the Senior Facility in January 2018 and stopped drawing in April 2019.

Principal activities, business review and future developments *(continued)*

Mortgage Loans were purchased approximately every two weeks from October 2017 until 8 April 2019.

The directors do not anticipate any changes to the nature of the Company's business in the foreseeable future and there are no current plans to recommence the purchase of new Mortgage Loans.

Results

The total comprehensive income for the financial year was £4,827,847 (2021: £5,251,681) as shown in the statement of comprehensive income on page 11. The profit for the year was mainly due to a fair value movement on the derivative.

Key performance indicators, principal risks and uncertainties

The directors obtain a full breakdown of the performance of the Mortgage Loans on a monthly basis. The principal balance of the Mortgage Loans, a key performance indicator, held by the Company decreased from £253,467,539 at the start of the year to £218,003,773 as at 31 December 2022, due to the net effect of scheduled and unscheduled repayments of the Mortgage Loans.

As at the reporting date, 4 (2021: 2) Mortgage Loans were in arrears. However, as at the signing date, 5 Mortgage Loans were in arrears.

The primary risks facing the Company include credit risk, liquidity risk and interest rate risk. The principal nature of such risks is summarised below.

Macroeconomic environment

The UK currently faces significant economic uncertainty. This uncertainty is greater than historical levels of uncertainty, due to COVID-19, Brexit and geopolitical tensions (heightened following the Russian military invasion of Ukraine). This has resulted in a significant and ongoing increase in cost inflation, increase in Bank of England base rate to 4.50% (as at May 2023) and thereby increased pressure for the Bank of England to continue to increase base rate from an unprecedented low level. All these factors result in increased pressure on affordability and a heightened risk that borrowers may ultimately repay lesser than earlier due to falling income levels, or not be able to make payments at all due to increased unemployment.

While the extent and duration of the effect of this economic uncertainty remains unclear, there is a risk of financial instability for the Company. For example, a detrimental effect on the UK economy may ultimately impact the borrowers' ability to repay the Mortgage Loans, or on the servicer's ability to continue to effectively service the Loans. However, as at the signing date, there has been no material impact from these macroeconomic factors on the Company's financial performance or cash flows. As the Notes are a limited recourse obligation of the Company, the Company is not ultimately exposed if the borrowers are unable to repay the Mortgage Loans.

The Company will continue to monitor the effect these macroeconomic factors have on borrowers' ability to repay their Loans, on UK property prices and therefore, the performance of the Company.

Financial instruments

At the year end, the Company's operations were financed primarily by means of the Senior Facility and the Subordinated Loan. The Company has issued such financial instruments to finance the acquisition of Mortgage Loans. In order to reduce the interest rate risk, the Company has entered into an interest rate swap agreement with Barclays Bank PLC. It is not the Company's policy to trade in financial instruments.

Financial instruments *(continued)*

Credit risk

Credit risk reflects the risk that the underlying borrowers of the Mortgage Loans or other transaction parties will not meet their obligations as they fall due.

The Company's principal business objective rests on the performance of the underlying Mortgage Loans portfolio. As the underlying Mortgage Loans are secured by first charges over residential properties in England and Wales, the Company has considered the evaluation of the borrower's ability to service a loan according to its terms to be the principal factor in assessing the credit risk.

The Company relies on the established credit governance procedures of the originator of the Mortgage Loans (who continues to act as servicer of the Mortgage Loans) and credit and fraud risk monitoring to mitigate the risk of financial loss resulting from customer loan defaults or fraudulent activity. The ongoing credit risk of the mortgage portfolio (and particularly in respect of accounts arrears) is closely monitored through an ongoing assessment of each customer on an individual basis by the servicer and the prevailing macroeconomic environment.

Liquidity risk

Liquidity risk reflects the risk that the Company may encounter difficulty in meeting its obligations associated with its financial liabilities.

The Mortgage Loan is currently financed by drawings under the Senior Facility and the Subordinated Loan. The financing policy substantially reduces the Company's liquidity risk by matching the payment profile of the Company's funding to the payment profile of the Mortgage Loans.

Interest rate risk

Interest rate risk exists where interest rates on assets and liabilities are either set according to different basis or reset at different times.

The Company is exposed to interest rate risk because the Mortgage Loans are subject to variable and fixed interest rates while the Senior Facility is based on a variable interest rate and the Subordinated Loan is based on a fixed rate. In order to reduce this interest rate risk, the Company entered into an interest rate swap agreement with Barclays Bank Plc while refinancing the Senior loan in 2019. In 2022 the Company renewed the interest rate swap agreement with Barclays Bank Plc.

Currency risk

Given the Company trades exclusively in the UK, the Company has no material exposure to foreign exchange rate fluctuations.

Capital management

The Company is not subject to any external capital requirements and complies with the requirements of the Companies Act 2006.

On behalf of the Board

Ian Hancock
Per pro **Intertrust Directors 1 Limited**
As Director
23 May 2023

The directors present their annual report together with the audited financial statements for the year ended 31 December 2022.

Future developments

Information on future developments is included in the principal activities, business review and future developments section of the Strategic report.

Financial risk management

Information on financial risk management is included in the financial instruments section of the Strategic report.

Streamlined Energy and Carbon Reporting

The Company is out of scope of the Streamlined Energy and Carbon Reporting (SECR), as it does not meet the numerical thresholds in relation to turnover and number of employees.

Directors and their interest

The directors of the Company during the year, and up to the date of signing the financial statements, were:

Intertrust Directors 1 Limited
Intertrust Directors 2 Limited
Helena Whitaker

None of the directors have any beneficial interest in the ordinary share capital of the Company (2021: none). None of the directors had any interest during the year in any material contract or arrangement with the Company (2021: none).

The directors do not recommend the payment of a dividend (2021: nil).

Going concern

At the year end, the Company had net assets of £3,740,744 (2021: net liabilities of £1,087,103) as a result of the fair value movements on the derivative. This gain will reverse over the life of the transaction. The transaction is structured in order that the final net asset position of the Company will equate to the accumulated issuer retained profit, as stipulated in the transaction documents.

In order to form a view as to the most appropriate basis of preparation of these financial statements, the directors have assessed the likelihood of whether the Company will be able to continue trading over the foreseeable future versus the likelihood of either intending to or being forced to either cease trading or to place the Company into liquidation.

The ability of the Company to meet its obligations on the Senior Facility and Subordinated Loan and to meet its operating and administrative expenses is dependent principally on the performance of the Mortgage Loans. The Loans are a limited recourse obligation of the Company, secured over the Mortgage Loans, and the Company's ability to pay amounts due on the Loans are, in substance, limited to the application of the receipts from the Mortgage Loans under the terms of the priority of payments (limited recourse).

At the year end, the Company had net current liabilities of £161,927,648 (2021: net current assets £5,618,307) as a result of maturity of the Senior Facility in April 2023.

On 28 April 2023, a Senior Loan Notes Issuance Agreement and a Subordinated Loan Notes Issuance Agreement were entered into, which amended and restated the Senior Facility Agreement and the Subordinated Loan Agreement respectively, extending the final maturity date of both facilities to April 2025.

Going concern *(continued)*

The directors have performed an assessment of going concern. In terms of considering going concern (other than the renewal of the Senior facility), the focus was upon the Company's position in respect of the potential for reduced cash flows to trigger an event of default, amounts that may be deferred per the transaction documents, and the operational resilience of the Company. The directors have concluded, should there be an economic downturn drastic enough to materially impair revenue receipts from the portfolio of Mortgage Loans, the credit enhancement provided to the Company is sufficient to cover interest due on the Loans and the expense obligations of the Company for a period in excess of 12 months following the date of approval of the annual report and financial statements.

The directors note the current level of market volatility arising from events in the global banking market. The directors have considered this and have concluded that this does not change their conclusion regarding going concern. The directors have also concluded that no additional disclosure is needed in the accounts.

The directors are satisfied that the Company will continue to be able to meet its liabilities as they fall due. There has been no materiality deterioration in the performance of Mortgage Loans since year end date. For this reason, the directors have adopted the going concern basis in preparing the financial statements.

Issued share capital

The issued share capital of the Company consists of 1 fully paid ordinary share of £1.

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 reports and financial statements.

Company secretary

Intertrust Corporate Services Limited, acted as the company secretary during the year and subsequently.

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 United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law).

Under company law, 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 United Kingdom Accounting Standards, comprising FRS 102 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.

Statement of directors' responsibilities in respect of the financial statements *(continued)*

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

The directors are also 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.

Directors' confirmations

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

The auditors, PricewaterhouseCoopers LLP, have expressed their willingness to continue in office until the next annual general meeting. Pursuant to section 487 of the Companies Act 2006, a resolution of the shareholder will be passed for the re-appointment of PricewaterhouseCoopers LLP as auditors of the Company.

On behalf of the Board

Ian Hancock
Per pro **Intertrust Directors 1 Limited**

As Director
23 May 2023

Independent auditors' report to the members of Sky Funding Limited

Report on the audit of the financial statements

Opinion

In our opinion, Sky Funding Limited's financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2022 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); 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 Statement of financial position as at 31 December 2022; the Statement of comprehensive income, the Statement of cash flows and 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.

Conclusions relating to going concern

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

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

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

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 our work undertaken in the course of the audit, the Companies Act 2006 requires 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 2022 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, 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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the Company and industry, we identified that the principal risks of non-compliance with laws and regulations related to any breach of the transaction documents associated with the 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 financial statements such as Companies Act 2006. 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 the posting of inappropriate journal entries. Audit procedures performed by the engagement team included:

- Making inquiries to those charged with governance in relation to knowledge of actual, suspected or alleged fraud affecting the entity or suspected instances of non-compliance with laws and regulation
- Testing, on a sample basis, that the priority of payments had been applied in accordance with the transaction documents;
- Testing of the reconciliation of the financial statements to the year end servicer reports and to the bank statements of the Company;
- Testing journals using a risk-based approach and evaluating whether there was evidence of bias.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. 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.

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 obtained 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.

Andrew Batty (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
23 May 2023

Sky Funding Limited

Statement of comprehensive income for the year ended 31 December 2022

	Note	Year ended 31 December 2022 £	Year ended 31 December 2021 £
Interest receivable and similar income	3	5,696,744	5,540,580
Interest payable and similar expenses	4	(5,034,141)	(5,353,991)
Net interest income		662,603	186,589
Change in fair value of derivatives		4,827,037	5,872,646
Operating expenses		(661,603)	(807,364)
Profit before tax	5	4,828,037	5,251,871
Tax on profit	7	(190)	(190)
Profit for the financial year		4,827,847	5,251,681
Other comprehensive income		-	-
Profit and total comprehensive income for the financial year		**4,827,847**	**5,251,681**

All amounts relate to continuing activities.

The accompanying notes on pages 15 to 26 are an integral part of these financial statements.

Statement of changes in equity for the year ended 31 December 2022

	Called up share capital	Profit and loss account	Total shareholders' (deficit)/ funds
	£	£	£
Balance as at 1 January 2021	**1**	**(6,338,785)**	**(6,338,784)**
Profit and total comprehensive income for the financial year	-	5,251,681	5,251,681
Balance as at 31 December 2021	**1**	**(1,087,104)**	**(1,087,103)**
Profit and total comprehensive income for the financial year	-	4,827,847	4,827,847
Balance as at 31 December 2022	**1**	**3,740,743**	**3,740,744**

The accompanying notes on pages 15 to 26 are an integral part of these financial statements.

Statement of financial position as at 31 December 2022

	Note	31 December 2022	31 December 2021
		£	£
Fixed assets			
Deemed Loan	8	182,560,202	229,309,979
Current assets			
Deemed Loan	8	38,674,637	27,247,262
Debtors	9	3,769,578	17,377
Cash at bank and in hand (restricted)		1,728,616	2,776,323
		44,172,831	30,040,962
Creditors: amounts falling due within one year	10	(206,100,479)	(24,422,655)
Net current (liabilities)/assets		(161,927,648)	5,618,307
Total assets less Current liabilities		20,632,554	234,928,286
Creditors: amounts falling due after more than one year	10	(16,891,810)	(236,015,389)
Net assets/(liabilities)		**3,740,744**	**(1,087,103)**
Capital and reserves			
Called up share capital	11	1	1
Profit and loss account	12	3,740,743	(1,087,104)
Total shareholders' surplus/(deficit)		**3,740,744**	**(1,087,103)**

The accompanying notes on pages 15 to 26 are an integral part of these financial statements.

The financial statements on pages 11 to 26 were approved and authorised for issue by the Board on 23 May 2023, and were signed on its behalf by:

Per pro **Intertrust Directors 1 Limited**

Ian Hancock
As Director

Statement of cash flows for the year ended 31 December 2022

	Note	Year ended 31 December 2022	Year ended 31 December 2021
		£	£
Cash flows from operating activities			
Net cash outflow from operating activities	14	(677,768)	(783,928)
Taxation paid		(190)	(190)
Net cash used in operating activities		**(677,958)**	**(784,118)**
Cash flows from investing activities			
Repayment of Deemed Loan		35,464,035	100,246,127
Interest received on Deemed Loan		5,458,317	5,724,054
Net cash generated from investing activities		**40,922,352**	**105,970,181**
Cash flows from financing activities			
Repayment of Senior Facility		(34,169,473)	(88,681,166)
Repayment of Subordinated Loan		(2,395,183)	(18,391,898)
Interest paid on Senior Facility		(4,631,492)	(2,850,337)
Interest received/(paid) on Swap		96,794	(2,514,191)
Interest paid on Subordinated Loan		(192,747)	(264,068)
Net cash used in financing activities		**(41,292,101)**	**(112,701,660)**
Decrease in cash at bank and in hand		(1,047,707)	(7,515,597)
Cash at bank and in hand at the beginning of the year		2,776,323	10,291,920
Cash at bank and in hand at the end of the year		**1,728,616**	**2,776,323**

The accompanying notes on pages 15 to 26 are an integral part of these financial statements.

1. General information

Sky Funding Limited is a private company with limited liability, limited by shares, was incorporated as a special purpose company on 6 April 2017 in the United Kingdom and registered in England and Wales under the Companies Act 2006. The address of its registered office is 1 Bartholomew Lane, London, EC2N 2AX.

2. Accounting policies

Statement of compliance

The financial statements of the Company are prepared on a going concern basis, under the historical cost convention as modified by revaluation of certain financial instruments in accordance with the Companies Act 2006 and applicable accounting standards in the United Kingdom. The Company has adopted and is in compliance with Financial Reporting Standard 102. The accounting policies which have been applied consistently throughout the year to the Company's financial statements are set out below. The directors have adjusted the format of the statement of comprehensive income as allowed under Companies Act 2006. In the opinion of the directors, net interest income is a more appropriate measurement of the Company's performance than turnover and cost of sales.

Basis of preparation: Going concern

At the year end, the Company had net assets of £3,740,744 (2021: net of liabilities £1,087,103) as a result of the fair value loss on the derivative. This loss will reverse over the life of the transaction. The transaction is structured in order that the final net asset position of the Company will equate to the accumulated issuer retained profit, as stipulated in the transaction documents.

In order to form a view as to the most appropriate basis of preparation of these financial statements, the directors have assessed the likelihood of whether the Company will be able to continue trading over the foreseeable future versus the likelihood of either intending to or being forced to either cease trading or to place the Company into liquidation.

The ability of the Company to meet its obligations on the Loans and to meet its operating and administrative expenses is dependent principally on the performance of the Mortgage Loans. The Loans are a limited recourse obligation of the Company, secured over the Mortgage Loans, and the Company's ability to pay amounts due on the Loans are, in substance, limited to the application of the receipts from the Mortgage Loans under the terms of the priority of payments (limited recourse).

At the year end, the Company had net current liabilities of £161,927,648 (2021: net current assets of £5,618,307) as a result of maturity of the Senior Facility in April 2023.

On 28 April 2023, a Senior Loan Notes Issuance Agreement and a Subordinated Loan Notes Issuance Agreement were entered into, which amended and restated the Senior Facility Agreement and the Subordinated Loan Agreement respectively, extending the final maturity date of both facilities to April 2025.

The directors have performed an assessment of going concern. In terms of considering going concern (other than the renewal of the Senior facility), the focus was upon the Company's position in respect of the potential for reduced cash flows to trigger an event of default, amounts that may be deferred per the transaction documents, and the operational resilience of the company. The directors have concluded, should there be an economic downturn drastic enough to materially impair revenue receipts from the portfolio of Mortgage Loans, the credit enhancement provided to the Company is sufficient to cover interest due on the Loans and the expense obligations of the Company for a period in excess of 12 months following the date of approval of the annual report and financial statements.

The directors note the current level of market volatility arising from events in the global banking market. The directors have considered this and have concluded that this does not change their conclusion regarding going concern. The directors have also concluded that no additional disclosure is needed in the accounts.

2 Accounting policies *(continued)*

Basis of preparation: Going concern

The directors are satisfied that the Company will continue to be able to meet its liabilities as they fall due. There has been no materiality deterioration in the performance of Mortgage Loans since year end date. For this reason, the directors have adopted the going concern basis in preparing the financial statements.

Segmental analysis

The Company's operations are carried out in the United Kingdom and the results and net assets are derived from its acquisition of the Mortgage Loans and therefore the directors only report one business and one geographic segment.

Financial instruments

In accordance with Section 11 of Financial Reporting Standard 102, the provisions of IAS 39 have been adopted in full with respect to the recognition and measurement of financial instruments.

Deemed Loan to the seller

Where a transfer of a financial asset does not qualify for derecognition, the transferee does not recognise the transferred asset as its asset. The transferee derecognises the cash or other consideration paid and recognises a receivable from the transferor. In relation to the Mortgage Loans acquired by the Company, de-recognition is considered by the directors of the Company to be inappropriate for the Seller's own financial statements as the Seller has retained significant risks, in the form of the Subordinated Loan, and rewards, in the form of deferred consideration to be paid out, in relation to the Mortgage Loans. The Company's financial statements are therefore prepared on the basis that its acquisitions of beneficial interests in the Mortgage Loans are recognised as a collateralised non-recourse Deemed Loan to the Seller.

Under the terms of the securitisation, the Company is expected to retain £1,000 per annum. This is reflected in the statement of comprehensive income. Available revenue receipts are defined by the transaction documentation and include interest on the Mortgage Loans. Interest on the Mortgage Loans in excess of this is used to fund the reserve fund and the liquidity reserve fund and then subsequently accrues to the Seller as deferred consideration. The payments of deferred consideration are strictly governed by the priority of payments that sets out how cash can be utilised. Premium paid on acquisition of the Mortgage Loans is amortised over the expected life of the transaction and is recovered by the Company through interest income on the Deemed Loan.

The Deemed Loan is classified as "loans and receivables". The Deemed Loan is measured on initial recognition at fair value and is subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in the statement of comprehensive income when there is objective evidence that the Deemed Loan is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

Subsequent increases in recoverable amounts of the Deemed Loan, which can be objectively related to an event occurring after previous impairment losses have been recognised, are recorded in the statement of comprehensive income to the extent previous impairment losses have been taken through the statement of comprehensive income. The reversal shall not result in a carrying amount of the Deemed Loan that exceeds the amortised cost had no impairment been recognised.

2 Accounting policies *(continued)*

Deemed Loan to the seller (continued)

Credit enhancement is provided to the securitisation structure in a number of ways. The income on the Mortgage Loans is expected to exceed the interest payable on the Loans, resulting in 'excess spread'. The principal deficiency ledger mechanism in the structure allows this excess spread to be used to make good any reductions in the principal balance of the Mortgage Loans as a result of defaults by obligors. This means that an impairment in the value of the underlying Mortgage Loans would only result in an impairment in the Deemed loan if the expected level of loss associated with the underlying Mortgage Loans exceeded this credit enhancement.

Senior Facility and Subordinated Loan

The Senior Facility and Subordinated Loan are classified as other financial liabilities and are initially recognised at fair value at the date of issuance of the liability and are subsequently measured at amortised cost using the effective interest rate method.

Cash at bank and in hand

Cash at bank and in hand comprise cash balances. The Company holds deposits with the provider of a transaction bank account. These accounts are held in the Company's name and meet the definition of cash, but their use is restricted by a detailed priority of payments as set out in the transaction documentation. 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.

Derivative financial instruments

The derivative instruments utilised by the Company are interest rate swaps. Such instruments are used for hedging purposes to alter the risk profile of an existing underlying exposure of the Company in line with the Company's risk management policy. Derivative financial instruments are classified as held for trading and recorded at fair value, with any gain or loss on re-measurement being recognised in the statement of comprehensive income. The Company does not enter into speculative derivative contracts. The Company does not apply hedge accounting. The fair value of the derivative instruments swaps is the estimated amount that the Company would receive or pay to terminate the swap at the reporting date and is calculated by discounting future cash flows using observable market data at that date.

Interest receivable and similar income and interest payable and similar expenses

The Company accounts for interest income and expense on an accruals basis. Interest income on financial assets that are classified as loans and receivables and interest expense on financial liabilities is determined using the effective interest rate method. The effective interest rate method is a method of calculating the amortised cost of a financial asset or financial liabilities and of allocating the interest income or interest expense over the expected life of the asset or liability. The effective interest rate is the rate that exactly discounts estimated future cash flows to the instrument's initial carrying amount. In calculating the effective interest rate the Company estimates the cash flows considering all contracted terms but not future credit losses. Premium paid on the purchase of the Mortgage Loans, which is incorporated into the Deemed loan balance, is being amortised over the expected combined life of the underlying Mortgage Loans and is recovered by the Company through interest income on the Deemed Loan. Directly attributable issue costs on the Senior Facility are amortised over the expected combined life of the Senior Facility and the Subordinated Loan as part of the effective interest rate and are recovered by the Company through interest income on the Deemed Loan.

2 Accounting policies *(continued)*

Taxation

The directors are satisfied that this Company meets the definition of a 'securitisation company' as defined by both The Finance Act 2005 and the subsequent secondary legislation and that no incremental unfunded tax liabilities will arise. As a result, no deferred tax amounts are recognised.

Under the powers conferred by The Finance Act 2005, secondary legislation was enacted in 2006 which ensures that, subject to certain conditions being met and an election being made, for periods commencing on or after 1 January 2007, corporation tax for a 'securitisation company' will be calculated by reference to the profit of the securitisation company required to be retained in accordance with the relevant capital market arrangement.

Use of estimates and judgements

The preparation of the financial statements requires management to make judgements, estimates and assumptions that may affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The judgement involved in the Company's accounting policies that is considered by the directors to be the most important to the portrayal of the Company's financial condition is the accounting for the Deemed loan to the Seller.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revision to accounting estimates are recognised in the year in which the estimate is revised if the revision affects only that year or in the year of the revision and future years if the revision affects both current and future years. The significant estimates involved in the preparation of these financial statements is as follows:

Fair value of derivative

Fair values are used in these financial statements for recognition and disclosure purposes.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable and willing parties in an arm's length transaction. The existence of published price quotations in an active market is the best evidence of fair value and, when they are available, they are used. If the market for a financial instrument is not active, fair value is established using a valuation technique. Fair value represents point-in-time estimates that may change in subsequent reporting years due to market conditions or other factors.

The fair value of derivatives is calculated as the present value of their estimated future cash flows based on forward interest rates and the estimated redemption profile of the underlying mortgage loan portfolio. The directors rely on Barclays Bank Plc for this valuation.

3 Interest receivable and similar income

	Year ended 31 December 2022	Year ended 31 December 2021
	£	£
Interest receivable on Deemed Loan	5,599,950	5,793,369
Amortisation of loan purchase premium	-	(252,789)
Interest Receivable on Swap	96,794	-
	5,696,744	**5,540,580**

4 Interest payable and similar expenses

	Year ended 31 December 2022	Year ended 31 December 2021
	£	£
Interest payable on Senior Facility	4,766,824	2,528,629
Interest payable on Subordinated Loan	192,381	236,441
Amortisation of issue costs	74,936	74,730
Interest payable on swap	-	2,514,191
	5,034,141	**5,353,991**

5 Profit before taxation

	Year ended 31 December 2022	Year ended 31 December 2021
This has been arrived at after charging:	£	£
Auditors' remuneration – audit services (excl. VAT)	**43,500**	**38,500**

There were no non-audit services provided during the year. (2021: none)

6 Directors and employees

The Company has no employees (2021: none) and services required are contracted from third parties.

The directors received no remuneration from the Company in respect of qualifying services rendered during the current year (2021: none).

During the year fees of £31,235 (2021: £69,662) were paid to Intertrust Management Limited for the provision of corporate administration services fees provided to the Company. At the year-end, corporate services fees of £nil (2021: £nil) were payable and £14,344 (2021: £nil) were prepaid.

7 Tax on profit

a) Analysis of the Company tax charge in the year

	Year ended 31 December 2022	Year ended 31 December 2021
	£	£
UK corporation tax on the profit for the year at current tax charge at 19% (2021: 19%)	**190**	**190**

7 Tax on profit *(continued)*

b) Factors affecting the Company current tax charge for the year

The tax assessed for the year is lower than (2021: lower than) the standard rate of corporation tax in the UK. A reconciliation of factors affecting the Company current tax charge is presented below:

	Year ended 31 December 2022	**Year ended 31 December 2021**
	£	**£**
Profit before taxation	**4,828,037**	**5,251,871**
Current tax charge at 19% (2021:19%)	917,327	997,855
Accounting profit not taxed in accordance with SI 2006/3296	(917,327)	(997,855)
Cash retained profit taxed in accordance with SI 006/3296	190	190
Total tax charge	**190**	**190**

For UK corporation tax purposes, the Company has been considered as a securitisation company under the 'Taxation of Securitisation Companies Regulations 2006 (SI 2006/3296)'. Therefore, the Company is not required to pay corporation tax on its accounting profit or loss. Instead, the Company is required to pay tax on its retained profits as specified in the documentation governing the transaction. In accordance with the transaction documents the Company is expected to retain £1,000 per annum.

8 Deemed Loan

	31 December 2022	**31 December 2021**
	£	**£**
Book value		
Opening Deemed Loan balance	256,557,241	356,986,842
Repayments of Deemed Loan during the year	(35,464,035)	(92,677,156)
Movement in Deemed Loan interest receivable	141,364	(7,415,718)
Amortisation of loan purchase premium	269	(336,727)
Closing balance	**221,234,839**	**256,557,241**

The maturity profile of the Deemed Loan at year end was as follows:

	31 December 2022	**31 December 2021**
	£	**£**
Deemed Loan due in more than one year	182,560,202	229,309,979
Deemed Loan due within one year	38,674,637	27,247,262
	221,234,839	**256,557,241**

9 Debtors

	31 December 2022	31 December 2021
	£	£
Other debtors	8,219	17,377
Prepaid expenses	25,274	-
Derivative financial instrument	3,736,085	-
	3,769,578	**17,377**

10 Creditors

	31 December 2022	31 December 2021
	£	£
Amounts falling due within one year:		
Senior Facility	204,691,531	22,495,884
Interest payable on Senior Loan	184,128	48,796
Subordinated Loan	1,008,936	1,661,676
Interest payable on Subordinated Loan	76,765	77,131
Other creditors	48,206	-
Corporation Tax	190	190
Accruals and deferred income	90,723	138,978
	206,100,479	**24,422,655**
Amounts falling due after more than one year:		
Senior Facility	-	216,365,120
Subordinated Loan	16,891,810	18,634,253
Capitalised issue costs	-	(74,936)
Derivative financial instruments	-	1,090,952
	16,891,810	**236,015,389**

11 Called up share capital

	31 December 2022	31 December 2021
	£	£
Issued, called up and allotted		
1 ordinary shares of £1 each: 1 fully paid (2021: 1)	1	1

The Company is not subject to any external capital requirements and complies with the requirements of the Companies Act 2006.

12 Profit and loss account

	31 December 2022	31 December 2021
	£	£
Opening balance	(1,087,104)	(6,338,785)
Profit for the financial year	4,827,847	5,251,681
Closing balance	**3,740,743**	**(1,087,104)**

13 Financial instruments

The Company's exposure to risks on its financial instruments and the management of such risks are largely determined from the inception of the securitisation transaction. The Company's activities and the role of each party to the transaction are clearly defined and documented.

Following initial set-up, the directors monitor the Company's performance, reviewing reports on the performance of the Mortgage Loans. Such review is designed to ensure that the terms of the documentation have been met, that no unforeseen risks have arisen and that lenders have been paid on a timely basis.

Credit risk

The ability of the Company to meet its obligations to make principal and interest payments on the Senior Facility and the Subordinated Loan and to meet its operating and administrative expenses is dependent on the extent that it has such amounts available to it.

The maximum exposure to credit risk arising on the Company's financial assets at the reporting date is disclosed in the table below.

	Carrying value 2022 £	Maximum exposure 2022 £	Carrying value 2021 £	Maximum exposure 2021 £
Deemed Loan	221,234,839	221,234,839	256,557,241	256,557,241
Cash at bank and in hand	1,728,616	1,728,616	2,776,323	2,776,323
Other debtors	8,219	8,219	17,377	17,377
	222,971,674	**222,971,674**	**259,350,941**	**259,350,941**

Credit risk on the Deemed Loan is considered to be minimal because the credit losses on the underlying Mortgage Loans are not expected to exceed the amount of the credit enhancement represented by the excess spread on the Mortgage Loans, which is available to the Company to cover principal losses on the underlying Mortgage Loans, before being used to pay deferred consideration to the Seller.

At the reporting date, the principal balance of the Mortgage Loans, held by the Company decreased from £253,467,539 at the start of the year to £218,003,773 as at 31 December 2022, due to the net effect of scheduled and unscheduled repayments of the Mortgage Loans.

As at the reporting date 4 (2021: 2) mortgage loans were in arrears and there is no impairment on the Mortgage Loans (2021: no impairment).

Liquidity risk

Liquidity risk reflects the risk that the Company may encounter difficulty in meeting its obligations associated with its financial liabilities.

The Deemed Loan is financed by a Senior Facility and a Subordinated Loan. The financing policy substantially reduces the Company's liquidity risk by matching the payment profile of the Company's funding to the payment profile of the Deemed Loan.

The table below reflects the expected undiscounted cash flows of financial liabilities at the reporting date of financial instruments.

13 Financial instruments *(continued)*

Liquidity risk *(continued)*

As at 31 December 2022	Carrying value	Gross cash flow	In less than 1 month	After 1 month but within 3 months	After 3 months but within 1 year	After 1 year but within 5 year	After 5 years
	£	£	£	£	£	£	£
Senior Facility	204,691,531	204,691,531	858,003	1,716,006	202,117,522	-	-
Subordinated Loan	17,900,746	17,900,746	84,078	168,156	756,702	16,891,810	-
Interest payable on Subordinated Loan	76,765	230,964	14,633	28,311	132,485	55,535	-
Interest payable on Senior Facility	184,128	4,413,038	369,486	711,346	3,332,206	-	-
Total at 31 December 2022	**222,853,170**	**227,236,279**	**1,326,200**	**2,623,819**	**206,338,915**	**16,947,345**	**-**

As at 31 December 2021	Carrying value	Gross cash flow	In less than 1 month	After 1 month but within 3 months	After 3 months but within 1 year	After 1 year but within 5 years	After 5 years
	£	£	£	£	£	£	£
Senior Facility	238,861,004	238,861,004	1,874,657	3,749,314	16,871,913	216,365,120	-
Subordinated Loan	20,295,929	20,295,929	138,473	276,946	1,246,257	18,634,253	-
Interest payable on Subordinated Loan	77,131	258,705	16,682	32,031	149,240	60,752	-
Interest payable on Senior Facility	48,796	2,591,790	195,185	318,588	1,481,240	596,777	-
Total at 31 December 2021	**259,282,860**	**262,007,428**	**2,224,997**	**4,376,879**	**19,748,650**	**235,656,902**	**-**

On 28 April 2023, a Senior Loan Notes Issuance Agreement and a Subordinated Loan Notes Issuance Agreement were entered into, which amended and restated the Senior Facility Agreement and the Subordinated Loan Agreement respectively, extending the final maturity date of both facilities to April 2025.

Market risk

Market risk is defined as potential loss in value or earnings of an organisation arising from changes in external market factors.

The Company is exposed to market risk in the form of interest rate risk.

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 is exposed to interest rate risk because the underlying Mortgage Loans are subject to variable and fixed interest rates while the Senior Facility is based on a variable interest rate. In order to reduce this interest rate risk, initially the Company entered into an interest rate swap agreement with Lloyds Bank Plc, but during 2019 while refinancing the Senior loan, the Company entered into a new swap agreement with Barclays Bank Plc. In 2022 the Company renewed the interest rate swap agreement at a notional amount of £174,902,992 with Barclays Bank Plc.

13 Financial instruments *(continued)*

Interest rate risk *(continued)*

Interest on the liabilities is determined and payable monthly in arrears at the following rates.

	31 December 2022	31 December 2021	Interest rate
	£	£	
Senior Facility	204,691,531	238,861,004	SONIA + 0.80%
Subordinated Loan	17,900,746	20,295,929	1%
	222,592,277	**259,156,933**	

Currency profile

All of the Company's financial assets and liabilities are denominated in GBP.

Fair value of financial assets and liabilities

The only financial instruments included in the Company's statement of financial position that are measured at fair value are derivative transactions. The notional of the derivative is directly linked to the outstanding Mortgage Loans balance and the fair value is calculated by discounting future cash flows using appropriate and, where available, observable market data. The valuation therefore falls within level 3 of the fair value hierarchy.

The directors consider that the carrying amounts of all other financial assets and liabilities approximate to their fair values.

14 Net cash outflow from operating activities

	Year ended 31 December 2022	Year ended 31 December 2021
	£	£
Profit before taxation	4,828,037	5,251,871
Interest on Deemed Loan	(5,568,421)	(5,793,369)
Amortisation of loan purchase premium	(31,529)	252,788
Interest paid on Senior Facility	4,766,824	2,528,629
Interest on Subordinated Loan	192,381	236,441
Interest paid on swaps	(96,794)	2,514,191
Amortisation of issue cost	74,936	74,731
(Decrease)/increase in creditors	(48,255)	24,847
Decrease/(increase) in debtors	32,090	(1,411)
Movement in fair value of derivatives	(4,827,037)	(5,872,646)
Net cash outflow from operating activities	**(677,768)**	**(783,928)**

15 Analysis of changes in net debt

	As at 31 December 2021	Cashflow	Other Changes	As at 31 December 2022
	£	£	£	£
Cash at bank and in hand (restricted)	2,776,323	(1,047,707)		1,728,616
Book value of Notes	(259,156,933)	36,564,656	-	(222,592,277)
Issue Costs	74,936	-	(74,936)	-
Net Debt	**(256,305,674)**	**35,516,949**	**(74,936)**	**(220,863,661)**

	As at 31 December 2020	Cashflow	Other Changes	As at 31 December 2021
	£	£	£	£
Cash at bank and in hand (restricted)	10,291,920	(7,515,597)	-	2,776,323
Book value of Notes	(366,229,997)	107,073,064	-	(259,156,933)
Issue Costs	149,667	-	(74,731)	74,936
Net Debt	**(355,788,410)**	**99,557,467**	**(74,731)**	**(256,305,674)**

16 Controlling party

The entire share capital of the Company is held by the legal parent company, Intertrust Corporate Services Limited, a company incorporated in the United Kingdom and registered in England and Wales, which holds the share on a discretionary trust basis under a declaration of trust for the benefit of certain charities.

Intertrust Corporate Services Limited is a wholly owned subsidiary of Intertrust Management Limited.

For accounting purposes, the immediate controlling party under Financial Reporting Standard 102 (Section 9) is considered to be Sky Luxembourg S.a r.l., a private company incorporated in Luxembourg, on the basis that this entity retains the majority of the ownership risks of the Mortgage Loans. The Ultimate Controlling Company is PIMCO BRAVO Fund III, LP, a Delaware incorporated entity. The Company is not consolidated on a line-by-line basis in the financial statements of any direct or indirect parent.

17 Related party transactions

During the year fees of £31,235 (2021: £69,662) were paid to Intertrust Management Limited for the provision of corporate administration services fees provided to the Company. At the year-end, corporate services fees of £nil (2021: £nil) were payable and £14,344 (2021: £nil) were prepaid.

The Deemed Loan balance of £221,234,839 (2021: £256,557,241) is receivable from Sky Luxembourg S.a.r.l. During the year, the Company received interest on Deemed Loan of £5,599,950 (2021: £5,793,369). At the year end, the outstanding balance of interest receivable on Deemed Loan was nil (2021: nil).

18 Post Balance Sheet Events

On 19 March 2023, UBS agreed to buy Credit Suisse, the Subordinated Lender. Following this, an Assignment and Assumption Agreement was signed under which Credit Suisse as the existing Subordinated Lender assigned to Oxalis, the New Subordinated Lender, all rights under the Subordinated Loan Agreement and other transaction documents which are relevant to the Subordinated Lender.

On 28 April 2023, a Senior Loan Notes Issuance Agreement and a Subordinated Loan Notes Issuance Agreement were entered into, which amended and restated the Senior Facility Agreement and the Subordinated Loan Agreement respectively, extending the final maturity date of both facilities to April 2025.