

Registered number: 11418651

ZEPHYR FUNDING LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE PERIOD FROM 15 JUNE 2018 (Date of Incorporation) TO 30 JUNE 2019



ZEPHYR FUNDING LIMITED

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ZEPHYR FUNDING LIMITED

COMPANY INFORMATION

| | |
|-----------------------------|--|
| Directors | Vinoy Nursiah (appointed 15 June 2018) CSC Directors (No.1) Limited (appointed 15 June 2018) CSC Directors (No.2) Limited (appointed 15 June 2018) |
| Company secretary | CSC Corporate Services (UK) Limited |
| Registered number | 11418651 |
| Registered office | Level 37 25 Canada Square Canary Wharf London E14 5LQ |
| Independent auditors | PricewaterhouseCoopers LLP 7 More London Riverside London SE1 2RT |
| Bankers | Citibank Citigroup Centre Canada Square Canary Wharf London E14 5LB |
| Trustee | Citicorp Trustee Company Ltd Citigroup Centre Canada Square Canary Wharf London E14 5LB |

ZEPHYR FUNDING LIMITED

STRATEGIC REPORT FOR THE PERIOD ENDED 30 JUNE 2019

Introduction

The directors present the Strategic Report, together with the audited financial statements of Zephyr Funding Limited (the "Company") for the period from 15 June 2018 to 30 June 2019.

Principal activities, business review and future developments

The Company was incorporated on 15 June 2018 as a special purpose vehicle for the purpose of acquiring and managing financial assets, including, principally, purchasing mortgage loans and related security. On 17 September 2018, the Company acquired a series of UK residential buy-to-let mortgages (the "Mortgage Loans") from Topaz Finance Ltd (the "Seller" and whom also act as the servicer of the Mortgage Loans). The Mortgage Loans are secured by residential properties located in England and Wales. The Company purchases additional mortgages from the Seller on an ongoing basis pursuant to an underlying asset purchase agreement. The Company is funded through borrowings pursuant to a Senior Loan Agreement (the "Senior Loan") with Citibank N.A. London Branch (the "Senior Loan Provider").

The sale of the Mortgage Loans by the Seller to the Company are deemed to have achieved derecognition under the financial reporting standard IAS 39: Financial Instruments: Recognition and Measurement. This is by virtue of significantly all of the risks and rewards of the Mortgage Loans being adjudged to have been transferred to the Company upon sale. It follows therefore that the Mortgage Loans have been recognised directly in the Balance Sheet of the Company.

At the end of the reporting period, the total outstanding balance of the Mortgage Loans purchased by the Company from the Seller amounted to £12,136,883.

The Directors do not anticipate any changes to the nature of the Company's business in the foreseeable future whilst Mortgage Loan purchases are expected to increase. The initial limit of the Senior Loan is set at £350m, subject to any cross-party agreement to amend this limit in the future.

On 23 June 2016, the UK voted to exit the European Union. It is difficult to determine the financial impact at this stage of any eventual exit, however general market conditions may slow in the short to medium term which could impact the performance of the Mortgage Loans. This is not expected to have any effect on the Company's ability to trade as a going concern, given the limited recourse nature of the Senior Loan. The directors will continue to closely monitor the impact of the decision on the UK economy and therefore on the Company.

Financial key performance indicators

Given the nature of the Company's activities, the Directors consider the performance of the Mortgage Loans portfolio to be the key performance indicator for the Company and the related borrowing under the Senior Loan. The balance of the Mortgage Loans was £12,136,883 as at 30 June 2019 and no related impairment provisions were recognised against the portfolio.

At the financial period end the balance of the Senior Loan outstanding amounted to £14,709,804 (including £1,844,706 relating to a general reserve ledger initially funded by the Senior Loan Provider).

ZEPHYR FUNDING LIMITED

STRATEGIC REPORT (CONTINUED) FOR THE PERIOD ENDED 30 JUNE 2019

Principal risks and uncertainties

Financial Instruments

The Company's operations are financed primarily by the Senior Loan. The Company issued such financial instruments to finance the acquisition of the Mortgage Loans. Topaz Finance Ltd administers the Mortgage Loans under a servicer agreement with the Company. In administering the Mortgage Loans, the Seller applies its own formal risk management and control procedures with respect to the day-to-day management of the portfolio.

Credit Risk

Credit risk reflects the risk that the underlying borrowers or other transaction parties will not meet their obligations as they fall due. The Company purchased the Mortgage Loans in adherence with an underlying asset purchase agreement and stated eligibility criteria therein. These criteria are in place to manage the credit risk of the Mortgage Loans that the Company is exposed to

Liquidity Risk

Liquidity risk is defined as the risk of being unable to fulfil current or future payment obligations in full on the due date. The objective of the Company's liquidity management is to ensure the sufficient funds are available to meet the Company's commitments. Liquidity risk is minimised by the fact that the collateral underlying the Mortgage Loans is deemed to be of a good quality and provide a steady cash flow for the Company to discharge all expenses. Liquidity risk is also minimised by the fact that repayments are made on the Senior Loan only to the extent that funds are available on the basis of limited recourse. The Company can also use the general reserve fund to manage any remaining liquidity risk.

Market Risk

Market risk refers to the potential loss arising from changes in interest rates, foreign currency rates, price or rate volatilities and other market rates and prices such as commodity prices. The Company is not exposed to currency risk as all its financial instruments are denominated in GBP (£).

The Company is not exposed to interest rate risk due to the fact that the Senior Loan is a profit participating loan therefore interest paid on this loan is not at a fixed rate but is determined in relation to the accumulated net profits in the financial period and paid to the extent that funds are available under an agreed priority of payments distribution for interest receipts.

Furthermore, the Company is also party to an interest rate swap agreement with the Senior Loan Provider. Whilst the fair value measurement of this derivative in the balance sheet may result in temporary volatility in the financial statements, the effects of this would be expected to unwind over the life of the swap.

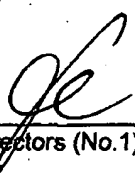
Capital risk management

The Company is not subject to any external capital requirements except for the minimum requirement under the Companies Act 2006. The Company has not breached the minimum requirement.

ZEPHYR FUNDING LIMITED

**STRATEGIC REPORT (CONTINUED)
FOR THE PERIOD ENDED 30 JUNE 2019**

This report was approved by the board and signed on its behalf.


CSC Directors (No.1) Limited
Director

Date: 20 December 2019

ZEPHYR FUNDING LIMITED

DIRECTORS' REPORT FOR THE PERIOD ENDED 30 JUNE 2019

The directors present their annual report together with the audited financial statements for the Period from 15 June 2018 (date of incorporation) to 30 June 2019.

Corporate governance

The directors have been charged with governance in accordance with the underlying transaction documents describing the structure and operation of the transaction. The governance structure of the Company is such that the key activities have been predetermined at the time of issuance and the operational roles have been assigned to third parties and are strictly governed by the corresponding transaction documents concerning those roles.

The transaction documents provide for procedures that have been designed for safeguarding assets against unauthorised use or disposition, for maintaining proper accounting records, and for the reliability and usefulness of financial information used in the business or for publication. Such procedures are designed to manage rather than eliminate the risk of failure, to achieve business objectives whilst enabling them to comply with all statutory obligations.

Share capital

The issued share capital consists of 1 ordinary share of £1.

Directors' and company shareholdings

The directors who served during the period were:

Vinoy Nursiah (appointed 15 June 2018)
CSC Directors (No.1) Limited (appointed 15 June 2018)
CSC Directors (No.2) Limited (appointed 15 June 2018)

CSC Corporate Services (UK) Limited was appointed company secretary on 15 June 2018 and continued to act as secretary for the financial period ending 30 June 2019. The Directors and their immediate relatives did not hold a beneficial interest in the ordinary share capital of the Company.

Directors' interest in contracts

The Company has no employees. CSC Capital Markets (UK) Limited provides corporate services to the Company at arm's length commercial rates. CSC Capital Markets (UK) Limited received fees in the amount of £34,208 for corporate administrative services which includes the provision of directorship services by its employees. The directors provided are not remunerated directly by the Company for their services.

Going concern

The Directors have prepared the financial statements on the going concern basis which assumes that the Company will continue in operational existence for the foreseeable future and will have adequate funds available to meet its obligations as they fall due. The directors are satisfied that the financial statements are prepared on a going concern basis due to the ongoing performance of the Mortgage Loans, the existence of a general reserve fund and the limited recourse nature of the Senior Loan.

Future developments

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

ZEPHYR FUNDING LIMITED

DIRECTORS' REPORT (CONTINUED) FOR THE PERIOD ENDED 30 JUNE 2019

Financial risk management

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

Charitable and political donations

During the year the Company donated £nil to various local and national charities. The Company has never made political donations.

Dividends

The Directors do not recommend the payment of a dividend for the period ended 30 June 2019.

Third party 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 financial statements.

Subsequent events

There have been no significant events since the end of the financial period which require disclosure in these financial statements.

Disclosure of information to auditors

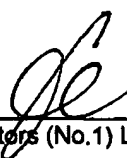
Each of the persons who are directors at the time when this Directors' Report is approved has confirmed that:

- so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware, and
- the director has taken all the steps that ought to have been taken as a director in order to be aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Independent Auditors

The independent auditors, PricewaterhouseCoopers LLP, was appointed by the Directors as the first auditors of the Company during the period under review. Having expressed their willingness to continue in office, pursuant to Section 485 of the Companies Act 2006, a written resolution by the shareholder will be passed for the auditors' reappointment.

This report was approved by the board and signed on its behalf.



CSC Directors (No.1) Limited
Director

Date: 20 December 2019

ZEPHYR FUNDING LIMITED

DIRECTORS' RESPONSIBILITIES STATEMENT FOR THE PERIOD ENDED 30 JUNE 2019

The directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements for the Company in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for the Company for each financial year. Under that law the directors have elected to prepare the financial statements for the Company in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'. Under company law the directors must not approve the financial statements for the Company unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing these financial statements for the Company, the directors are required to:

- select suitable accounting policies for the Company's financial statements and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the and to enable them to ensure that the comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of and other information included in Directors' Reports may differ from legislation in other jurisdictions.

Independent auditors' report to the members of Zephyr Funding Limited

Report on the audit of the financial statements

Opinion

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

- give a true and fair view of the state of the company's affairs as at 30 June 2019 and of its loss and cash flows for the 13 month period (the "period") then ended;
- have been properly prepared 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); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the balance sheet as at 30 June 2019; the statement of comprehensive income, the statement of cash flows, the statement of changes in equity for the 13 month period 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

ISAs (UK) require us to report to you when:

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

We have nothing to report in respect of the above matters.

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. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the company's trade, customers, suppliers and the wider economy.

Reporting on other information

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

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

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

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

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the period ended 30 June 2019 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 Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' responsibilities for the audit of the financial statements

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

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

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.



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

20 December 2019

ZEPHYR FUNDING LIMITED

**STATEMENT OF COMPREHENSIVE INCOME
FOR THE PERIOD ENDED 30 JUNE 2019**

| | Note | Period from 15 June 2018 to 30 June 2019 £ |
|---|------|--|
| Interest income and similar income | 3 | 399,248 |
| Interest expense and similar charges | 4 | (83,799) |
| Gross profit | | 315,449 |
| Administrative expenses | 5 | (314,449) |
| Fair value movements | | (88,239) |
| Loss before tax | | (87,239) |
| Tax on (loss)/profit | 7 | (190) |
| (Loss)/profit for the financial period | | (87,429) |

There was no other comprehensive income for 2019 (2018: £NIL).

The notes on pages 14 to 27 form part of these financial statements.

All amounts relate to continuing activities. All recognised gains or losses in the current period are included in the income statement.

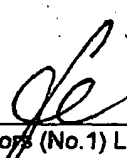
ZEPHYR FUNDING LIMITED
REGISTERED NUMBER: 11418651

BALANCE SHEET
AS AT 30 JUNE 2019

| | Note | 2019 £ |
|---|------|-------------------|
| Fixed assets | | |
| Mortgage Loans | | 12,136,883 |
| | | <u>12,136,883</u> |
| Current assets | | |
| Debtors: amounts falling due within one year | 9 | 21,760 |
| Cash at bank and in hand | 10 | 2,698,987 |
| | | <u>2,720,747</u> |
| Creditors: amounts falling due within one year | 11 | (147,015) |
| Derivative financial instruments | 12 | (88,239) |
| | | <u>2,485,493</u> |
| Net current assets | | <u>2,485,493</u> |
| Total assets less current liabilities | | <u>14,622,376</u> |
| Creditors: amounts falling due after more than one year | 13 | (14,709,804) |
| | | <u>(87,428)</u> |
| Net (liabilities)/assets | | <u>(87,428)</u> |
| Capital and reserves | | |
| Called up share capital | 14 | 1 |
| Profit and loss account | | (87,429) |
| | | <u>(87,428)</u> |

The Company's financial statements have been prepared in accordance with the provisions applicable to companies subject to the small companies regime.

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 20 December 2019.


 CSC Directors (No.1) Limited
 Director

ZEPHYR FUNDING LIMITED

**STATEMENT OF CHANGES IN EQUITY
FOR THE PERIOD ENDED 30 JUNE 2019**

| | Called up share capital | Profit and loss account | Total equity |
|---|------------------------------------|------------------------------------|---------------------|
| | £ | £ | £ |
| At 15 June 2018 | - | - | - |
| Comprehensive income for the period | | | |
| Loss for the period | - | (87,429) | (87,429) |
| | | | |
| Other comprehensive income for the period | - | - | - |
| | | | |
| Total comprehensive income for the period | - | (87,429) | (87,429) |
| Shares issued during the period | 1 | - | 1 |
| | | | |
| Total transactions with owners recognised directly in equity | 1 | - | 1 |
| | | | |
| At 30 June 2019 | 1 | (87,429) | (87,428) |

The notes on pages 14 to 27 form part of these financial statements.

ZEPHYR FUNDING LIMITED

**STATEMENT OF CASH FLOWS
FOR THE PERIOD ENDED 30 JUNE 2019**

| | 2019 £ |
|---|---------------------|
| Cash flows from operating activities | |
| (Loss)/profit for the financial period | (87,429) |
| Adjustments for: | |
| Interest expense and similar charges | 83,799 |
| Interest income and similar income | (399,248) |
| (Increase)/decrease in debtors | (21,760) |
| Increase in creditors | 147,015 |
| Fair value movement on derivative financial instrument | 88,239 |
| Net cash generated from operating activities | (189,384) |
| Cash flows from investing activities | |
| Purchase of Mortgage Loans | (12,050,749) |
| Interest received | 49,730 |
| Net cash from investing activities | (12,001,019) |
| Cash flows from financing activities | |
| Issue of ordinary shares | 1 |
| Proceeds of Senior Securitised Loan | 14,889,389 |
| Net cash used in financing activities | 14,889,390 |
| Net increase in cash and cash equivalents | 2,698,987 |
| Cash and cash equivalents at the end of period | 2,698,987 |
| Cash and cash equivalents at the end of period comprise: | |
| Cash at bank and in hand | 2,698,987 |
| | 2,698,987 |

The notes on pages 14 to 27 form part of these financial statements.

ZEPHYR FUNDING LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2019

1. General information

Zephyr Funding Limited ("the Company") was incorporated on 15 June 2018, in the United Kingdom, as a private limited company (limited by shares). The Company was set up as a special purpose vehicle for the purpose of acquiring and managing financial assets, including, principally, purchasing mortgage loans and related security. The registered office address is Level 37, 25 Canary Wharf, London E14 5LQ, England, United Kingdom.

On 17 September 2018, the Company acquired a series of UK residential buy-to-let mortgages (the "Mortgage Loans") from Topaz Finance Ltd (the "Seller" and whom also act as the servicer of the Mortgage Loans). The Mortgage Loans are secured by residential properties located in England and Wales. The Company purchases additional mortgages from the Seller on an ongoing basis pursuant to an underlying asset purchase agreement. The Company is funded through borrowings pursuant to a Senior Loan Agreement (the "Senior Loan") with Citibank N.A. London Branch (the "Senior Loan Provider").

2. Accounting policies

2.1 Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention unless otherwise specified within these accounting policies and in accordance with Financial Reporting Standard 102, the Financial Reporting Standard applicable in the UK and the Republic of Ireland and the Companies Act 2006.

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the Company's accounting policies.

The following principal accounting policies have been applied:

2.2 Basis of preparation of financial statements

The financial statements have been prepared on a going concern basis under the historical cost convention unless otherwise specified within these accounting policies and in accordance with Financial Reporting Standard 102 - The Financial Reporting Standard applicable in the UK and Republic of Ireland ("FRS 102") and the Companies Act 2006.

Additionally, in respect of financial instruments and in accordance with FRS 102 paragraphs 11.2 and 12.2, the Company applies the recognition and measurement provisions of IAS 39 (as adopted for use in the EU) alongside the corresponding disclosure requirements of FRS 102.

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the Company's accounting policies.

2.3 Going concern

The Directors have prepared the financial statements on the going concern basis which assumes that the Company will continue in operational existence for the foreseeable future and will have adequate funds available to meet its obligations as they fall due. The directors are satisfied that the financial statements are prepared on a going concern basis due to the ongoing performance of the Mortgage Loans, the existence of a general reserve fund and the limited recourse nature of the Senior Loan.

ZEPHYR FUNDING LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2019

2. Accounting policies (continued)

2.4 Foreign currency translation

These financial statements are presented in GBP (£) which is the Company's functional currency. Functional currency is the currency of the primary economic environment in which the entity operates. All figures in the financial statements are rounded to zero decimal places.

2.5 Mortgage Loans and related income

The Mortgage Loans are classified under IAS 39 as loans and receivables, being non-derivative financial instruments with fixed or determinable repayments that are not quoted in an active market.

The Mortgage Loans are measured initially at their fair value and subsequently at amortised cost using the effective interest rate method. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Company estimates cashflows considering all contractual terms of the financial instrument but does not consider future credit losses.

Impairment is recognised on a portfolio basis against the carrying value of the Mortgage Loans when there is objective evidence of a loss event having occurred. Such loss events are considered to include breaches of predetermined arrears levels as well as the occurrence of certain borrower circumstances deemed detrimental to borrower credit worthiness.

The Company measures the amount of any impairment loss as the difference between the carrying value of Mortgage Loans and the present value of the revised future cash flows following a loss event, which inherently takes into account the expected value of any related security i.e. the underlying properties.

2.6 Senior Loan and related interest expense

The Senior Loan is initially recognised at fair value and then subsequently at amortised cost using the effective interest rate method.

Part of the drawdown under the Senior Loan related to the initial funding of a general cash reserve. As this amount is utilised and reduced in accordance with the underlying transaction documentation and the prevailing priority of payments (rather than being directly repaid), these reductions to this aspect of the Senior Loan are credited to the profit and loss account under other income.

2.7 Taxation

The Directors are satisfied that the Company meets the definition of a "securitisation company" under UK tax law and that no incremental unfunded tax liabilities will arise. As a result, no deferred tax is recognised.

Corporation tax for a securitisation company is calculated by reference to the required cash retained as 'profit' per the underlying transaction documentation.

ZEPHYR FUNDING LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2019

2. Accounting policies (continued)

2.8 Cash and cash equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

All withdrawals from the Company's bank accounts are governed by the detailed priority of payments set out in the underlying transaction documentation and as such are considered restricted.

In the Statement of Cash Flows, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Company's cash management.

2.9 Derivative financial instruments

The Company does not hold or issue derivative financial instruments for trading purposes. Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value with gains and losses recognised in the statement of comprehensive income. Fair values are obtained using valuation techniques, including discounted cash flow that incorporate current market interest rates and current creditworthiness of counterparties, where appropriate. All derivatives are carried as financial assets when fair value is positive and as financial liabilities when fair value is negative.

2.10 Foreign currency translation

Functional and presentation currency

The Company's functional and presentational currency is GBP.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the spot exchange rates at the dates of the transactions.

At each period end foreign currency monetary items are translated using the closing rate. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined.

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Statement of Comprehensive Income except when deferred in other comprehensive income as qualifying cash flow hedges.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the Statement of Comprehensive Income within 'finance income or costs'. All other foreign exchange gains and losses are presented in the Statement of Comprehensive Income within 'other operating income'.

ZEPHYR FUNDING LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 JUNE 2019**

2. Accounting policies (continued)

2.11 Taxation

Tax is recognised in the Statement of Comprehensive Income, except that a charge attributable to an item of income and expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the balance sheet date in the countries where the Company operates and generates income.

2.12 Statement of compliance

The financial statements have been prepared in accordance with FRS 102 (accounting standards issued).

ZEPHYR FUNDING LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2019

2. Accounting policies (continued)

2.13 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 experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the financial year in which the estimates are revised if the revision affects only that financial year or in the financial year of the revision and future years if the revision affects both current and future financial years.

Fair values

Where financial assets and liabilities are carried at fair value and a quoted price is not available the valuation is based on cash flow models based on independently sourced parameters or internal models based on historic information or comparable data. The accuracy of the calculation would therefore be affected by unexpected market movements or other variances in the operation of models or assumptions used. In preparing these financial statements, the Company determined the fair values of the derivative financial instrument based solely on valuation models observing market indicators for future interest rates.

Recognition of the Mortgage Loans

The Mortgage Loans have been judged to pass the derecognition criteria set out under IAS 39 by virtue of the transfer, by the Seller, of the significant risks and rewards associated with ownership of the Mortgage Loans. This is owing to the Senior Loan being profit-participating in nature, with all excess cash flows of the Company, after the satisfaction of certain expenses, going to the Senior Loan Provider with the Seller having no direct ongoing financial exposure to the Mortgage Loans.

Impairment of the Mortgage Loans

An assessment is made at each reporting date on whether there is objective evidence of impairment. Indicators of impairment of the Mortgage Loans are considered to be defaults or delinquencies in the underlying receivables and other borrower-specific circumstances. Future micro and macro-economic factors will potentially impact future repayment conditions and the future value of underlying collateral.

2.14 Cash and cash equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

In the Statement of Cash Flows, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Company's cash management.

ZEPHYR FUNDING LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2019

2. Accounting policies (continued)

2.15 Hedge accounting

The Company uses variable to fixed interest rate swaps to manage its exposure to fair value risk on its derivatives. These derivatives are measured at fair value at each balance sheet date.

To the extent the cash flow hedge is effective, movements in fair value are recognised in other comprehensive income and presented in a separate cash flow hedge reserve. Any ineffective portions of those movements are recognised in profit or loss for the period.

Gains and losses on the hedging instruments and the hedged items are recognised in profit or loss for the period. When a hedged item is an unrecognised firm commitment, the cumulative hedging gain or loss on the hedged item is recognised as an asset or liability with a corresponding gain or loss recognised in profit or loss.

3. Interest income and similar income

| | Period from 15 June 2018 to 30 June 2019 £ |
|-----------------------------------|--|
| Interest Income on Mortgage Loans | 49,730 |
| Fee Income on Mortgage Loans | 153,062 |
| Other Income | 196,456 |
| | <u>399,248</u> |

4. Interest expense and similar charges

| | Period from 15 June 2018 to 30 June 2019 £ |
|--|--|
| Mortgage Loan origination fees payable to the Seller | (83,799) |
| | <u>(83,799)</u> |

ZEPHYR FUNDING LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 JUNE 2019**

5. Administrative Expenses

| | Period from 15 June 2018 to 30 June 2019 £ |
|---------------------------------|--|
| Servicing Fees | 183,739 |
| Corporate Service Provider Fees | 34,208 |
| Audit Fees | 39,600 |
| Other Professional Fees | 21,042 |
| Cash Manager Fees | 17,000 |
| Other Expenses | 18,860 |
| | <u>314,449</u> |

6. Employees

The Company has no employees other than the directors, who did not receive any remuneration.

7. Tax on Profit

| | Period from 15 June 2018 to 30 June 2019 £ |
|-------------------------------------|--|
| Corporation tax | |
| Current tax on profits for the year | 190 |
| Tax on profit | <u>190</u> |

ZEPHYR FUNDING LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 JUNE 2019**

7. Tax on Profit (continued)

Factors affecting tax charge for the period

The tax assessed for the period from 15 June 2018 to 30 June 2019 is the same as the standard rate of corporation tax in the UK of 19% as set out below:

| | Period from 15 June 2018 to 30 June 2019 £ |
|--|--|
| Loss before taxation | (87,239) |
| Profit subject to taxation | 1,000 |
| | <hr/> |
| Profit subject to taxation multiplied by standard rate of corporation tax in the United Kingdom of 19% | 190 |
| | <hr/> |
| | 190 |
| | <hr/> |
| Total tax Charge for the period | 190 |
| | <hr/> |

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 nor recover tax on its loss. Instead, the Company is required to pay tax on its retained profits of £1,000.

8. Mortgage Loans

| | As at 30 June 2019 £ |
|-----------------------------------|----------------------------|
| Opening Balance | - |
| Additions | 12,136,883 |
| | <hr/> |
| Balance as at 30 June 2019 | 12,136,883 |
| | <hr/> |

The Company was incorporated on the 15 June 2018 as a special purpose vehicle for the purpose of purchasing the beneficial title to and interest in the Mortgage Loans. The Company purchases additional Mortgage Loans from the Seller on an ongoing basis.

The balance on the Mortgage Loans at the end of the financial period was £12,136,883 and no impairment was recognised.

ZEPHYR FUNDING LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 JUNE 2019**

9. Debtors: amounts falling due within one year

| | |
|---------------|----------------------------|
| | As at 30 June 2019 £ |
| Other debtors | 21,760 |
| | <u>21,760</u> |

10. Cash at bank and in hand

| | |
|--------------------------|----------------------------|
| | As at 30 June 2019 £ |
| Cash at bank and in hand | 2,698,987 |
| | <u>2,698,987</u> |

The cash at bank is held with the Citibank N.A London Branch. Citibank N.A London Branch has been rated BBB+ by Standard & Poor's and has been given an A3 rating by Moody's.

11. Creditors: Amounts falling due within one year

| | |
|-------------------------|----------------------------|
| | As at 30 June 2019 £ |
| Accrued expenses | (95,262) |
| Accrued corporation tax | (190) |
| Other creditors | (51,563) |
| | <u>(147,015)</u> |

ZEPHYR FUNDING LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 JUNE 2019**

12. Derivative financial instruments

| | |
|---|-----------------|
| | 2019 £ |
| Derivative financial instruments | |
| Derivative financial instruments measured at fair value through profit and loss | (88,239) |
| | <u>(88,239)</u> |

Derivative financial instruments are interest rate swaps entered into by the Company with Citigroup. Derivative financial instruments are not considered basis under FRS 102 and therefore are initially recognised at fair value on the date on which it was entered into and subsequently re-measured at fair value. FRS 102 requires the use of the following hierarchy to estimate the fair value of instruments.

Level 1: Quoted prices in active markets for identical assets or liabilities

Level 2: Prices, other than quoted prices, of identical assets or liabilities in recent transactions where there has been no change in economic circumstances since transaction.

Level 3: Valuation technique used to estimate transaction price in an arm's length exchange motivated by normal business considerations.

The derivative financial instruments of £88,239 are classified as Level 3 in the fair value hierarchy. There has been no movements between Levels in the financial period.

13. Creditors: Amounts falling due after more than one year

| | |
|--------------------|----------------------------|
| | As at 30 June 2019 £ |
| Senior Loan | 14,709,804 |
| | <u>14,709,804</u> |

The Company entered into a Senior Loan Agreement with Citibank N.A London Branch for a revolving loan facility with a maximum commitment amount equal to £350,000,000. The Senior Loan is a profit participating loan therefore interest paid on this loan is not at a fixed rate but is determined in relation to the accumulated net profits in the financial period and paid to the extent that funds are available under the prevailing priority of payments.

ZEPHYR FUNDING LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2019

14. Called up share capital

| | 2019 £ |
|------------------------------------|-----------|
| Allotted, called up and fully paid | |
| 1 Ordinary Shares share of £1 | 1 |

15. Ultimate controlling party

The entire share capital of Zephyr Funding Limited is held on a discretionary trust basis under a share trust deed by the legal parent company, CSC Corporate Services (UK) Limited, a company incorporated in the United Kingdom and registered in England and Wales. CSC Corporate Services (UK) Limited is a wholly owned subsidiary of CSC Capital Markets UK Limited.

For accounting purposes, the Company's ultimate parent and controlling party is Citigroup Inc, being the smallest and largest group to consolidate these financial statements. The registered office of the parent is 388 Greenwich Street, New York, New York 10013, United States. The group financial statements can be obtained at this address.

16. Financial risk management

The principal risks arising from the Company's financial instruments are liquidity, credit and market risk. The Company has established policies for managing these risks as outlined below.

Credit Risk

Credit risk is the risk of impairment and partial or total loss of a receivable due to the deterioration of credit quality on the part of the counterparty. The primary assets of the Company are the Mortgage Loans. Credit risk is monitored and managed on a regular basis through preparation and review of monthly investor and servicer reports which are reviewed in detail by senior management. Under the Security Agreements, the Company has first charge over all properties which have been secured on the Mortgage Loans. The loan is 100% secured against collateral. At the end of the financial period there was 50 loans with a weighted average loan to value of 67%. The loan to value ratios were updated at the end of the financial period. There were no loans with arrears of over 90 days.

The maximum exposure to credit risk at the financial year end is as follows:

ZEPHYR FUNDING LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2019

| | As at 30 June 2019 £ |
|----------------|----------------------------|
| Mortgage Loans | 12,136,883 |
| Other Debtors | 21,761 |
| Cash | 2,698,987 |
| | <u>14,857,631</u> |

The cash at bank is held with the Citibank N.A London Branch. Citibank N.A London Branch has been rated BBB+ by Standard & Poor's and has been given an A3 rating by Moody's.

Liquidity Risk

Liquidity risk is defined as the risk of being unable to fulfil current or future payment obligations in full on the due date. The objective of the Company's liquidity management is to ensure the sufficient funds are available to meet the Company's commitments. Liquidity risk is minimised by the fact that the collateral underlying the Mortgage Loans is of a good quality and provides a steady cash flow for the Company to discharge all expenses.

The table below analyses the undiscounted cashflows of the financial liabilities at the balance sheet date into relevant maturity groupings. The calculations have been based on the interest rates effective at the balance sheet date.

| | 1 month to 3 months £ | 4 months to 2 years £ | Over 2 years £ | Gross cashflows £ |
|---------------------------------|-----------------------------|-----------------------------|----------------------|-------------------------|
| Senior Loan | - | - | (14,709,804) | (14,709,804) |
| Accrued Expenses | (95,452) | - | - | (95,452) |
| Derivative financial instrument | (88,239) | - | - | (88,239) |
| Other Creditors | (51,563) | - | - | (51,563) |
| | <u>(235,254)</u> | <u>-</u> | <u>(14,709,804)</u> | <u>(14,945,058)</u> |

Market Risk

In relation to the activities of the Company, market risk refers to the potential loss arising predominantly from changes in interest rates. The table below summarises the interest sensitivity gap:

ZEPHYR FUNDING LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2019

| | Fixed interest rate £ | Floating interest rate £ | Non-interest bearing £ | Carrying Value £ |
|--------------------------------------|-----------------------------|--------------------------------|------------------------------|------------------------|
| Assets | | | | |
| Mortgage Loans | 12,136,883 | - | - | 12,136,883 |
| Debtors | - | - | 21,761 | 21,761 |
| Cash and cash equivalents | - | 2,698,987 | - | 2,698,987 |
| Total assets | 12,136,883 | 2,698,987 | 21,761 | 14,857,631 |
| Liabilities | | | | |
| Senior Loan | - | (14,709,804) | - | (14,709,804) |
| Accrued expenses | - | - | (95,452) | (95,452) |
| Derivative financial instrument | - | - | (88,239) | (88,239) |
| Other Creditors | - | - | (51,563) | (51,563) |
| Total liabilities | - | (14,709,804) | (235,254) | (14,945,058) |
| Interest rate sensitivity gap | 12,136,883 | (12,010,817) | (213,493) | (87,427) |

17. Related party transactions

CSC Capital Markets (UK) Limited entered into an agreement with the Company to certain corporate administrative services, bookkeeping and accounting services to the Company. During the financial period the Company incurred fees of £34,208 from CSC Capital Markets (UK) Limited. There were no fees paid to directors by the administrator as a directors' fee.

18. Post balance sheet events

There have been no significant events since the end of the financial period which require disclosure in these financial statements.

19. Capital risk management

The capital managed by the Company comprises of ordinary shares outstanding and the Notes issued and outstanding as at year end. The Company is not subject to externally imposed capital requirements.

The Company manages its capital to ensure that it is able to continue as a going concern while maximising the return to the Senior Loan Provider through the purchase and ongoing management of the Mortgage Loans.

There were no changes to the policies and procedures during the year with respect to the Company's approach to capital management.

ZEPHYR FUNDING LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 JUNE 2019**

20. Contingent liabilities and commitments

There were no contingent liabilities or commitments as of 30 June 2019. Contingent liabilities are assessed continually to determine whether transfers of economic benefits have become probable. Where future transfers of economic benefits charge from previous disclosed contingent liabilities, provisions are recognised in the year in which the changes in probability occur.