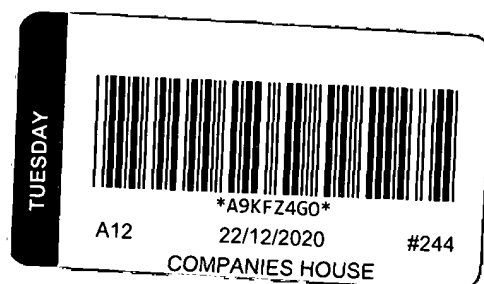


Registered number: 11418651

ZEPHYR FUNDING LIMITED

ANNUAL REPORT AND AUDITED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR TO 30 JUNE 2020



ZEPHYR FUNDING LIMITED

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ZEPHYR FUNDING LIMITED

COMPANY INFORMATION

Directors	Vinoy Nursiah CSC Directors (No.1) Limited CSC Directors (No.2) Limited
Company secretary	CSC Corporate Services (UK) Limited
Registered number	11418651
Registered office	10th Floor 25 Canada Square 5 Churchill Place London E14 5HU
Independent auditors	PricewaterhouseCoopers LLP 7 More London Riverside London SE1 2RT
Bankers	CitiBank Citigroup Centre Canada Square Canary Wharf London E14 5LB United Kingdom
Trustee	Citicorp Trustee Company Ltd Citigroup Centre Canada Square Canary Wharf London E14 5LB

ZEPHYR FUNDING LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 30 JUNE 2020

Introduction

The directors present the Strategic Report, together with the audited financial statements of Zephyr Funding Limited (the "Company") for the year to 30 June 2020.

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 judged 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 £31,201,555 (2019: £12,136,883). Please refer to Note 8 for details on the other movements.

On 26 March 2020 pursuant to the Loans Sale Agreement, the Company sold a portfolio of loans to Citibank and used the proceeds to subsequently repay £45,444,716 of the Senior Loan. 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. The UK left the EU on 31 January 2020 and entered a transitional phase which is due to end on 31 December 2020. No exit deal has currently been reached. It is difficult to determine the financial impact at this stage, 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.

Since March 2020, the COVID-19 pandemic has created a degree of uncertainty across all industries on a global scale, including the financial services market in the UK. It is not possible to accurately estimate the financial impact the pandemic will have on the Company. However, as the activities of the Company are governed by the transaction documents, the direct impact on the Company is expected to be limited.

The Company is expected to remain as a going concern for the foreseeable future. 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 verses the likelihood of either intending to or being forced to cease trading and place the Company into liquidation. As discussed further in the Directors report, the directors consider that the Company is able to meet its liabilities as they fall due, and accordingly, the financial statements have been prepared on a going concern basis.

ZEPHYR FUNDING LIMITED

STRATEGIC REPORT (CONTINUED) FOR THE YEAR ENDED 30 JUNE 2020

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 £31,201,555 (2019: £12,136,883) as at 30 June 2020 and no related impairment provisions were recognised against the portfolio. As at 30th June 2020 there were no loans in arrears of over 90 days and the mortgage loan portfolio was considered performing.

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.

Principal risks and uncertainties

Whilst the directors have overall responsibility for the establishment and oversight of the Company's risk management framework, this obligation has been allocated and managed in accordance with the transaction documents. Further details of financial risk management are outlined in Note 15 of the financial statements.

Impacts of COVID-19 and Brexit are also considered as uncertainties. For details please refer to section "Principal activities, business review and future developments". The Company is mainly exposed to credit risk, liquidity risk and market risk. The principal nature of such risks is summarised below.

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. Credit risk is minimised by the fact that the collateral underlying the Mortgage Loans is deemed to be of good quality and provide a steady cash flow for the Company to discharge all expenses. 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.

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 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.

ZEPHYR FUNDING LIMITED

STRATEGIC REPORT (CONTINUED) FOR THE YEAR ENDED 30 JUNE 2020

Emerging risks

During the first few months of 2020, the COVID-19 pandemic has created a degree of uncertainty across all industries on a global scale, including the financial services market in the United Kingdom. Given the economic outlook is uncertain and developing almost daily, it is not possible to accurately estimate the financial impact the pandemic will have on the Company. However, as the activities of the Company are governed by the transaction documents, the direct impact on the Company is expected to be limited. Whilst individual line items in the financial statements could be impacted, as the securitisation transaction is designed such that any shortfall on collections from the Receivables are borne by the Loan provider, the Company is expected to remain as a going concern for the foreseeable future.

From an operational perspective the Company could also be impacted by its service providers being unable to deliver their contractual obligations. There have been no instances of service providers being unable to fulfil their contractual obligations to date.

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.

Directors' statement of compliance with duty to promote the success of the Company

As an SPV the governance structure of the Company is such that the key policies have been predetermined at the time of issuance. The directors have had regards to the matters set out in section 172(1) of the Companies Act 2006 as follows:

- a) the transaction documents have been formulated to achieve the Company's purpose and business objectives, safeguard the assets and promote the success of the Company with a long term view and as disclosed in Note 1 in accordance with relevant securitisation legislation the Company is only permitted to retain minimal profit;
- (b) the Company has no employees;
- (c) the Company is a securitisation vehicle and fosters its relationships with suppliers and others via professional third parties who have been assigned operational roles with their roles strictly governed by the transaction documents and fee arrangements agreed in advance. The Company has no customers.
- (d) as a securitisation vehicle the Company has no physical presence or operations and accordingly has minimal impact on the community and the environment;
- (e) the Company maintains a reputation for high standards of business conduct via professional third parties who have been assigned operational roles. Fee arrangements have been agreed in advance and supplier invoices paid strictly in accordance with the transaction documents including a priority of payments, if applicable; and
- (f) the Company has a sole member with the issued shares all held on a discretionary trust basis for charitable purpose

In accordance with s. 426B Companies Act 2006 a copy of this statement is available at <https://portal.cscgfm.com/issuers/zephyr-funding-limited>.

ZEPHYR FUNDING LIMITED

**STRATEGIC REPORT (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2020**

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



Charmaine De Castro
per pro CSC Directors (No.1) Limited
Director

Date: 17 December 2020

ZEPHYR FUNDING LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2020

The directors present their annual report together with the audited financial statements for the year ended 30 June 2020.

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 of the company who were in office during the year and up to the date of signing the financial statements were:

Vinoy Nursiah
CSC Directors (No.1) Limited
CSC Directors (No.2) Limited

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 2020. The Directors and their immediate relatives and the company secretary 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 £51,307 (2019: £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.

The maturity date of the Senior loan is September 2021 however Citibank N.A., London Branch have issued a letter of intent that the loan will be extended to September 2022.

As at 30 June 2020, approximately six loans in the portfolio were being impacted by COVID-19 and were on payment breaks. The value of these loans are approximately £4.9M. While arrears on the portfolio

ZEPHYR FUNDING LIMITED

DIRECTORS' REPORT (CONTINUED) FOR THE YEAR ENDED 30 JUNE 2020

may increase due to COVID-19, the portfolio is still performing with no loans in arrears of more than 90 days at 30 June 2020. A large proportion of customers are continuing to repay their loans as usual and this cash will continue to be collected by the structure for distribution to the appropriate parties.

The Directors have performed an assessment of going concern with respect to COVID-19. In terms of considering going concern, the focus was upon the Company's position in respect of the potential for reduced cash flows to trigger an Event of Default, the availability of existing funding to support the Company, 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, the Company's reserve fund is sufficient to cover senior interest and 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.

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.

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 2020 (2019: £nil).

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

In July 2020, the Company sold a portfolio of Mortgage Loans for a purchase price of £20,731,446.

There are no other significant subsequent events to be disclosed.

Independent Auditors

Under section 487(2) of the Companies Act 2006, PricewaterhouseCoopers LLP will be deemed to have been reappointed as auditors 28 days after these financial statements were sent to members or 28 days after the latest date prescribed for filing the accounts with the registrar, whichever is earlier.

ZEPHYR FUNDING LIMITED

**DIRECTORS' REPORT (CONTINUED)
FOR THE YEAR ENDED 30 JUNE 2020**

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.

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

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



Charmine de Castro
per pro CSC Directors (No.1) Limited
Director

Date: 17 December 2020

ZEPHYR FUNDING LIMITED

DIRECTORS' RESPONSIBILITIES STATEMENT FOR THE YEAR ENDED 30 JUNE 2020

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 the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable 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.

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

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

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' 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 2020 and of its loss 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, 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 Audited Financial Statements (the "Annual Report"), which comprise: the balance sheet as at 30 June 2020; the statement of comprehensive income, the statement of cash flows, 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

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

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

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

Reporting on other information

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

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

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

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

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 30 June 2020 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.

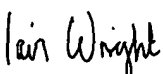
Other required reporting

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
17 December 2020

ZEPHYR FUNDING LIMITED

**STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2020**

		Year to 30 June 2020 £	<i>Period from 15 June 2018 to 30 June 2019 £</i>
	Note		
Interest income and similar income	3	911,350	399,248
Interest expense and similar charges	4	(838,600)	(83,799)
Gross profit		72,750	315,449
Administrative expenses	5	(232,152)	(314,449)
Fair value movements		88,239	(88,239)
Operating loss		(71,163)	(87,239)
Tax on loss	7	(228)	(190)
Loss for the financial year		(71,391)	(87,429)

The notes on pages 16 to 28 form part of these financial statements.


There was no other comprehensive income for year ended 30 June 2020 (2019: £NIL).

ZEPHYR FUNDING LIMITED
REGISTERED NUMBER: 11418651

BALANCE SHEET
AS AT 30 JUNE 2020

	Note	2020 £	2019 £
Fixed assets			
Mortgage Loans		10,470,109	12,136,883
		<u>10,470,109</u>	<u>12,136,883</u>
Current assets			
Mortgage Loans		20,731,446	-
Debtors: amounts falling due within one year	9	145,226	21,760
Cash at bank and in hand	10	2,944,216	2,698,987
		<u>23,820,888</u>	<u>2,720,747</u>
Creditors: amounts falling due within one year	11	(21,213,625)	(147,015)
Derivative financial instruments		-	(88,239)
		<u>2,607,263</u>	<u>2,485,493</u>
Net current assets			
		<u>13,077,372</u>	<u>14,622,376</u>
Total assets less current liabilities			
Creditors: amounts falling due after more than one year	12	(13,236,191)	(14,709,804)
		<u>(158,819)</u>	<u>(87,428)</u>
Net liabilities			
		<u>(158,819)</u>	<u>(87,428)</u>
Capital and reserves			
Called up share capital	13	1	1
Profit and loss account		(158,820)	(87,429)
		<u>(158,819)</u>	<u>(87,428)</u>
Total Equity			
		<u>(158,819)</u>	<u>(87,428)</u>

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 17 December 2020.



Charmaine De Castro
per pro CSC Directors (No.1) Limited
Director

The notes on pages 16 to 28 form part of these financial statements.

ZEPHYR FUNDING LIMITED

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2020**

	Called up share capital £	Profit and loss account £	Total equity £
Comprehensive expense as at 18 June 2018			
Loss for the period	-	(87,429)	(87,429)
Other comprehensive income for the period	-	-	-
Total comprehensive expense for the period	-	(87,429)	(87,429)
Shares issued during the period	1	-	1
Total transactions with owners	1	-	1
At 1 July 2019	1	(87,429)	(87,428)
Comprehensive expense for the year			
Loss for the year	-	(71,391)	(71,391)
Other comprehensive income for the year	-	-	-
Total comprehensive expense for the year	-	(71,391)	(71,391)
Total transactions with owners	-	-	-
At 30 June 2020	1	(158,820)	(158,819)

The notes on pages 16 to 28 form part of these financial statements.

ZEPHYR FUNDING LIMITED

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2020**

	2020 £	2019 £
Cash flows from operating activities		
Loss for the financial year	(71,163)	(87,429)
Adjustments for:		
Interest expense and similar charges	476,879	83,799
Interest income and similar income	(549,628)	(399,248)
Tax Paid	(228)	-
Increase in debtors	(123,466)	(21,760)
Increase in creditors	335,164	147,015
Fair value movement on derivative financial instrument	(88,239)	88,239
Net cash used in operating activities	(20,681)	(189,384)
Cash flows from investing activities		
Purchase of Mortgage Loans	(64,910,570)	(12,050,749)
Sale of Mortgage Loans	45,444,716	-
Principal repayments on Mortgage Loans	302,845	-
Interest received	647,966	49,730
Net cash used in investing activities	(18,515,043)	(12,001,019)
Cash flows from financing activities		
Issue of ordinary shares	-	1
Proceeds of Senior Securitised Loan	64,702,548	14,889,389
Repayment of Loans and Notes	(45,444,716)	-
Interest paid	(476,879)	-
Net cash generated from financing activities	18,780,953	14,889,390
Net increase in cash and cash equivalents	245,229	2,698,987
Cash and cash equivalents at beginning of year	2,698,987	-
Cash and cash equivalents at the end of year	2,944,216	2,698,987
Cash and cash equivalents at the end of year comprise:		
Cash at bank and in hand	2,944,216	2,698,987
	2,944,216	2,698,987

The notes on pages 16 to 28 form part of these financial statements.

ZEPHYR FUNDING LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

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 10th Floor, 5 Churchill Place, London, E14 5HU, 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.

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.

Statement of Compliance

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

The following principal accounting policies have been applied:

ZEPHYR FUNDING LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

2. Accounting policies (continued)

2.2 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.

The maturity date of the Senior loan is September 2021 however Citibank N.A., London Branch have issued a letter of intent that the loan will be extended to September 2022.

As at 30 June 2020, approximately six loans in the portfolio were being impacted by COVID-19 and were on payment breaks. The value of these loans are approximately £4.9M. While arrears on the portfolio may increase due to COVID-19, the portfolio is still performing with no loans in arrears of more than 90 days at 30th June 2020. A large proportion of customers are continuing to repay their loans as usual and this cash will continue to be collected by the structure for distribution to the appropriate parties.

The Directors have performed an assessment of going concern with respect to COVID-19. In terms of considering going concern, the focus was upon the Company's position in respect of the potential for reduced cash flows to trigger an Event of Default, the availability of existing funding to support the Company, 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, the Company's reserve fund is sufficient to cover senior interest and 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.

2.3 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.

2.4 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.

ZEPHYR FUNDING LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

2. Accounting policies (continued)

Mortgage Loans and related income (continued)

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.

2.5 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.

2.6 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.

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 United Kingdom, where the Company operates and generates income.

2.7 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.

ZEPHYR FUNDING LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

2. Accounting policies (continued)

2.8 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.

2.9 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 - estimate

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 - judgement

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 - estimate

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.

ZEPHYR FUNDING LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020**

3. Interest income and similar income

	Year to 30 June 2020	<i>Period from 15 June 2018 to 30th June 2019</i>
	£	£
Interest Income on Mortgage Loans	796,001	49,730
Fee Income on Mortgage Loans	14,129	153,062
Other Income	101,220	196,456
	911,350	399,248

4. Interest expense and similar charges

	Year to 30 June 2020	<i>Period from 15 June 2018 to 30th June 2019</i>
	£	£
Mortgage Loan procurement fees payable to the Seller	(37,102)	(83,799)
Interest Expense on Senior Loan	(801,498)	-
	(838,600)	(83,799)

ZEPHYR FUNDING LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020**

5. Administrative Expenses

	Year to 30 June 2020	<i>Period from 15 June 2018 to 30th June 2019</i>
	£	£
Servicing Fees	(41,776)	(183,739)
Corporate Service Provider Fees	(51,307)	(34,208)
Audit Fees	(39,600)	(39,600)
Other Professional Fees	(46,368)	(21,042)
Cash Manager Fees	(15,000)	(17,000)
Other Expenses	(38,101)	(18,860)
	(232,152)	(314,449)

The audit fee consists of £43,200 for the 2020 audit fees and the release of an over accrual in 2019 of £3,600.

6. Employees

The Company has no employees. The Directors received no remuneration from the Company in respect of qualifying services rendered during the financial period. CSC Capital Markets UK Limited as corporate service provider received fees of £51,307 (2019: £34,208) during the financial period of which a portion represents directorship services provided by the Directors of the company who are also employees of the corporate service provider. The Directors are not paid directly by the Company but their directorship services are reflected in their salary received from the corporate service provider.

ZEPHYR FUNDING LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020**

7. Tax on Loss

	Year to 30 June 2020 £	Period from 15 June 2018 to 30th June 2019 £
Corporation tax		
Current tax on profits for the year	228	190
Tax on loss	<u>228</u>	<u>190</u>

Factors affecting tax charge for the year/period

The tax assessed for the year/period is the same as (2019 - the same as) the standard rate of corporation tax in the UK of 19% (2019 - 19%) as set out below:

	Year to 30 June 2020 £	Period from 15 June 2018 to 30th June 2019 £
Loss before taxation	<u>(71,163)</u>	<u>(87,239)</u>
Loss before taxation multiplied by standard rate of corporation tax in the United Kingdom of 19% (2019: 19%)	(13,521)	(16,575)
Application of Statutory Instrument No.3296 The Taxation of Securitisation Companies Regulations 2006	13,521	16,575
Taxation for the year at 19% (2019: 19%) on the estimated retained profit	228	190
Total taxation expense reported in the Statement of comprehensive income	<u>228</u>	<u>190</u>
Total tax Charge for the period	<u>228</u>	<u>190</u>

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 £1,200.

ZEPHYR FUNDING LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020**

8. Mortgage Loans

	Year to 30 June 2020	<i>Period from 15 June 2018 to 30th June 2019</i>
	£	£
Opening Balance	12,136,883	-
Additions	64,497,284	12,136,883
Principal repayments on Loans	(302,845)	-
Disposals	(45,444,716)	-
Capitalised fees	314,949	-
Closing Balance	31,201,555	12,136,883

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 £31,201,555 (2019: £12,136,883) and no impairment was recognised. £20,731,446 (2019: £nil) are being held as current assets as these mortgage loans were subsequently sold in July 2020, £10,470,109 (2019: £12,136,883) is being held as a fixed asset.

9. Debtors: amounts falling due within one year

	As at 30 June 2020	<i>As at 30 June 2019</i>
	£	£
Other debtors	145,226	21,760
	145,226	21,760

10. Cash at bank and in hand

	As at 30 June 2020	<i>As at 30 June 2019</i>
	£	£
Cash at bank and in hand	2,944,216	2,698,987
	2,944,216	2,698,987

The cash at bank is held with the Citibank N.A London Branch. Citibank N.A London Branch currently holds an Aa3/P-1 credit rating by Moody's.

ZEPHYR FUNDING LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020**

11. Creditors: Amounts falling due within one year

	As at 30 June 2020 £	As at 30 June 2019 £
Accrued expenses	(59,653)	(95,262)
Accrued corporation tax	(228)	(190)
Derivative financial instrument	-	(88,239)
Deferred income	(138,000)	(51,664)
Amounts owed to Citibank	(269,395)	-
Amounts owed to Topaz	(14,903)	-
Senior Loan	(20,731,446)	-
	<u>(21,213,625)</u>	<u>(235,355)</u>

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

	As at 30 June 2020 £	As at 30 June 2019 £
Senior Loan	(13,236,191)	(14,709,804)
	<u>13,236,191</u>	<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.

13. Called up share capital

	As at 30 June 2020 £	As at 30 June 2019 £
Allotted, called up and fully paid		
1 (2019 - 1) Ordinary Shares share of £1	<u>1</u>	<u>1</u>

ZEPHYR FUNDING LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

14. 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 Citibank Inc, being the smallest and largest group to consolidate these financial statements. The registered office of the parent is 338 Greenwich Street, New York, New York 10013, United States. The group financial statements can be found at this address.

15. 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 123 loans (2019: 50 loans) with an average loan to value of 70.9% (2019: 67%). There were no loans with arrears of over 90 days.

The cash at bank is held with the Citibank N.A London Branch. Citibank N.A London Branch has been rated Aa3/P-1 (2019: A3) by Moody's.

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

	As at 30 June 2020 £	As at 30 June 2019 £
Mortgage Loans	31,201,555	12,136,883
Other Debtors	145,226	21,761
Cash at bank and in hand	2,944,216	2,698,987
	<u>34,290,997</u>	<u>14,857,631</u>

ZEPHYR FUNDING LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020**

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 £
2020				
Senior Loan	(20,731,446)	-	(13,236,191)	(33,967,637)
Accrued Expenses	(59,882)	-	-	(59,882)
Other creditors	-	(442,298)	-	(442,298)
	<u>(20,791,328)</u>	<u>(442,298)</u>	<u>(13,236,191)</u>	<u>(34,469,817)</u>
	1 month to 3 months £	4 months to 2 years £	Over 2 years £	Gross cashflows £
2019				
Senior Loan	-	-	(14,709,804)	(14,709,804)
Accrued Expenses	(95,452)	-	-	(95,452)
Other Creditors	(51,563)	-	-	(51,563)
Derivative financial instrument	(88,239)	-	-	(88,239)
	<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.

ZEPHYR FUNDING LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

16. 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. CSC Corporate Services (UK) Limited also acted as Company Secretary and so had an interest in this fee. During the financial period the Company incurred fees of £51,307 (2019: £34,208) from CSC Capital Markets UK Limited. There were no fees paid to directors by the administrator as a directors' fee.

The outstanding balance on the senior loan at period end is £33,967,637 (2019: £14,709,704).

The Company paid £523,576 (2019: £nil) in relation to the Senior Loan interest expense to Citibank N.A. London Branch.

The Company also paid £20,760 (2019: £nil) in different professional services fees to Citibank N.A. London Branch.

The cash at bank of £2,944,216 (2019: £2,698,987) is held with the Citibank N.A London Branch.

	CSC Capital Markets 2020 £	Citibank N.A. London Branch 2020 £	CSC Capital Markets 2019 £	Citibank N.A. London Branch 2019 £
Corporate Service Fees	51,307	-	34,208	-
Senior Loan Balance	-	33,967,637	-	14,709,804
Interest Expense	-	523,576	-	-
Professional Services Fees	-	20,760	-	-
Cash at bank	-	2,944,216	-	2,698,987
	51,307	37,456,189	34,208	17,408,791

17. Post balance sheet events

In July 2020, the Company sold a portfolio of Mortgage Loans for a purchase price of £20,731,446. The funds received were used to make a principal repayment on the Senior Loan with Citibank N.A. London Branch of £20,731,446.

There are no other significant subsequent events to be disclosed.

ZEPHYR FUNDING LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

18. 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.

19. Contingent liabilities and commitments

There were no contingent liabilities or commitments as of 30 June 2020 (2019: £nil). 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.