
STONEWATER FUNDING PLC

ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2023

STONEWATER FUNDING PLC

COMPANY INFORMATION

Directors	Anne Costain Nicholas Harris Chris Edis Hursh Shah (appointed 1 October 2022) Hugh Shields (resigned 29 June 2022) Tariq Kazi (resigned 30 September 2022)
Company secretary	Anne Harling
Registered number	08190978
Registered office	Suite C, Lancaster House Grange Business Park, Enderby Road Whetstone Leicester LE8 6EP
Independent auditors	BDO LLP 55 Baker Street London W1U 7EU
Principal bankers	Barclays Bank Level 27 1 Churchill Place London E14 5HP
Principal solicitors	Devonshires Solicitors 30 Finsbury Circus London EC2M 7DT

STONEWATER FUNDING PLC

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STONEWATER FUNDING PLC

STRATEGIC REPORT (CONTINUED) FOR THE YEAR ENDED 31 MARCH 2023

Principal activities

The principal activity of Stonewater Funding PLC ("the company") is to act as the capital markets issuance vehicle for the Stonewater Group.

Business review

Revenue for the year was £22.3m (2022: £20.0m) which predominantly consisted of interest receivable from group companies and management fees.

A gift aid payment of £64,000 was pledged to Stonewater (5) Limited for the year (2022: £50,000), of which £50,000 was paid in the year, with £14,000 due to be paid within 9 months of year end. A further £5,000 was paid in respect of gift aid pledged within the 2021/22 financial year.

The company has not issued any debt instruments in the financial year.

In February 2023 S&P Global Rating lowered Stonewater's long term issuer credit rating and the issue rating on the three bonds issued by Stonewater Funding PLC from A+ with a negative outlook to A with a negative outlook.

During the year the Stonewater Group undertook a partial collapse of its structure, combining Stonewater Limited with Stonewater 2. The restructure created streamlined administration, greater flexibility and maximises the financial capacity to deliver the planned investment in existing and also new homes. The financial consents were finalised with lenders and the transfer of engagements was effective from 31 March 2023.

Key performance indicators

The directors of Stonewater manage the Group's operations on a divisional basis. A suite of key performance indicators is reported to the Group Board each quarter.

Stonewater Funding PLC monitors the following key performance indicators, measured at Group level, in relation to the issued Private Placements Notes:

- The ratio of adjusted operating surplus to interest payable is greater or equal to 1:1 on an annual basis, and 1.1:1 on a three year basis
 - Performance was 2.1:1 for the financial year and 2.2:1 on a three year basis.
- Gearing does not exceed 70%,
 - Performance was 52%.
- The aggregate net book value of all group properties (excluding properties owned by companies which are not Borrowers) shall not exceed 25% of the total aggregate net book value of all properties of the group
 - Performance was 0%.

Additionally, for both the Public Bonds and Private Placements Notes, Stonewater Funding PLC monitors:

- The value of the assets from Stonewater used as security for the bond, on an Existing Use Value Social Housing (EUV-SH) and/or Market Value Subject to Tenancies (MVST) basis, is at least 105% on an EUV-SH basis or 115% (120% for the Private Placements Notes) on a MVST basis of the bond notional.
 - All asset cover tests satisfied.

STONEWATER FUNDING PLC

STRATEGIC REPORT (CONTINUED) FOR THE YEAR ENDED 31 MARCH 2023

Going concern

After making enquiries and reviewing the 30-year financial plan, updated for current economic and business assumptions including stress testing against adverse changes in inflation, interest rates and economic conditions including multi-faceted scenarios, and analysis of the potential impact on covenants, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for at least 12 months from the date on which the financial statements were approved for release. The financial statements have therefore been prepared on a going concern basis.

Principal risks and uncertainties

The company on lends the proceeds from its funding to Stonewater Limited and Stonewater (5) Limited.

The main risk facing the company is that it is unable to make interest or principal payments to the Note and Bondholders when they fall due. This risk is mitigated as the company on lends funds under secured loan agreements which are backed by the housing assets of each borrower; and cross guarantees which cover any shortfall in the security and any unpaid interest and fees in respect of the loans. If there are any payments which are not made to Stonewater Funding PLC, or if the borrowers are in breach of the loan agreement with the company in another way, then the company can enforce the security under the loan agreement.

Further risk mitigation is evidenced by the annual credit ratings given by S&P Global Ratings.

Financial risk management

Risk management objectives and policies

The Group finance team is responsible for the management of funds and control of associated risks and is accountable to the Stonewater Limited Board and the Stonewater Funding PLC Board.

Interest rate risk/hedging

The company currently borrows on a fixed rate basis from the capital markets and then on lends these funds to Stonewater Limited and Stonewater (5) Limited on a similar fixed rate basis. As such, the company does not bear any risk, apart from the underlying credit risk of Stonewater Limited and Stonewater (5) Limited, which is discussed below. The company does not have any hedging activities.

Credit risk

All of the company's capital markets financing proceeds are on lent to Stonewater Limited and Stonewater (5) Limited, which represent the only credit risk to the company. The credit risk is mitigated through a number of factors, including the housing asset security which stands behind the loans to Stonewater Limited and Stonewater (5) Limited, the overall credit-worthiness of the Group, the guarantees that Stonewater Limited and Stonewater (5) Limited have issued to the company and the contractual protections in the loan agreements themselves.

Risk and Assurance

The Group Risk and Assurance Committee is responsible for ensuring that internal controls are adequate and effective and that the organisation's approach to risk management is commensurate with risk appetite. The committee approves the internal audit work plan and reviews internal audit findings. It considers significant issues relating the financial statements and also recommends the appointment of internal and external auditors.

STONEWATER FUNDING PLC

STRATEGIC REPORT (CONTINUED) FOR THE YEAR ENDED 31 MARCH 2023

Section 172 statement

The company was formed for the sole purpose of raising debt finance for the Stonewater Group. It is a wholly owned subsidiary and does not have any employees. The directors, accordingly, do not consider that the interests of the company's employees or the need to act fairly between members of the company are relevant to the proper discharge of their duty under section 172. Each of these factors is considered by the wider group. The directors take guidance from the Group on matters relating impact of the company's operations on the community and environment. Given the purpose of the company the relevant stakeholder groups are therefore the investors in the listed debt and the parent group.

The Board of Stonewater Funding PLC consider, both individually and together, that they have acted in the way they consider, in good faith, would be most likely to promote the success of the company for the benefit of those stakeholders, and in doing so have regard (amongst other matters) to:

- a) the likely consequences of any decision in the long term,
- b) the need to foster the company's business relationships with suppliers, customers and others, and
- c) the desirability of the company maintaining a reputation for high standards of business conduct.

As the Board of Directors, our intention is to behave responsibly and ensure that management operate the business in a responsible manner, operating within the high standards of business conduct and good governance expected for a business such as ours. The intention is to nurture our reputation, through both the construction and delivery of our plan, that reflects our responsible behaviour.

The Board considers the following to be the key decisions and considerations it has made during the year to 31 March 2023.

Board decision

The Board considered the risk appetite of the company.

Consideration

Resolved that the company is operating within the Group's risk appetite.

Board decision

The Board decided to update the £1bn European Medium Term Note programme.

Consideration

The update to the programme enables Stonewater Funding to be agile in issuing future bonds as the programme documentation is up to date.

Board decision

The Board made the decision to Gift Aid profits to Stonewater (5) Limited.

Consideration

This promotes the wider aims of the Stonewater Group in meeting the needs of its charitable beneficiaries.

STONEWATER FUNDING PLC

**STRATEGIC REPORT (CONTINUED)
FOR THE YEAR ENDED 31 MARCH 2023**

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



**Anne Costain
Director**

Date: 18 August 2023

STONEWATER FUNDING PLC

DIRECTORS' REPORT FOR THE YEAR ENDED 31 MARCH 2023

The Directors present their report and the financial statements for the year ended 31 March 2023.

Directors' responsibilities statement

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements 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 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, the directors are required to:

- Select suitable accounting policies for the company's financial statements and then apply them consistently;
- Make judgments 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 financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

Results and dividends

The profit for the year after taxation amounted to £64 thousand (2022 - £50 thousand).

No dividends were recommended during the year (2022: nil).

Directors

The directors who served during the year were:

Anne Costain
Nicholas Harris
Chris Edis
Hursh Shah (appointed 1 October 2022)
Hugh Shields (resigned 29 June 2022)
Tariq Kazi (resigned 30 September 2022)

Future developments

The company will continue to act as the capital markets issuance vehicle for the Stonewater Group.

Directors' indemnities

The company maintains liability insurance for its directors and officers. The company also provides indemnity for its directors and the secretary, which is qualifying third party indemnity provision for the purpose of the

STONEWATER FUNDING PLC

**DIRECTORS' REPORT
FOR THE YEAR ENDED 31 MARCH 2023**

Companies Act 2006. The indemnity was in force throughout the financial year and is currently in force.

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.

Post balance sheet events

There have been no significant events affecting the company since the year end.

Auditors

The auditors, BDO LLP, will be proposed for reappointment in accordance with section 489 of the Companies Act 2006.

BDO were re-appointed as Stonewater's external auditors for 2022/23 on 27 July 2022, by the board.

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



Anne Costain
Director

Date: 18 August 2023

STONEWATER FUNDING PLC

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF STONEWATER FUNDING PLC

Opinion on the financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Company's affairs as at 31 March 2023 and of its profit for the year then ended;
- the financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Stonewater Funding PLC for the year ended 31 March 2023, which comprise statement of comprehensive income, the statement of financial position, the statement of changes in equity and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's 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. Our audit opinion is consistent with the additional report to the Risk and Assurance Committee.

Independence

Following the recommendation of the Risk and Assurance Committee, we were appointed by the Directors on 6 October 2015 to audit the financial statements for the year ended 31 March 2016 and subsequent financial periods. The period of total uninterrupted engagement including retenders and reappointments is 8 years, covering the years ended 31 March 2016 to 31 March 2023.

We remain independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services prohibited by that standard were not provided to the Company.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the Directors' assessment of the Company's ability to continue to adopt the going concern basis of accounting included:

- We obtained the directors' going concern assessment which includes assessment of the recoverability of on lent funds to the group and other group entities. As such our work has focussed on the directors' review of the group business plans.
- Assessment of the internal forecasting process to confirm the projections are prepared by appropriate personnel that are aware of the detailed figures in the forecast but also to have a high-level understanding of the entity's market, strategy and profile in the customer base.
- Obtaining details and assessing the availability of financing facilities, including the nature of facilities, repayment terms and financial covenants. We considered management's financial covenant compliance calculations through to December 2024 and confirmed the consistency of such calculations with the ratios stated in the relevant lender agreements.
- Consideration of the forecasts prepared by management and challenge of the key assumptions based on our knowledge of the business. As referred to in going concern accounting policy, management has

STONEWATER FUNDING PLC

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF STONEWATER FUNDING PLC

modelled the financial plan against adverse changes in economic conditions including inflation and interest rates.

- We challenged management on the suitability of the mitigating actions identified by management in their assessment and the quantum and period ascribed to these mitigating actions. We have reviewed the stress testing scenarios modelled by management, which include assessing the impact on covenant compliance when sensitising the model for changes in interest rates and inflation. We did not note any significant omissions from the stress testing performed.
- We considered the adequacy of the disclosures in the financial statements against the requirements of the accounting standards and consistency of the disclosure against the forecasts and stress test scenario.

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

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

Overview

Key audit matters	<table><thead><tr><th></th><th>2023</th><th>2022</th></tr></thead><tbody><tr><td>Recoverability of amounts owed by group undertakings</td><td>✓</td><td>✓</td></tr></tbody></table>		2023	2022	Recoverability of amounts owed by group undertakings	✓	✓
	2023	2022					
Recoverability of amounts owed by group undertakings	✓	✓					
Materiality	<i>Financial statements as a whole</i> £220,000 (2022: £200,000) based on 1% (2022: 1%) of revenue						

An overview of the scope of our audit

Our audit was scoped by obtaining an understanding of the Company and its environment, including the system of internal control, and assessing the risks of material misstatement in the financial statements. We also addressed the risk of management override of internal controls, including assessing whether there was evidence of bias by the Directors that may have represented a risk of material misstatement.

Key audit matters

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

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INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF STONEWATER FUNDING PLC

Key audit matter		How the scope of our audit addressed the key audit matter
<p>Recoverability of amounts owed by group undertakings</p> <p>As disclosed in note 7 of the Financial Statements the company is owed £747,866,000 by Group companies</p>	<p>As the entity on-lends to two of the Group's Registered Providers, the principal risk facing the entity is that these entities will be unable to make its interest or principal payments when they fall due. Recoverability of these balances is specifically tied to the future viability of the Group's Registered Providers and needs to be reviewed at each balance sheet date.</p> <p>The directors of the entity have confirmed their review of the viability assessment as demonstrated by the updated 30-year business plans prepared by the Group's Registered Providers and assessed that there are no factors or events that may cast doubt on the ability of it to continue to operate for the foreseeable future, and as a result, will be able to make its interest or principle payments when they fall due.</p> <p>The directors' updated 30-year business plans involves a number of subjective judgements. We have therefore spent significant audit effort in assessing the appropriateness of the assumptions involved, and as such this was identified as a Key Audit Matter.</p>	<p>Our audit response involved the following procedures on the long-term forecasts of the Group to assess the ability of the Registered Providers to repay their debt to the Company</p> <ul style="list-style-type: none"> • Challenge of the internal forecasting process, including ensuring that the projections are prepared by appropriate personnel, as well as ensuring the forecasts are consistent with our understanding of the Group's market, strategy and profile in the customer base. • Obtaining and assessing the availability of financing facilities, including the nature of facilities, repayment terms and ability of the Registered Providers to remain within financial covenants limits. • Consideration of the forecasts prepared by management and challenge of the key assumptions based on our knowledge of the business. As referred to in the going concern accounting policy management has modelled adverse changes in inflation, interest rates as well as multi-faceted scenarios. We have considered the appropriateness of the downside scenarios and challenged management to confirm that they have suitably addressed the inputs, which are most susceptible to change, including those in respect of revenue, margins and cost savings. • We challenged management on the suitability of the mitigating actions identified by them in their assessment and the quantum and period ascribed to these mitigating actions. We reviewed the reasonableness of the proposed mitigations and if the mitigations were entirely in the control of management to action.

STONEWATER FUNDING PLC

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF STONEWATER FUNDING PLC

	Key observations: We noted no material exceptions through performing these procedures
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Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements.

In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

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

	Company financial statements	
	2023 £	2022 £
Materiality	£220,000	£200,000
Basis for determining materiality	1% of revenue	1% of revenue
Performance materiality	£144,000	£140,000
Basis for determining performance materiality	70% of materiality	70% of materiality

Rationale for the benchmarks applied

We used finance income for our chosen benchmark to determine materiality as the entity on-lends funds raised in the capital markets to group companies and therefore the revenue generated from these activities is the area that will have greatest impact on decisions made by users of the accounts. We have determined that 70% of materiality is an appropriate basis for performance materiality based on our previous experience of the audit and factors such as the low levels of misstatements previously identified partially offset by areas in the financial statements subject to estimation uncertainty.

Reporting threshold

We agreed with the Risk and Assurance Committee that we would report to them all individual audit differences in excess of £4,000 (2022: £4,000). We also agreed to report differences below this threshold that, in our view, warranted reporting on qualitative grounds.

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INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF STONEWATER FUNDING PLC

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report and financial statements other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. 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 course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. 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 in this regard.

Other Companies Act 2006 reporting

Based on the responsibilities described below and our work performed during the course of the audit, we are required by the Companies Act 2006 and ISAs (UK) to report on certain opinions and matters as described below.

Strategic report and Directors' report	<p>In our opinion, based on the work undertaken in the course of the audit:</p> <ul style="list-style-type: none">• the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and• the Strategic report and the Directors' report have been prepared in accordance with applicable legal requirements. <p>In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic report or the Directors' report.</p>
Matters on which we are required to report by exception	<p>We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:</p> <ul style="list-style-type: none">• 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• the Company financial statements and the part of the Directors' remuneration report to be audited are not in agreement with the accounting records and returns; or• certain disclosures of Directors' remuneration specified by law are not made; or• we have not received all the information and explanations we require for our audit.

Responsibilities of Directors

As explained more fully in the Directors' responsibilities statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors 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

STONEWATER FUNDING PLC

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF STONEWATER FUNDING PLC

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.

Auditor's 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 auditor's 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.

Extent to which the audit was capable of detecting irregularities, including fraud

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

Non-compliance with laws and regulations

Based on:

- Our understanding of the Company and the industry in which it operates;
- Discussion with management and those charged with governance; and
- Obtaining and understanding of the Company's policies and procedures regarding compliance with laws and regulations

we considered the significant laws and regulations to be the applicable accounting framework, and the laws and regulations relating to the company's registration with Companies House.

The Company is also subject to laws and regulations where the consequence of non-compliance could have a material effect on the amount or disclosures in the financial statements, for example through the imposition of fines or litigations. We identified such laws and regulations to be compliance with tax legislation.

Our procedures in respect of the above included:

- Review of minutes of meeting of those charged with governance for any instances of non-compliance with laws and regulations;
- Review of correspondence with regulatory and tax authorities for any instances of non-compliance with laws and regulations;
- Review of financial statement disclosures and agreeing to supporting documentation; and
- Involvement of tax specialists in the audit.

Fraud

We assessed the susceptibility of the financial statements to material misstatement, including fraud. Our risk assessment procedures included:

- Enquiry with management and those charged with governance regarding any known or suspected instances of fraud;
- Obtaining an understanding of the Company's policies and procedures relating to:
 - Detecting and responding to the risks of fraud; and
 - Internal controls established to mitigate risks related to fraud.
- Review of minutes of meeting of those charged with governance and internal audit reports for any known or suspected instances of fraud; and
- Discussion amongst the engagement team as to how and where fraud might occur in the financial statements;

STONEWATER FUNDING PLC

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF STONEWATER FUNDING PLC

Based on our risk assessment, we considered the areas most susceptible to fraud to be management override in relation to the posting of journals and estimations made in relation to the assessment by management of the recoverability of amounts owed to group undertakings.

Our procedures in respect of the above included:

- Testing a sample of journal entries throughout the year, which met a defined risk criteria, by agreeing to supporting documentation; and
- Challenging assumptions made by management in their significant accounting estimates in particular in relation to the recoverability of amounts owed by group undertakings.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Our audit procedures were designed to respond to risks of material misstatement in the financial statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion. There are inherent limitations in the audit procedures performed and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we are to become aware of it.

A further description of our responsibilities is available on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

DocuSigned by:

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Philip Cliftlands (Senior Statutory Auditor)

For and on behalf of BDO LLP, Statutory Auditor

London, UK

Date 20 September 2023

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

STONEWATER FUNDING PLC

**STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 MARCH 2023**

	Note	2023 £000	2022 £000
Revenue	2	22,310	19,968
Gross profit		<u>22,310</u>	<u>19,968</u>
Administrative expenses		(241)	(108)
Operating profit	3	<u>22,069</u>	<u>19,860</u>
Interest payable and expenses	5	(22,005)	(19,810)
Profit before tax		<u>64</u>	<u>50</u>
Tax on profit	6	-	-
Profit and total comprehensive income for the year		<u><u>64</u></u>	<u><u>50</u></u>

The notes on pages 18 to 25 form part of these financial statements.

STONEWATER FUNDING PLC
REGISTERED NUMBER: 08190978

STATEMENT OF FINANCIAL POSITION
AS AT 31 MARCH 2023

	Note	2023 £000	2022 £000
Current assets			
Debtors: amounts falling due after more than one year	7	747,866	748,083
Debtors: amounts falling due within one year	7	4,262	4,331
Bank and cash balances		138	141
		<u>752,266</u>	<u>752,555</u>
Creditors: amounts falling due within one year	8	(5,453)	(5,721)
Net current assets		<u>746,813</u>	<u>746,834</u>
Total assets less current liabilities		<u>746,813</u>	<u>746,834</u>
Creditors: amounts falling due after more than one year	9	(746,749)	(746,779)
Net assets		<u><u>64</u></u>	<u><u>55</u></u>
Capital and reserves			
Called up share capital	11	50	50
Profit and loss account		14	5
Shareholders' Funds		<u><u>64</u></u>	<u><u>55</u></u>

The financial statements were approved and authorised for issue by the Board of Directors and were signed on its behalf on 18 August 2023.



Anne Costain
Director



Nicholas Harris
Director

The notes on pages 18 to 25 form part of these financial statements.

STONEWATER FUNDING PLC

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 MARCH 2023**

	Called up share capital £000	Profit and loss account £000	Total equity £000
At 1 April 2022	50	5	55
Comprehensive income for the year			
Profit for the year	-	64	64
Payment of taxable profit under gift aid (Note 6)	-	(50)	(50)
Payment of prior year taxable profit under gift aid	-	(5)	(5)
At 31 March 2023	<u>50</u>	<u>14</u>	<u>64</u>

The notes on pages 18 to 25 form part of these financial statements.

STONEWATER FUNDING PLC

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 MARCH 2022**

	Called up share capital	Profit and loss account	Total equity
	£000	£000	£000
At 1 April 2021	50	-	50
Comprehensive income for the year			
Profit for the year	-	50	50
Payment of taxable profit under gift aid	-	(45)	(45)
At 31 March 2022	<u>50</u>	<u>5</u>	<u>55</u>

The notes on pages 18 to 25 form part of these financial statements.

STONEWATER FUNDING PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023

1. General information

Stonewater Funding PLC is a public limited company, limited by shares, incorporated in England and Wales.

It is a subsidiary of a public benefit entity. The registered office and number is disclosed on the company information page.

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 financial statements are presented in Sterling (£'000) to the nearest thousand except where specifically stated otherwise.

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

The accounts are prepared under the historic cost basis, with the exception certain loans held at amortised cost where appropriate.

In preparing the financial statements, the company has taken advantage of the following disclosure exemptions available in FRS 102 to subsidiary undertakings:

- > No cash flow statement has been presented.
- > Disclosures in respect of the financial instruments have not been presented.
- > Disclosure in respect of related party transactions with intra group companies.

This information is included in the consolidated financial statements of Stonewater Limited as at 31 March 2023, and these financial statements may be obtained from the registered office as disclosed on the company Information page.

The following principal accounting policies have been applied:

STONEWATER FUNDING PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023

2. Accounting policies (continued)

2.2 Going Concern

The current economic environment continues to be challenging for both customers and the organisation. Over the last twelve months, the UK has experienced significant levels of inflation arising from increased energy costs and supply issues due to the ongoing war in the Ukraine. This was on the back of two years of Covid and Brexit related labour and material supply challenges.

Key considerations were access to liquidity, valuation of properties, expected rent arrears and bad debts and the market for new shared ownership properties that have been completed or are under construction. The directors of the company are therefore satisfied that it can continue as a going concern itself.

The ability of the company to continue as a going concern is dependent on the condition of the members of the Stonewater Group to which loans have been made. The Group has carried out a review of the 30 year business plans of each entity including stress testing for unfavourable economic and financial conditions, and concluded that they can be expected to continue as going concerns for at least the next 12 months from the date on which the financial statements were approved for release.

2.3 Revenue

Revenue represents interest receivable on loans to other group companies and management fees receivable from other group companies. All revenue is generated within the UK.

Revenue represents income receivable from group companies in relation to the on-lending of the finance raised which is recognised on an accruals basis as it falls due.

2.4 Finance costs

Finance costs are charged to the Statement of Comprehensive Income over the term of the debt using the effective interest rate method so that the amount charged is at a constant rate on the carrying amount. Issue costs are initially recognised as a reduction in the proceeds of the associated capital instrument.

2.5 Debtors and creditors

Debtors and creditors with no stated interest rate and receivable or payable within one year are recorded at transaction price. Any losses arising from impairment are recognised in the Statement of Comprehensive Income in other operating costs.

STONEWATER FUNDING PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023

2. Accounting policies (continued)

2.6 Bonds and loans

All bonds and loans held by the company are classified as basic financial instruments in accordance with FRS102. These instruments are initially accounted for at the transaction price less any transaction costs (historical cost). FRS102 requires that basic financial instruments are subsequently measured at amortised cost using the effective interest rate method. The effective interest rate is the rate that exactly discounts estimated future cashflows through the expected life of the financial asset or liability or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

The company has calculated that the difference between the historical cost and amortised cost basis is not material and so financial instruments are stated on the statement of financial position at historical cost. The premiums and discounts related to the bonds and bond on lending are accounted for using the effective interest rate method. Loans and bonds that are payable or receivable within one year are not discounted.

2.7 Tax and gift aid

The company makes a qualifying donation of all taxable profits to a charitable group company. The gift aid paid during the year is reflected in the accounts and any remaining taxable profit not paid by the year end will be paid within 9 months of the year end.

3. Operating profit

	2023	<i>2022</i>
	£000	<i>£000</i>
Fees payable to the company's auditor and its associates for the audit of the company's annual financial statements	<u>33</u>	<u>16</u>

4. Employee numbers and Directors remuneration

The directors are employed by, and their remuneration is paid by Stonewater Limited

The company does not have any employees. The cost of staff is incurred and paid by Stonewater Limited.

Employee information, including pension costs, and directors' remuneration, are disclosed in the financial statements of Stonewater Limited, the ultimate parent company.

STONEWATER FUNDING PLC

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2023**

5. Interest payable and similar expenses

	2023	<i>2022</i>
	£000	<i>£000</i>
Interest payable on Bonds and Notes	22,183	<i>19,975</i>
Amortisation of bond premium	(560)	<i>(476)</i>
Amortisation of bond discount	320	<i>245</i>
Amortisation of issue costs	62	<i>66</i>
	<u>22,005</u>	<i><u>19,810</u></i>

6. Taxation on profit on ordinary activities

	2023	<i>2022</i>
	£000	<i>£000</i>
Tax reconciliation		
Profit and total comprehensive income for the year	64	<i>50</i>
Payment of taxable profit under gift aid by the year end	(50)	<i>(45)</i>
Gift aid pledged and to be paid within 9 months of the year end	(14)	<i>(5)</i>
Profit subject to Corporation Tax	<u>-</u>	<i><u>-</u></i>

The tax charge for the year is £nil (2022: £nil)

STONEWATER FUNDING PLC

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2023**

7. Debtors

	2023	2022
	£000	£000
Due after more than one year		
Amounts owed by group undertakings	747,866	748,083
	<u>747,866</u>	<u>748,083</u>
	2023	2022
	£000	£000
Due within one year		
Amounts owed by group undertakings	4,256	4,331
Prepayments	6	-
	<u>4,262</u>	<u>4,331</u>

8. Creditors: Amounts falling due within one year

	2023	2022
	£000	£000
Interest accrual	4,253	4,273
Other creditors	23	22
Bond premium	571	561
Bond discounts	(386)	(201)
Issue costs	(39)	(66)
Amounts owed to group undertakings	1,031	1,132
	<u>5,453</u>	<u>5,721</u>

STONEWATER FUNDING PLC

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2023**

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

	2023	<i>2022</i>
	£000	<i>£000</i>
Bonds and loan notes	743,289	<i>743,289</i>
Bond discount	(6,986)	<i>(7,491)</i>
Issue costs	(1,438)	<i>(1,473)</i>
Bond premium	11,884	<i>12,454</i>
	746,749	<i>746,779</i>

10. Bonds and notes

The company is the issuer under Stonewater's £1 billion Euro Medium Term Note programme which was most recently updated in September 2022. In September 2021 the company issued a £250m bond from the programme under Stonewater's sustainable finance framework.

The company has in issue Public Bonds and Private Placement Notes. The Public Bonds do not contain financial covenants. The Private Placements Notes contain interest cover tests of 1:1 (annual) and 1.1:1 (3 years) and a gearing test where Total Debt is not to exceed 70% of historic cost of properties. However, these covenant tests are at Group level, not for Stonewater Funding PLC.

Both the bonds and the notes are secured by the assets of each borrower to whom proceeds are on lent, and there are cross guarantees in place if on enforcement there is a shortfall in security.

At 31 March 2023 the bonds and notes had a market value as follows:

	Market value per £100	Total Market Value
	£000	£000
£125m of 5.034% 2042 bonds	99.77	124,716
£50m of 3.03% Series A notes	69.02	34,507
£50m of 3.03% Series B notes	68.69	34,347
£15.3m of 3.25% Series C notes	73.98	11,319
£75m of 3.04% 2050 Private Placement	67.67	50,752
£178m of 3.375% 2045 Bonds	78.37	139,504
£250m of 1.625% 2036 Bonds	68.29	170,720
Total		565,865

Total market value of £565,865k compares to book value, excluding issue costs, of £748,372k.

The funds from the above issues have been on lent to the other group companies who provide security for the borrowings.

STONEWATER FUNDING PLC

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2023**

10. Bonds and notes (continued)

At 31 March 2022 the bonds and notes had a market value as follows:

	Market value per £'000	Total Market Value
	£000	£000
£125m of 5.034% 2042 bonds	115.27	144,086
£50m of 3.03% Series A notes	89.40	44,698
£50m of 3.03% Series B notes	88.47	44,236
£15.3m of 3.25% Series C notes	95.86	14,667
£75m of 3.04% 2050 Private Placement	87.86	65,893
£178m of 3.375% 2045 Bonds	94.33	167,907
£250m of 1.625% 2036 Bonds	86.56	216,470
Total		697,957

Total market value of £697,957k compares to book value, excluding issue costs, of £748,612k.

The maturity of the bonds and notes is as follows:

Maturity of debt:	Total 2023 £000	Total 2022 £000
In one year or less, or on demand	(185)	(360)
Issue costs less than 1 year	39	66
Less than one year (note 8)	(146)	(294)
In more than one year but not more than two years	(200)	(352)
In more than two years but not more than five years	(699)	(1,187)
After five years	(747,288)	(746,713)
Issue costs	1,438	1,473
Greater than one year (note 9)	(746,749)	(746,779)
Total loans	(746,895)	(747,073)

STONEWATER FUNDING PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023

11. Share capital

	2023 £	2022 £
Authorised		
50,000 (2022 - 50,000) Ordinary shares of £1 each shares of £1.00 each	<u>50,000</u>	<u>50,000</u>
Allotted, called up and fully paid		
50,000 (2022 - 50,000) Ordinary shares of £0.25 per share	<u>12,500</u>	<u>12,500</u>
Allotted, called up and unpaid		
50,000 (2022 - 50,000) Ordinary shares of £0.75 per share	<u>37,500</u>	<u>37,500</u>

The share capital of the company consists of shares with a nominal value of £1 each, which carry no rights to dividends or other income.

12. Controlling party

The company is a subsidiary undertaking of Stonewater Limited which is the ultimate parent undertaking, a registered society under the Co-operative & Community Benefit Societies Act 2014 and a registered social housing provider with the Regulator of Social Housing.

The consolidated financial statements of Stonewater Limited are available to the public and may be obtained from the Company Secretary, Suite C Lancaster House, Grange Business Park, Enderby Road, Whetsone, Leicester, LE8 6EP.