

**Stonewater Funding PLC**

Strategic Report, Directors' Report and Financial statements

Registered number 8190978

Year to 31 March 2016

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## Strategic Report

### Principal activities

The principal activity of the company is to act as the capital markets issuance vehicle for the Stonewater group.

### Business review

Interest received increased by 25% compared to last year due to the additional on-lending to Stonewater Limited (£25m) and Stonewater 2 Limited (£20m) during the year and associated interest charged in relation to this on-lending.

A gift aid payment of £39k was made to Stonewater (5) Limited during the year (2015: £17k).

Stonewater Funding plc has issued £200 million 5.034% 2042 bonds, from an initial £100 million issue in 2012 and a £100 million tap issue in 2015. As at 31<sup>st</sup> March 2016, of the £125 million proceeds (in nominal terms), £75 million has been on-lent to Stonewater Limited, £30 million to Stonewater (5) Limited and £20 million to Stonewater (2) Limited.

During the year Moody's Investor Services reviewed its rating of the whole Stonewater group, and confirmed the A1 rating, with a stable outlook.

The bond is secured by the assets of each borrower and cross-guarantees if there is a shortfall in security. The covenant that must be complied with is

- A minimum level of asset cover of 105% on an Existing Use Value basis or 115% on a Market Value Subject to Tenancies basis.

During the year 406 properties were charged to provide security for the additional £25 million bond with Stonewater Limited, and 435 properties were charged to provide security for the £20 million bond on lent to Stonewater (2) Limited.

### Future outlook

Stonewater Funding plc has £75 million of retained bonds that it can sell in order to on lend to Stonewater group companies.

### Principal risks and uncertainties

Stonewater Funding plc on-lends the proceeds from the bond issue to the Group's Registered Providers, Stonewater Limited, Stonewater (2) Limited and Stonewater (5) Limited. The main risk facing Stonewater Funding plc is that they are unable to make interest or principal payments when they fall due. This risk is mitigated as Stonewater Funding plc on lends funds under secured loan agreements which are backed by the housing assets of each borrower, and cross guarantees 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 Stonewater Funding plc in another way, then Stonewater Funding plc can enforce the security under the loan. Further risk mitigation is evidenced by the annual credit ratings given by Moody's Investor Services which evidence that the financial performance of the Stonewater Group is deemed to be strong.

## Directors' Report

The directors present their report and financial statements for the year ended 31<sup>st</sup> March 2016.

### Directors

The directors who have held office in the period as follows

Peter Hammond (Chair)  
George Blunden  
David Field (to 31 March 2016)  
John Bruton  
John Weguelin  
Nicholas Harris

### Policy on payment of creditors

The company does not have any suppliers. Payments of interest to the bond holders are made by the due date as per the bond document.

### Political and charitable contributions

The company made no political or charitable donations or incurred any political expenditure during the year. (2015:nil)

### Dividends

No dividends were recommended during the current year or prior year.

### Disclosure of information to auditors

The directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditor is unaware, and each director has taken all the steps that he ought to have taken as a board member to make himself aware of any relevant audit information and to establish that the company's auditor is aware of that information.

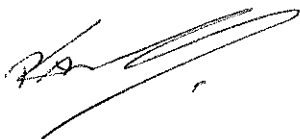
### Auditor

Following a re-tendering exercise BDO were appointed as Stonewater's external auditors for 2015-16 on 6 October 2015

By order of the Board

Peter Hammond

Chair



Suite C Lancaster House  
Grange Business Park  
Enderby Road  
Whetstone  
Leicester  
LE8 6EP

26 July 2016

## **Statement of Directors' responsibilities in respect of the Strategic Report, Directors' Report and the financial statements**

The directors are responsible for preparing the Strategic Report, 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 they have elected to prepare the financial statements in accordance with United Kingdom Generally Accounting Practice (Financial Reporting Standard 102 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 these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and 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; 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 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. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

## **Independent auditor's report to the members of Stonewater Funding Plc**

We have audited the financial statements of Stonewater Funding plc for the year ended 31 March 2016 which comprise the Balance Sheet, the Statement of Comprehensive Income, the Statement of Changes in Equity and the related notes. The financial reporting framework that has been applied in their preparation is 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'.

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.

### **Respective responsibilities of directors and auditor**

As explained more fully in the statement of directors' responsibilities Statement set out on page 3, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Financial Reporting Council's (FRC'S) Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

A description of the scope of an audit of financial statements is provided on the FRC'Ss website at [www.frc.org.uk/auditscopeukprivate](http://www.frc.org.uk/auditscopeukprivate).

### **Opinion on 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 2016 and of its result for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### **Opinion on other matter prescribed by the Companies Act 2006**

In our opinion the information given in the Strategic Report, Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception:

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; 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.



Kyla Bellingall

BDO LLP, statutory auditor

Birmingham

United Kingdom

5 August 2016

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

## Statement of Comprehensive Income

*For the Year ended 31 March 2016*

		2016	2015
		£'000	£'000
	<i>Note</i>		
Turnover		6,130	4,490
Administrative expenses		(77)	(100)
Gift aid		(39)	(17)
<b>Operating Profit</b>		<u>6,014</u>	<u>4,373</u>
Interest receivable and similar income	4	32	426
Interest payable and similar charges	5	(6,046)	(4,799)
<b>Profit on ordinary activities and total comprehensive income for the year</b>	2	<u>-</u>	<u>-</u>

All amounts relate to continuing activities.

## Statement of Changes in Equity

*For the Year ended 31 March 2016*

	£'000	£'000
<b>Opening shareholders funds</b>	13	13
<b>Profit for the financial year</b>	-	-
<b>Closing shareholders funds</b>	<u>13</u>	<u>13</u>

The notes on pages 7-11 form part of these financial statements.

## Balance Sheet

At 31 March 2016

	<i>Note</i>	<b>2016</b>	2015
		<b>£'000</b>	£'000
<b>Non-Current Assets</b>			
Debtors due after more than one year	6	<b>133,757</b>	81,965
<b>Current Assets</b>			
Debtors due within one year	6	<b>77</b>	1
Short term Investment		-	50,398
Cash at bank		<b>413</b>	2,435
<b>Creditors</b> amounts falling due within one year	7	<b>(163)</b>	(341)
<b>Total assets less current liabilities</b>		<u><b>134,084</b></u>	<u>134,458</u>
<b>Creditors:</b> amounts falling due after more than one year	8	<b>(134,071)</b>	(134,445)
<b>Net assets</b>		<u><b>13</b></u>	<u>13</u>
<b>Capital and reserves</b>			
Called up share capital	9	<b>13</b>	13
Reserves		-	-
<b>Shareholders' funds</b>		<u><b>13</b></u>	<u>13</u>

These financial statements were approved by the board of directors and were authorised for issue on 26 July 2016.



Peter Hammond

*Chair of Board*



George Blunden

*Board Member*

The notes on pages 7-11 form part of these financial statements.



## Notes to the Financial Statements

### 1. Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements

#### ***Basis of preparation***

The financial statements have been prepared in accordance with applicable law and UK accounting standards (United Kingdom Generally Accepted Accounting Practice) which includes the FRS 102 "the Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland".

As a consolidated cashflow statement is prepared by the Company's parent, Stonewater Limited, the directors have taken advantage of the exemption provided by section 1.12 (b) of FRS102 not to report a separate statement of cashflows. In accordance with the requirements of FRS102, the parent company as sole shareholder has been notified of the intention to take advantage of the reduced disclosure framework and does not object.

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 Group's accounting policies.

The following principal accounting policies have been applied:

#### ***Going Concern***

The financial statements have been prepared on a going concern basis, which assumes that the Company will continue trading. The directors have prepared forecasts based on current expectations of future market conditions and consider that the Company is able to continue to trade and settle all liabilities as they fall due for at least twelve months from the date of signing these financial statements.

#### ***Taxation***

The charge for taxation is based on the profit for the period and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date.

#### ***Financial instruments***

All loans are classified as basic financial instruments in accordance with FRS 102. These instruments are initially recorded at the transaction price less any transaction costs (historical cost), FRS 102 requires that basic financial instruments are subsequently measured at amortised cost, however the Company has calculated that the difference between the historical cost and amortised cost basis is not material and so these financial instrument are stated on the balance sheet at historical cost.

## Notes to the Financial Statements

### 1. Accounting policies

#### Turnover

Turnover represents interest receivable on loans to Stonewater Group members and management fee receivable from other group undertakings.

#### Finance costs

Finance costs are charged to profit or loss 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. Profit on Ordinary Activities

Profit on ordinary activities before taxation for the year is stated after charging:

	<b>2016</b>	2015
	<b>£'000</b>	£'000
Auditors remuneration – audit services	<b>7</b>	7
Auditors remuneration-other services	-	3
	<hr/>	<hr/>
	<b>7</b>	10
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### 3. Remuneration of directors

The directors are employed by Stonewater Limited and the cost of directors is incurred and paid by Stonewater Limited.

#### Staff numbers and costs

The company does not have any employees. The cost of staff is incurred and paid by Stonewater Limited. Employee information, including pension costs, is disclosed in the financial statements of Stonewater Limited, the ultimate parent company.

### 4. Interest receivable and similar income

	<b>2016</b>	2015
	<b>£'000</b>	£'000
Bank interest receivable	<b>32</b>	426
	<hr/>	<hr/>

## Notes to the Financial Statements

### 5. Interest payable and similar charges

	<b>2016</b>	2015
	<b>£'000</b>	£'000
Interest payable on bonds	<b>6,292</b>	4,952
Amortisation of premium	<b>(246)</b>	(153)
	<b>6,046</b>	4,799

### 6. Debtors

	<b>2016</b>	2015
	<b>£'000</b>	£'000
<i>Due within one year</i>		
Interest due on short term investment	-	1
Amount owed by group undertakings	<b>77</b>	-
<i>Due after more than one year</i>		
Amounts owed by group undertakings	<b>133,757</b>	81,965

Loans due from group undertakings are due for repayment in line with the bond repayments in 2042.

### 7. Creditors: amounts falling due within one year

	<b>2016</b>	2015
	<b>£'000</b>	£'000
Amounts owed to group undertakings	<b>39</b>	67
Other creditors	<b>124</b>	274
	<b>163</b>	341

## Notes to the Financial Statements

### 8. Creditors: amounts falling due after more than one year

	2016 £'000	2015 £'000
Bonds	125,000	125,000
Loan premium	9,071	9,445
	<u>134,071</u>	<u>134,445</u>

#### Bonds

No further issue of bonds was made during the year.

At 31<sup>st</sup> March 2016 the £125 million of bonds had a market value of £122.50 per £100, and a total value of £150,031,269.

Stonewater Funding plc has issued £200 million 5.034% 2042 bonds, from an initial £100 million issue in 2012 and a £100 million tap issue in 2015.

The SW Bond is repaid in Sept 2042, and the rate is 5.034%. Properties have been charged to fully secure the bonds.

#### Financial risk management

##### *Risk management objectives and policies*

The Stonewater Limited 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 market and then on lends these funds to Stonewater Limited, Stonewater (2) Limited and Stonewater 5 Limited on a similar fixed rate basis. As such, the company does not bear any interest rate risk, apart from the underlying credit risk to Stonewater Limited, Stonewater (2) Limited and Stonewater (5) Limited, which is discussed below. The company does not have any hedging activities and it does not have any derivatives.

#### Credit Risk

All of the company's capital markets financing proceeds are on-lent to Stonewater Limited, Stonewater (2) 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, Stonewater (2) Limited and Stonewater (5) Limited, the overall creditworthiness of the Group, the guarantees that Stonewater Limited, Stonewater (2) Limited and Stonewater (5) Limited have issued to the company and the contractual protections in the loan agreement itself.

### 9. Called up share capital

	2016 £'000	2015 £'000
<i>Allotted and issued and fully paid:</i> 12,500 Ordinary shares of £1 each	13	13

## Notes to the Financial Statements

### 10. Related party disclosures

As the Company is a wholly owned subsidiary of Stonewater Limited, it has taken advantage of the exemption in section 1.12 (e) regarding Related Party Disclosures and has therefore not disclosed transactions or balances with entities which form part of the Group.

### 11. Ultimate parent undertaking and parent undertaking of larger group of which the company is a member

The company is a subsidiary undertaking of Stonewater Limited which is the ultimate parent undertaking, a registered social housing provider with the Industrial and Provident Society.

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, Whetstone, Leicester, LE8 6EP.

### 12. First time adoption of FRS 102

The financial statements have been prepared for the first time under FRS 102 "the Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland". No changes have been required in relation to the Opening Balance Sheet as at 31 March 2014, Balance Sheet as at 31 March 2015 and the Income & Expenditure Account for the year ended 31 March 2015

