

# AMENDING

## **Stonewater Funding PLC**

Strategic Report, Directors' Report and Financial statements

Registered number 8190978

Year ended 31 March 2017

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## Directors and advisors

### Directors

The directors who have held office in the period as follows:-

Peter Hammond (Chair)

George Blunden

John Bruton

Nicholas Harris

John Weguelin

### Secretary and Registered Office

Anne Harling

Suite C Lancaster House

Grange Business Park

Enderby Road

Whetstone

Leicester

LE8 6EP

### Auditor

BDO LLP

Two Snowhill

Birmingham

B4 6GA

### Solicitor

Devonshires Solicitors

30 Finsbury Circus

London

ECM 7DT

### Principal Banker

Barclays Bank

Level 27

1 Churchill Place

London

E14 5HP

## Strategic report

### 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

Turnover consists of interest on intercompany loans and management fee receivable from group companies. The turnover for the year was £6.1m (2016: £6.1 million).

A gift aid payment of £57k was made to Stonewater (5) Limited during the year (2016: £39k).

The company issued £200 million 5.034% 2042 bonds listed on the London Stock Exchange, comprising an initial £100 million issue in 2012 and a £100 million tap issue in 2015. As at 31<sup>st</sup> March 2017, 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. The remaining £75 million in retained bonds were cancelled in December 2016.

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 to whom proceeds are on-lent, and cross-guarantees from them 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
- A minimum level of assets cover of 115% on a market value subject to tenancies basis.

### Future outlook

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

### Principal risks and uncertainties

The company 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 the company is that they are unable to make interest or principal payments 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 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.

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.

By order of the Board



Peter Hammond

Chair

Date 25/1/17

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

## Directors' report

The directors present their report and financial statements for the year ended 31<sup>st</sup> March 2017.

### Directors

The directors who have held office in the year are listed under Directors and advisors on page 1.

### 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.

### Dividends

No dividends were recommended during the current year. (2016: nil).

### 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

BDO were re-appointed as Stonewater's external auditors for 2016/17 on 23 August 2016.

By order of the Board



Peter Hammond

Chair

Date 23/2/17

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

## **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 2017 which comprise primary statements such as Statement of Financial Position, the Statement of Comprehensive Income, 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 auditors

As explained more fully in the statement of directors' responsibilities, 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's 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 2017 and of its result for the year then ended;
- have been properly prepared in accordance with United Kingdom 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, based on the work undertaken in the course of the audit:

- the information given in the Strategic report and Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic report and Directors' report have been prepared in accordance with applicable legal requirements.

## Matters on which we are required to report by exception:

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 and the Directors' report.

## Independent auditor's report to the members of Stonewater Funding Plc (continued)

### 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.

*BDO LLP*

Kyla Bellingall  
BDO LLP, statutory auditor  
Birmingham  
United Kingdom

21 September 2017

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 2017

	Note	2017 £'000	2016 £'000
Turnover		6,155	6,130
Administrative expenses		(60)	(77)
<b>Operating profit</b>	2	<u>6,095</u>	<u>6,053</u>
Interest receivable and similar income	4	-	32
Interest payable and similar charges	5	(6,037)	(6,046)
<b>Profit for the year</b>		<u>58</u>	<u>39</u>

All amounts relate to continuing activities.

## Statement of changes in equity

For the year ended 31 March 2017

	Note	2017 £	2017 £'000	2016 £	2016 £'000
		<b>Share capital</b>	<b>Reserves</b>	Share capital	Reserves
Opening shareholders' funds at 1 April		13	-	13	-
Share capital (unpaid)	9	37	-	-	-
Profit for the year		-	58	-	39
Distribution to group companies:					
- transfer or taxable profit under gift aid		-	(57)	-	(39)
<b>Closing shareholders' funds at 31 March</b>		<u>50</u>	<u>1</u>	<u>13</u>	<u>-</u>

The notes on pages 9 to 12 form part of these financial statements.

## Statement of financial position

At 31 March 2017

	Note	2017	2016
		£'000	£'000
<b>Non-current assets</b>			
Debtors due after more than one year	6	133,317	133,757
<b>Current assets</b>			
Debtors due within one year	6	242	77
Cash at bank		370	413
<b>Creditors</b> amounts falling due within one year	7	(235)	(163)
<b>Total assets less current liabilities</b>		133,694	134,084
<b>Creditors:</b> amounts falling due after more than one year	8	(133,643)	(134,071)
<b>Net assets</b>		51	13
<b>Capital and reserves</b>			
Called up share capital	9	50	13
Reserves		1	-
<b>Shareholders' funds</b>		51	13

These financial statements were approved by the board of directors and were authorised for issue on 25 July 2017.

Peter Hammond

Chair of Board

George Blunden

Board Member

The notes on pages 9 to 12 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".

The accounts are prepared under the historic cost basis except for the modification to a fair value basis for certain financial instruments as specified in the accounting policies below. The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires Group management to exercise judgement in applying the Group's accounting policies.

In preparing the financial statements, the Company has taken advantage of the following disclosure exemptions available in FRS 102:

- No cash flow statement has been presented;
- Disclosure 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 2017 and these financial statements may be obtained from the registered office as disclosed on page 2.

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.

#### ***Turnover***

Turnover represents interest receivable on loans to other group undertakings and management fee receivable from other group undertakings. All turnover is generated within the UK.

#### ***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.

#### ***Taxation and Gift aid***

The Company makes a qualifying donation of all taxable profits to a charitable group company. The gift aid is accrued in the accounts and paid within 9 months of the year end. No corporation tax liability arises in the accounts.

## Notes to the financial statements

### 2. Operating profit

Operating profit for the year is stated after charging:

	2017	2016
	£'000	£'000
Auditors remuneration: audit services	7	7
	7	7

### 3. Staff numbers and costs and remuneration of directors

The directors are employed by Stonewater Limited. The directors' remuneration is incurred and 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.

### 4. Interest receivable and similar income

	2017	2016
	£'000	£'000
Bank interest receivable	-	32
	-	32

### 5. Interest payable and similar charges

	2017	2016
	£'000	£'000
Interest payable on bonds	6,292	6,292
Amortisation of premium	(272)	(246)
Loan Issue Fees	17	-
	6,037	6,046

### 6. Debtors

	2017	2016
	£'000	£'000
<i>Due within one year:</i>		
Amount owed by group undertakings	242	77
<i>Due after more than one year:</i>		
Amounts owed by group undertakings	133,317	133,757

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

## Notes to the financial statements

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

	2017 £'000	2016 £'000
Amounts owed to group undertakings	51	39
Other creditors	184	124
	<u>235</u>	<u>163</u>

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

	2017 £'000	2016 £'000
<i>The bonds are repayable in more than 5 years</i>		
Bonds	125,000	125,000
Loan premium	8,860	9,071
Loan Issue Fees	(217)	-
	<u>133,643</u>	<u>134,071</u>

### Bonds

No further issue of bonds was made during the year.

At 31<sup>st</sup> March 2017 the £125 million of bonds had a market value of £130.68 per £100, and a total value of £163,354,174.

The company 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 remaining £75 million in retained bonds were cancelled in December 2016.

The bonds are finally repaid in September 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 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 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.

## Notes to the financial statements

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

#### *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

	2017 £'000	2016 £'000
<i>Allotted and issued and quarter paid:</i>		
50,000 Ordinary shares of £1 each (25p paid)	13	13
<i>Allotted and issued and unpaid:</i>		
50,000 Ordinary shares of £1 each (75p unpaid)	37	-

The voting rights are one vote per share.

### 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 society under the Co-operative & Community Benefit Societies Act 2014 and a registered social housing provider with the Homes & Communities Agency.

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. Post balance sheet events

After the year end the company has issued £100 million in secured notes sold to Pricoa Corporation. £75 million of the proceeds have been on-lent to Stonewater Limited and £25 million to Stonewater (2) Limited, with similar security and cross-guarantee arrangements to the Bond.