

STONEWATER FUNDING PLC
STRATEGIC REPORT, DIRECTORS'
REPORT AND FINANCIAL
STATEMENTS

For the year ending 31 March 2018



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Directors

The directors who have held office during the year were:

Peter Hammond (Chair)
John Bruton
George Blunden

Nicholas Harris
Tariq Kazi (from 13 March 2018)
John Weguelin

Secretary and registered office

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

Principal Bankers

Barclays Bank
Level 27
1 Churchill Place
London
E14 5HP

Advisers

Principal Solicitors

Devonshires Solicitors
30 Finsbury Circus
London EC2M 7 DT

Auditors

BDO LLP
Two Snowhill
Birmingham
B4 6GA

Company registered number: 8190978

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 £8.2m (2017: £6.2m).

A gift aid payment of £57k has been pledged to Stonewater (5) Limited for the year (2017: £57k).

The company has 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. Of the £125 million sold to the market (in nominal terms), £75 million has been on-lent to Stonewater Ltd, £30 million to Stonewater (5) Ltd and £20 million to Stonewater (2) Ltd. The remaining £75 million in retained bonds were cancelled in December 2016.

In July 2017 the company issued £100 million of Notes in a private placement to investors managed by PGIM Inc, and entered into a shelf facility for \$19.9m. The notes were issued at 3.03% (series A, amortising between 2038 and 2047) and 3.06% (series B bullet repayment 2047). £75m of the proceeds were on-lent to Stonewater Ltd and £25m to Stonewater (2) Ltd.

Each Stonewater subsidiary to whom Note proceeds are on lent has to comply with financial covenants:

- Interest Cover of 1:1 (annual) and 1.1 : 1 (3 years)
- Gearing: Total Debt not to exceed 70% of historic cost of properties.

Both the bond and the notes are 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.

In September 2017 following its downgrade of the UK Sovereign debt, Moody's Investor Services downgraded its rating of the Stonewater Group to A2, with a stable outlook.

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 its funding to the Group's Registered Providers: Stonewater Ltd, Stonewater (2) Ltd and Stonewater (5) Ltd.

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 to 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.

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 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.

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.

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.

Directors' report

The Directors present their report and financial statements for the year ended 31st March 2018.

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 and note holders are made by the due date as per the bond document.

Dividends

No dividends were recommended during the current year. (2017: 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. So far as they are aware there is no relevant audit information which they have not made the auditors aware of.

Auditor

BDO were re-appointed as Stonewater's external auditors for 2017/18 on 27 July 2017, by Risk and Assurance Committee who oversees risk management, the audit function and considers the annual financial statements and external and internal auditor's reports.

Statement of the Directors' responsibilities in respect of the Strategic report, Directors' report and the financial statements

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 board have elected to prepare the financial statements in accordance with UK Accounting Standards, including FRS102 The Financial Reporting Standard applicable in the UK and the Republic of Ireland.

The financial statements are required by law to give a true and fair view of the state of the company and of the profit and loss of the company for the 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 and the Statement of Recommended Practice 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 group and association will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that its financial statements comply with:-

- >The Companies Act 2006.

The directors have general responsibility for taking such steps as reasonably open to it to safeguarding the assets of the company and to prevent and detect of fraud and other irregularities.

Financial statements are published in accordance with UK legislation governing the preparation and dissemination of financial statements. The maintenance and integrity of the corporate and financial information is included on the companies' website. Legislation in the UK governing the preparation and dissemination of the financial statements may differ from legislation in other jurisdictions.

The report of the directors was approved on 24 July 2018 and signed on its behalf by:



Peter Hammond
Chair

24 July 2018

Independent auditor's report to the members of Stonewater Funding PLC

We have audited the financial statements of Stonewater Funding PLC ("the Company") for the year ended 31 March 2018, which comprise the Statement of Comprehensive Income, the Balance Sheet, 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).

In our opinion, the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 March 2018 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.

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 are 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 and public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the 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.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, 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) 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.

Due to the nature of the entity and its activities no key audit matters were identified.

Independent auditor's report to the members of Stonewater Funding PLC

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. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take into 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.

We determined materiality to be £81,000 (2017 - £2,100,000) which represents 1.0% revenue (2017 – 1.6% of total assets).

We have reflected on our chosen benchmark for materiality in the year and we now consider revenue to be the most appropriate basis to determine materiality based on our understanding of users interests. This is because 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.

Performance materiality is the application of materiality at the individual account or balance level set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole. Performance materiality was set at 70% (2017: 65%) of materiality.. In setting the level of performance materiality

we considered a number of factors including the expected total value of known and likely misstatements (based on past experience and other factors) and management's attitude towards proposed adjustments

We agreed with the Audit Committee that misstatements in excess of £2,000 (2017 - £42,000), which are identified during the audit, would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds

An overview of the scope of our audit

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the accounting processes and controls, the complexity of operations and the degree of estimation and judgement in the financial result

Other information

The Directors are responsible for the other information. The other information comprises the information included in the Strategic report and Directors' report, 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.

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.

Independent auditor's report to the members of Stonewater Funding PLC

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in 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 in this regard.

Opinions on other matters 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 Director's report.

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;

- 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.

Responsibilities of Directors

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, 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 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.

Independent auditor's report to the members of Stonewater Funding PLC

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.

A further description of our responsibilities for the audit of the financial statements is located at the Financial Reporting Council's website at:

<https://www.frc.org.uk/auditorsresponsibilities>.

This description forms part of our auditor's report.

Other matters on which we are required to report

We were appointed by the directors on 6 October 2015 to audit financial statements for the year ending 31 March 2016 and subsequent financial periods. The period of total uninterrupted engagement is 3 years, covering the years ending 31 March 2016 to 31 March 2018.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the company and we remain independent of the company in conducting our audit.

Our audit is consistent with the additional report to the directors.

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.



Kyla Bellingall (Senior Statutory Auditor)
For and on behalf of BDO LLP, statutory auditor
Birmingham
United Kingdom

8 August 2018

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

Statement of comprehensive income

		2018	2017
	Note	£'000	£'000
Turnover		8,160	6,155
Administrative expenses		(64)	(60)
Operating profit	2	8,096	6,095
Interest Payable and financing costs	5	(8,037)	(6,037)
Profit before tax		59	58
Tax on profit on ordinary activities	4	(1)	-
Profit and total comprehensive income for the year		58	58

All activities relate to continuing operations.

The notes on pages 13 to 17 form part of these financial statements.



Statement of financial position

Registered number: 8190978

		2018	2017
	Note	£'000	£'000
Non-current assets			
Debtors due after more than one year	6	232,416	133,317
Current assets			
Debtors due within one year	6	799	242
Cash at bank		328	370
Creditors			
Creditors: Amounts due in one year	7	(1,224)	(235)
Total assets less current liabilities		232,319	133,694
Creditors			
Creditors: amounts falling due after more than one year	8	(232,267)	(133,643)
Net assets		52	51
Capital and reserves			
Share capital	9	50	50
Income and expenditure reserve		2	1
		52	51

The notes on pages 13 to 17 form part of these financial statements.

The financial statements were approved by the Board of Directors and authorised for issue on 24 July 2018

 Peter Hammond Chair	 George Blunden Director
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Statement of changes in equity

	Share Capital	Reserves
	£'000	£'000
Opening balance at 1 April 2017	50	1
Profit and total comprehensive income for the year	-	58
Distribution to group companies:	-	-
-Transfer of taxable profit under gift aid	-	(57)
Balance at 31 March 2018	50	2
Opening balance at 1 April 2016	13	-
Share capital – unpaid (note 9)	37	-
Profit and total comprehensive income for the year	-	58
Distribution to group companies:	-	-
-Transfer of taxable profit under gift aid	-	(57)
Balance at 31 March 2017	50	1

The notes on pages 13 to 17 form part of these financial statements.



Notes to the financial statements

	General notes
1	Accounting policies
	Statement of Comprehensive Income related notes
2	Operating profit
3	Employee numbers, and Directors' remuneration
4	Taxation on surplus on ordinary activities
5	Interest payable and financing costs
	Statement of financial position related notes
6	Debtors
7	Creditors: amounts falling due within one year
8	Creditors: amounts falling due after more than one year
9	Share capital
10	Ultimate parent undertaking and parent undertaking

1. Accounting policies

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 page 1.

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 of the Group and association are prepared in accordance with UK Generally Accepted Accounting Practice (UK GAAP) including FRS102 "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" (FRS102).

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

The accounts are prepared under the historic cost basis. 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 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.
- > 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 2018, and these financial statements may be obtained from the registered office as disclosed on page 1.

The following principal accounting policies have been applied:

Going concern

After reviewing the company's budget for 2018/19 and based on normal strategic business planning and control procedures, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. The financial statements have therefore been prepared on a going concerned basis.

Turnover

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

Finance costs

Finance costs are charged to 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.

Tax 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. If the gift aid is not paid within 9 months the corporation tax liability arises in the accounts.

2. Operating profit

	2018	2017
	£'000	£'000
This is arrived at after charging:		
Auditors remuneration: audit services	8	7

3. Employees numbers and Directors remuneration

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. Tax on profit on ordinary activities

In 2018, £1,279 tax charge relates to an adjustment in respect of prior year.

5. Interest payable and financing costs

	2018	2017
	£'000	£'000
Interest payable on bonds	8,319	6,292
Amortisation of issue costs	(297)	(272)
Loan issue fees	15	17
Total	8,037	6,037

6. Debtors

	2018	2017
	£'000	£'000
Due within 1 year:		
Amounts owed by group undertakings	799	242
	799	242
Due more than one year:		
Amounts owed by group undertakings	232,416	133,317
	233,215	133,317

Loans due from Group undertakings are due for repayment in line with the bond and note repayment obligation of the company.

7. Creditors – amounts falling due within one year

	2018	2017
	£'000	£'000
Interest accrual	672	181
Other creditors	7	12
Loans premium	295	-
Issue costs	(14)	(9)
Amounts owed to group undertakings	264	51
	1,224	235

8. Creditors – amounts falling due after more than one year

	2018	2017
	£'000	£'000
Bonds	225,000	125,000
Loans premium	8,251	8,860
Issue costs	(984)	(217)
	232,267	133,643

Bonds and notes

The company has issued £200m 5.034% 2042 bonds, from an initial £100m issue in 2012 and a £100m tap issue in 2015. Of this £75m in retained bonds were cancelled in December 2016. Final repayment of the notes is in September 2042.

In July 2017 the company issued £100m of Notes and entered into a shelf facility for \$19.9m. £50m of the notes were issued at 3.03% (series A) and £50m were issued at 3.06% (series B). Final repayment of the notes is in July 2047.

At 31st March 2018 the £125m of bonds had a market value of £127.27 per £100, and a total value of £159,087,500. The 3.03% Notes, and had a market value of £98.19 per £100 and the remaining 3.06% Notes had a market value of £98.36 per £100, giving a total value for the £100m of Notes of £98,273,587.

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

9. Called up share capital

	2018	2017
	£'000	£'000
Allotted and issued and quarter paid:		
50,000 Ordinary shares of £1 each (25p paid)	13	13
Allotted and issued and unpaid:		
50,000 Ordinary shares of £1 each (75p unpaid)	37	37

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. Shares in issue are not capable of being repaid or transferred. When a shareholder ceases to be a member, that share is cancelled and the amount paid thereon becomes the property of Stonewater. Therefore, all shareholdings relate to non-equity interests.

10. Ultimate parent undertaking and parent undertaking

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.

