Registered number: 08190978

STONEWATER FUNDING PLC

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2021

STONEWATER FUNDING PLC

COMPANY INFORMATION

Directors	John Bruton Tariq Kazi Nicholas Harris Hugh Shields (Chair) (appointed 1 July 2020) Chris Edis (appointed 1 July 2020)
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 W1 7EU
Principal bankers	Barclays Bank Level 27 1 Churchill Place London E14 5HP
Principal solicitors	Devonshires Solicitors 30 Finsbury Circus London EC2M 7 DT

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STRATEGIC REPORT
FOR THE YEAR ENDED 31 MARCH 2021

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 for the year was £14.2m (2020: £11.9m) which predominantly consisted of interest receivable from group companies and management fees.

A gift aid payment of £56,000 was pledged to Stonewater (5) Limited for the year (2020: £148,500), of which £56,000 was paid in the year, a further £121,000 was paid in respect of gift aid pledged in the 2019/20 financial year.

The £75m 3.04% Senior Secured Notes with maturity June 2050 which were sold in the US Private Placement market in March 2020 settled in June 2020. Proceeds were on lent to Stonewater (2) Limited.

In March 2021 £75m of the 3.375% Bonds maturing November 2045 which had been sold on a deferred basis settled and the proceeds were onlent to Stonewater Limited, Stonewater (2) Limited and Stonewater (5) Limited. There are a further £28m of the 3.375% Bonds maturing November 2045 which have been sold on a deferred basis, and settle in September 2021.

£72m of the 3.375% bond remains retained by the company.

The Notes issued to PGIM Inc and the US Private Placement have Group 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. The bond issues do not have financial covenants.

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.

In May 2021, S&P Global Ratings affirmed Stonewater's A+ long term issuer credit rating and affirmed the A+ rating on bonds issued by Stonewater Funding PLC.

During the year the Stonewater Group undertook a partial collapse of its structure, reducing the number of registered providers in the Group from five to three. 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 31st March 2021.

Principal risks and uncertainties

The company on-lends the proceeds from its funding to three of the Group's Registered Providers: Stonewater Limited, Stonewater (2) 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 and Moody's Investor Services which evidence that the financial performance of the Stonewater Group is deemed to be strong.

The risks arising from the Covid-19 pandemic relate to the ability of the entities to which the company has made loans (all of which are members of the Stonewater group) to continue to meet their obligations under the loans. These are addressed in the going concern section of the Accounting policy note.

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, 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 of 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 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.

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 2021.

Board decision
The Board considered and agreed the long-term strategy for the sole customer, the Stonewater Group.
Consideration
The need to put in place long-term business plans. This impacts all stakeholders as a robust strategy is the foundation for maintaining the trust of all our external stakeholders.

Board decision
The Board disclosed information on the Group reorganisation
Consideration
The Board noted that the holders of bonds should be informed that the Stonewater Group had effected a corporate reorganisation.

Board decision
The Board disclosed information on succession plans
Consideration
The requirement to disclose information regarding Executive Director-Finance succession plans, as a Director of Stonewater Funding, under the Disclosure Guidance and Transparency Rules.

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.

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

John Bruton
Director

Date: 20 July 2021

DIRECTORS' REPORT
FOR THE YEAR ENDED 31 MARCH 2021

The directors present their report and the financial statements for the year ended 31 March 2021.

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 £56,000 *(2020 - £149,000*).

No dividends were recommended during the year (2020: nil).

Directors

The directors who served during the year were:

John Bruton
Tariq Kazi
Nicholas Harris
Peter Hammond (resigned 1 April 2020)
Hugh Shields (Chair) (appointed 1 July 2020)
Chris Edis (appointed 1 July 2020)

Future developments

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

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 2020/21 on 17 July 2020, by the Risk and Assurance Commitee which oversees risk management and the audit function, and considers the annual financial statements and external and internal auditor's reports.

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

John Bruton
Director

Date: 20 July 2021

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 2021 and of the profit for the year then ended;
- the company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been properly prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Stonewater Funding PLC (“the company”) for the year ended 31 March 2021, which comprise the 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 audit committee.

Independence

Following the recommendation of the group assurance and risk committee, we were appointed by the group board on 24 October 2018 to audit the financial statements for the year ending 31 March 2019 and subsequent financial periods. The period of total uninterrupted engagement including retenders and reappointments is 6 years, covering the years ending 31 March 2016 to 31 March 2021.

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 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 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 September 2022 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 the going concern accounting policy, management has modelled reasonably possible downside scenarios.
- We reviewed scenarios modelled by management including a reverse stress test to analyse the impact on covenant compliance in a scenario with multiple adverse conditions including increased LIBOR rates and inflation, a reduction in property sales and the level of voids and bad debt increasing. We challenged management on the suitability of the mitigating actions identified by in their assessment and quantum and the time period ascribed to these actions. We reviewed the reasonableness of the proposed mitigations and whether the mitigations were entirely in the control of management to action.
- 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

		2021	2020
Key audit matters	*Recoverability of intercompany debt*	□	□
Materiality	*Financial statements as a whole* £140,000 (2020: £120,000) based on 1% (2020: 1%) of turnover		

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.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF STONEWATER FUNDING PLC

Key audit matter		**How the scope of our audit addressed the key audit matter**
Recoverability of intercompany debt	As the entity on-lends to three of the Group's Registered Providers, the principle risk facing the entity is that these entities will be unable to make its interest or principal payments when they fall due.	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 Stonewater Funding PLC:
	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.	• 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.
As disclosed in note 7 of the Financial Statement the company is owed £476,227,000 by group companies	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. The directors' updated 30 year business plan involves a number of	• Obtaining and assessing the availability of financing facilities, including the nature of facilities, repayment terms and financial covenants. We noted that management's detailed covenant projections show significant headroom for the duration of the period considered which is to 31 March 2027 as well as the longer term 30 year business plan. • 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 reasonably possible downside 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.
	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.	• 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. Scenarios modelled by management include a reverse stress test to analyse the impact on covenant compliance in a scenario with multiple adverse conditions including LIBOR rates, inflation, reduction in property sales and the level of voids and bad debt. We reviewed the reasonableness of the proposed mitigations and if the mitigations were entirely in the control of management to action. • We have, in completing the review, considered the ability of the relevant Registered Providers to repay their debt to Stonewater Funding Plc as it falls due. *Key observations:* We noted no material exceptions through performing these procedures

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:

	2021 £	2020 £
Materiality	140,000	120,000
Basis for determining materiality	1% of Turnover	1% of Turnover
Performance materiality	£98,000	£84,000
Basis for determining performance materiality	70%	70%

Rationale for the benchmark applied

We used Turnover as 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.

Reporting threshold

We agreed with the Risk and Assurance Committee that we would report to them all individual audit differences in excess of £3,000 (2020: £2,000). We also agreed to report differences below this threshold that, in our view, warranted reporting on qualitative grounds.

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	In our opinion, based on the work undertaken in the course of the audit: • 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. 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.
Matters on which we are required to report by exception	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 by the Company, 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 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 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 is 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:

Based on our understanding of the company and the sector in which it operates, we identified that the principal risks of non-compliance with laws and regulations related to their registration with Companies House, and we considered the extent to which non-compliance might have a material effect on the Financial Statements or their continued operation. We also considered those laws and regulations that have a direct impact on the financial statements, such as compliance with tax legislation.

We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements and determined that the principal risks were related to the management override of controls by posting inappropriate journal entries to manipulate financial results and management bias in accounting estimates and judgements leading to material misstatement.

The audit procedures to address the risks identified included:

- Discussions with management, and internal audit, including consideration of known or suspected instances of non-compliance with laws and regulations and fraud;
- Reading minutes of meeting of those charged with governance, and reviewing correspondence with HMRC and Internal Audit;
- In addressing the risk of fraud through management override of controls; testing the appropriateness of journal entries and other adjustments, in particular any journals posted to cash and material journal adjustments.

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.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF STONEWATER FUNDING PLC

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.

Philip Cliftlands (Senior statutory auditor)

for and on behalf of

BDO LLP

55 Baker Street

Date: 22 July 2021
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 2021

	Note	2021 £000	*2020* *£000*
Turnover		**14,172**	*11,909*
Gross profit		**14,172**	*11,909*
Administrative expenses		**(81)**	*(72)*
Operating profit		**14,091**	*11,837*
Interest payable and expenses	5	**(14,035)**	*(11,688)*
Profit before tax		**56**	*149*
Tax on profit		**-**	*-*
Total comprehensive income for the year		**56**	*149*

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

STATEMENT OF FINANCIAL POSITION
AS AT 31 MARCH 2021

	Note		2021 £000		2020 £000
Current assets					
Debtors: amounts falling due after more than one year	7	**472,189**		*326,055*	
Debtors: amounts falling due within one year	7	**4,038**		*1,770*	
Bank and cash balances		**34**		*38*	
		476,261		*327,863*	
Creditors: amounts falling due within one year	8	**(5,006)**		*(3,025)*	
Net current assets			**471,255**		*324,838*
Total assets less current liabilities			**471,255**		*324,838*
Creditors: Amounts Falling Due After More Than One Year	9		**(471,205)**		*(324,663)*
Net assets			**50**		*175*
Capital and reserves					
Called up share capital	10		**50**		*50*
Profit and loss account			**-**		*125*
			50		*175*

The financial statements were approved and authorised for issue by the Board of Directors and were signed on its behalf on 20 July 2021.

John Bruton
Director

Nicholas Harris
Director

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

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 MARCH 2021

	Called up share capital	Profit and loss account	Total equity
	£000	£000	£000
At 1 April 2020	50	125	175
Comprehensive income for the year			
Profit for the year	-	56	56
Transfer of taxable profit under gift aid	-	(57)	(57)
Prior year gift aid payment	-	(124)	(124)
Total transactions with owners	-	(181)	(181)
At 31 March 2021	50	-	50

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

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 MARCH 2020

	Called up share capital	Profit and loss account	Total equity
	£000	£000	£000
At 1 April 2019	50	3	53
Comprehensive income for the year			
Profit for the year	-	149	149
Transfer of taxable profit under gift aid	-	(25)	(25)
Prior year gift aid payment	-	(2)	(2)
At 31 March 2020	50	125	175

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2021

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 2021, 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:

2. Accounting policies (continued)

2.2 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.

As circumstances continue to be uncertain in light of the on going pandemic, we will continue to carry out formal reviews on a regular basis.

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. 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.

2.3 Turnover

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

Turnover is recognised to the extent that it is probable that the economic benefits will flow to the Company and the turnover can be reliably measured. Turnover is measured as the fair value of the consideration received or receivable, excluding discounts, rebates, value added tax and other sales taxes. The following criteria must also be met before turnover is recognised:

2.4 Finance costs

Finance costs are charged to the Statement of Comprehensive Income over the term of the debt using the effective interest 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.

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 FRS 102. These instruments are initially accounted for 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 instruments are stated on the statement of financial position at historical cost. Loans and bonds that are payable or receivable within one year are not discounted.

Bonds and bond on lending are accounted for using the effective interest rate method.

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 for any remaining taxable profit not paid by the year end we accrue the tax relief as we expect to pay within 9 months.

3. Auditors' remuneration

	2021	*2020*
	£000	*£000*
Auditors remuneration: audit services	**11**	*12*

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.

5. Interest payable and financing costs

	2021	*2020*
	£000	*£000*
Interest payable on bonds	**14,418**	*11,956*
Amortisation of bond premium	**(452)**	*(313)*
Amortisation of bond discount	**27**	*22*
Issue costs	**42**	*23*
Total	**14,035**	*11,688*

6. Taxation on profit on ordinary activities

	2021 £000	*2020 £000*
Tax reconciliation		
Profit and total comprehensive income for the year	**56**	*149*
Transfer of taxable profit under gift aid	**(56)**	*(27)*
Gift aid pledged and to be paid within 9 months of the year end	**-**	*(122)*
Profit subject to Corporation Tax	**-**	*-*

The tax charge for the year is £nil (2020: £nil)

7. Debtors

	2021 £000	*2020 £000*
Due after more than one year		
Amounts owed by group undertakings	**472,189**	*326,055*
	472,189	*326,055*

	2021 £000	*2020 £000*
Due within one year		
Amounts owed by group undertakings	**4,038**	*1,770*
	4,038	*1,770*

Amounts due from group undertakings are due for repayment in line with the bond and note repayment obligations of the company.

8. Creditors: Amounts falling due within one year

	2021 **£000**	*2020* *£000*
Interest accrual	**3,646**	*1,889*
Other creditors	**11**	*13*
Bond premium	**470**	*453*
Bond discounts	**(101)**	*(28)*
Issue costs	**(15)**	*(15)*
Amounts owed to group undertakings	**995**	*713*
	5,006	*3,025*

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

	2021 **£000**	*2020* *£000*
Bonds and loan notes	**465,289**	*315,289*
Bond premium	**11,027**	*11,523*
Bond discount	**(3,763)**	*(760)*
Issue costs	**(1,348)**	*(1,389)*
	471,205	*324,663*

Bonds and notes

In June 2020 £75m of 3.04% Senior Secured Notes with a maturity of June 2050 were issued to US Private Placement investors. Proceeds were on lent to Stonewater (2) Limited.

In March 2021 £75m of the company's 3.375% bonds maturing November 2045 which had been sold on a deferred basis settled. The funds received were onlent to Stonewater Limited, Stonewater (2) Limited and Stonewater (5) Limited. A further £28m of bonds which have been sold on a deferred basis which will settle in September 2021.

The company has US $75m available on a shelf facility with PGIM Inc., which allows it to issue Senior Secured Notes with maturities up to 30 years to PGIM Inc. This shelf facility is available until Nov 2022.

The Notes issued to PGIM Inc. and the US Private Placement have Group 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. The bond issues do not have financial covenants

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 2021 the bonds and notes had a market value as follows:

	Market value per £100 £	Total Market Value £000
£125m of 5.034% 2042 bonds	**125.19**	**156,482**
£50m of 3.03% Series A notes	**97.23**	**48,614**
£50m of 3.06% Series B notes	**96.48**	**48,241**
£15.3m of 3.35% Series C notes	**103.72**	**15,857**
£75m of 3.04% 2050 Private Placement	**95.63**	**71,722**
£150m of 3.375% 2045 Bonds *	**102.75**	**154,125**
Total		**495,041**

*An additional £28m issued on a deferred basis with payment September 2021

Total market value of £495,041k compares to book value, excluding issue costs, of £472,922k.

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

At 31 March 2020 the bonds and notes had a market value as follows

	Market value per £100 £	Total Market Value £000
£125m of 5.034% 2042 bonds	**136.25**	**170,310**
£50m of 3.03% Series A notes	**107.12**	**53,559**
£50m of 3.06% Series B notes	**107.81**	**53,906**
£15.3m of 3.35% Series C notes	**112.74**	**17,249**
£75m of 3.375% 2045 Bonds*	**114.29**	**85,714**
Total		**380,738**

Total market value of £380,738k compares to book value, excluding issue costs, of £326,477k.

The maturity of the bonds and notes is as follows:

	Total 2021 £000	*Total 2020 £000*
In one year or less, or on demand	**(369)**	*(425)*
Issue costs <1 year	**15**	*15*
Within one year (note 8)	**(354)**	*(410)*
In more than one year but not more than two years	**(360)**	*(447)*
In more than two years but not more than five years	**(1,133)**	*(1,422)*
After five years	**(471,060)**	*(324,183)*
Issue costs	**1,348**	*1,389*
Greater than one year (note 9)	**(471,205)**	*(324,663)*
Total bonds	**(471,559)**	*(325,073)*

10. Share capital

	2021 £	*2020 £*
Authorised		
12,500 *(2020 - 12,500)* Ordinary shares of £1 each (25p paid) shares of £1.00 each	**12,500**	*12,500*
37,500 *(2020 - 37,500)* Ordinary shares of £1 each (75p unpaid) shares of £1.00 each	**37,500**	*37,500*
	50,000	*50,000*
Allotted, called up and fully paid		
12,500 *(2020 - 12,500)* Ordinary shares of £1 each (25p paid) shares of £1.00 each	**12,500**	*12,500*
Allotted, called up and partly paid		
37,500 *(2020 - 37,500)* Ordinary shares of £1 each (75p unpaid) shares of £1.00 each	**37,500**	*37,500*

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.

11. 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.