

HOUSING ASSOCIATION PROPERTY MUTUAL LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2019

Registered Number: 1985799



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HOUSING ASSOCIATION PROPERTY MUTUAL LIMITED

DIRECTORS

The Directors who served during the year were as follows:

Mr R Hingston * (Chairman)

Mr P Tyrrell * (Deputy Chairman)

Ms K.Vernau (Chief Executive Officer)

Mr. R.Harnal (Chief Financial Officer)

Mr J Beavan

Mr A Cheetham Appointed 7 December 2018

Ms R Dhir

Mr D Flattery *

Mr A N King

Mr A E Lewis *

Mr S Rossi *

Mr N Painter

* Members of the Audit and Risk Committee

CHAIRMAN'S REPORT

For the year ended 30 June 2019, the Housing Association Property Mutual Limited ("HAPM," "the Club") showed a surplus of £0.390m (2018: surplus £0.690m). This has resulted in the Club having free reserves at the year-end of £14.117m (2018: £13.727m).

The surplus reported above is due to various factors. The first is the continuing overall reduced exposure to potential claims as a result of the actual claims paid in the year and the expected claims payable in future years. The claims payment pattern is based on an actuarial model approved by HAPM's regulators. The releases take into account the impact of Policy years which have reached the end of their twenty year terms. The effect of this has resulted in £0.296m (2018: £0.336m) being released from the claims reserves to free reserves.

The second factor has been the release of £0.382m provisions in future run-off expenses (2018: £0.511m) which are lower than originally forecast.

The third factor has been the performance of its investment portfolio. The majority of the portfolio is invested in cash and bonds to match the Club's future liabilities. Despite the continuing volatility of the bond and equity markets, investments have again produced a positive return of 1.01% (2018: 1.43%).

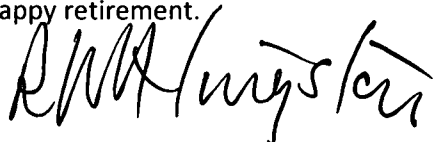
As mentioned in my last Chairman's report, the future of HAPM is one of the main issues the Board will have to deal with. During the year the Board reviewed the various options open to it for the future, taking advice from the Managers, and concluded that the option considered most favourable to Members was to continue with existing policies that were within their original 20 year term, which both helps those Members with active policies, and maximises the position for all Members when the Club is finally closed. This option is also the least costly and avoids excessive regulatory involvement.

It was agreed that this decision would be reviewed again in December 2020.

I am pleased to report that for a Company in run off HAPM is in a strong financial position and well reserved to pay Members claims should they realise and is on course to make a Capital Distribution of its free reserves to its members.

I wish to take this opportunity to record my deep appreciation for the contribution of my fellow non-executive Directors to the continued success of HAPM. The changing regulatory environment has substantially increased the time required from the Directors. Their time is given on a voluntary basis for the benefit of the membership as a whole. I extend my thanks to the Directors on behalf of the membership for their continued commitment to HAPM, and wish to thank the Managers, Thomas Miller, for their commitment to the Club, particularly the two Executive Directors, Rajiv Harnal and Kim Vernau.

Finally I would like to thank Richard Jarvis our Investment Manager who is retiring from Thomas Miller for all his contribution to HAPM well over twenty years. Richard's management of HAPM's investment is one of the main reasons that it finds itself in such a strong financial position. The Board wish him a very happy retirement.



Robert Hingston

Chairman

13 September 2019

STRATEGIC REPORT

The Directors have pleasure in presenting the Strategic report for the year ended 30 June 2019.

REVIEW OF THE YEAR

HAPM continued to provide insurance for 20 year policies for new build and rehabilitated social housing covering structural defects, on-structural defects and other ancillary losses. The Company had ceased accepting registrations for new business in May 2002. Following the successful implementation of the Scheme of Arrangement, the Company has reduced all of its remaining 35 year policies to 20 years.

The surplus for the year after taxation is £0.390m (2018: £0.690m), which has been transferred to reserves. These reserves have been retained to meet claims and the solvency requirement under the Financial Services and Markets Act 2000. The Directors anticipate no significant changes in the Company's future activities.

Financial Results

The figures in the table below are taken from the Annual Report and Financial Statements for the year ended 30 June 2019, which will be submitted to the membership for approval at the Annual General Meeting which will be held on Friday 6 December 2019.

The Income and Expenditure Account (on pages 13 and 14) and the Balance Sheet (on pages 16 and 17), together with the notes to the Financial Statements, set out the Company's financial position in detail. The following table compares key financial information for the year-end.

Amount in £'000	2019	2018
Release in claims provisions	296	336
Change in provision in run off expenses	382	511
Operating expenses	(428)	(420)
Surplus on technical account	250	427
Investment Income	183	264
Surplus on ordinary activities before tax	433	691
Tax	(43)	(1)
Surplus for the financial year	390	690
Free reserves at year end	14,117	13,727

The Directors have set in place formal investment policies and objectives. The primary objective is to preserve capital to maintain solvency and pay future claims and expenses. Its secondary objective is to maximise the longer-term rate of investment return. The investment return for the year under review was 1.01% (2018: 1.43%).

STRATEGIC REPORT (CONTINUED)

FINANCIAL RISK MANAGEMENT

The Company is exposed to financial risk through its financial assets and liabilities. The key financial risk is that the proceeds from financial assets are not sufficient to fund the obligations arising from liabilities as they fall due.

The most important components of financial risk are insurance risk, market risk, credit risk, liquidity risk, and operational risk.

Due to the run-off nature of the Company's business and the assets and liabilities contained within the Company's balance sheet the only financial risks the Directors consider relevant to this Company are interest rate risk, credit risk, reserving risk and liquidity risk.

Reserving and Interest Rate Risk

The reserving risk and interest rate risk are mitigated by prudent inflation rates used within the reserving model which generates the reserves and the continual review by management of both the claims experience and the appropriateness of these rates.

Credit Risk

Credit risk is the risk of losses caused by other parties failing, in whole or part, to meet obligations to the Company. Debtor exposure is mitigated by being widely spread across the membership, strong credit control procedures and regular reports from the Managers to the Board.

Liquidity Risk

The liquidity risk of the Company is mitigated by the availability of assets within the balance sheet of the Company, which can readily be converted into cash to meet liabilities as they fall due.

BY ORDER OF THE BOARD

A handwritten signature in black ink, appearing to read 'R Hingston', written over a horizontal line.

Robert Hingston
Chairman
13 September 2019

DIRECTORS' REPORT

The Directors have pleasure in presenting their annual report together with the audited Financial Statements of the Company for the year ended 30 June 2019.

The Company has a management agreement with H.A.P.M. Management Company Limited.

The Company has no employees.

The principal risks and uncertainties facing the Company have been covered under the heading Financial Risk Management of the Strategic Report.

The Board of Directors have effected a Directors' and Officers' Liability Insurance policy to indemnify the Directors and Officers of the Company against loss arising from any claim made against them jointly or severally by reason of any wrongful act in their capacity as Directors or Officers of the Company. The insurance also covers the Company's loss when it is required or permitted to indemnify the Directors or Officers pursuant to the law, Common or Statutory, or the Articles of Association. The cost of the insurance is met by the Company and is disclosed in note 9 of the Financial Statements.

Going Concern

After making enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue operations for the foreseeable future. For this reason, the going concern basis has been adopted in preparing the accounts.

Future Developments

As HAPM is in a stable run-off position, the Directors do not expect any changes to its operation for the next twelve months. However, as mentioned in the Chairman's report it will review its decision in December 2020 whether or not to close down HAPM.

DIRECTORS

The present Directors of the Company are shown on page 1.

In accordance with Article 46, Mr A. Cheetham, Ms R. Dhir, and Mr A. Lewis retire by rotation and, being eligible, offer themselves for re-appointment.

In the case of each of the persons who are Directors at the time this report is approved, the following applies:

- (a) so far as the Directors are aware, there is no relevant audit information of which the Company's auditor is unaware; and
- (b) they have taken all the steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provision of S418 of the Companies Act 2006.

DIRECTORS' REPORT (CONTINUED)

DIRECTORS' RESPONSIBILITIES STATEMENT

The Directors are responsible for preparing the Annual 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 United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law, including FRS102 "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 and then apply them consistently;
- make judgements 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; 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 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.

Meeting of Directors

During the 2018 Policy year the Directors held four formal meetings in September 2018, December 2018, February 2019 and June 2019.

They also maintained contact with the Managers between meetings, in order to fulfil the general and specific responsibilities entrusted to them by the Members under the Association's Articles and Rules. The items considered and reported at the four meetings included:

Audit: The Auditor's report on the Financial Statements and the annual return to the Prudential Regulatory Authority (PRA) for the year ended 30 June 2018 were approved by the Board and formally adopted at the Annual General Meeting held on 7 December 2018.

Claims: Approval of year-end claim's reserves. Review of claims and notifications received in the year.

Directors: Appointment and re-appointment of Directors and renewal of Directors and Officers liability insurance.

Finances: Financial forecasts and financial reports for the year. Review of internal audit and Business Plans. Review of run off options.

DIRECTORS' REPORT (CONTINUED)

Meeting of Directors (continued)

Investments: Receive reports on Investment performance and agree revised Investment Policy.

Board Committees

The Audit & Risk Committee comprising Patrick Tyrrell (Chairman), Donal Flattery, Robert Hingston, Alwyn Lewis, Simon Rossi and David Hunt (consultant) assist the Board in recommending the approval of the Financial Statements, and year end claims reserves. The Committee ensures that the Company complies with and meets all legal and regulatory requirements. It is also responsible for assessing the Business Risk of the Company. It is also responsible for recommending the appointment of internal and external audit appointments and to provide a clear channel of communication between the Board and the auditor. The Committee met once in the year.

The Remuneration Committee comprising Patrick Tyrrell (Chairman), Donal Flattery, Robert Hingston, and Simon Rossi assist the Board in recommending the setting of the Management Fee. The Committee did not meet in the year.

The Board is informed of the main issues discussed, as minutes of the meetings are included in the Board's agenda papers.

AUDITOR

The Company's auditor, Deloitte LLP, have expressed their willingness to continue to serve as the Company's auditor. A resolution for their re-appointment and to authorise the Directors to fix their remuneration will be submitted at the forthcoming Annual General Meeting.

BY ORDER OF THE BOARD

A handwritten signature in black ink, appearing to read 'R Hingston', written in a cursive style.

Robert Hingston
Chairman
13 September 2019

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF HOUSING ASSOCIATION PROPERTY MUTUAL LIMITED

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of Housing Association Property Mutual Limited (the 'company'):

- give a true and fair view of the state of the company's affairs as at 30th June 2019 and of its income and expenditure, gains and losses and changes in reserves and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- Have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the income and expenditure account;
- the reconciliation of movements in other reserves;
- the balance sheet;
- the cash flow statement; and
- the related notes 1 to 21.

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) and the Statement of Recommended Practice: Accounting for Insurance Business.

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 Financial Reporting Council's (the 'FRC's') Ethical Standard, 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.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF HOUSING ASSOCIATION PROPERTY MUTUAL LIMITED (continued)

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

- the directors' use of the going concern basis of accounting in 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.

We have nothing to report in respect of these matters.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual 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. 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 respect of these matters.

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 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 HOUSING ASSOCIATION PROPERTY MUTUAL LIMITED (continued)

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 on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Report on other legal and regulatory requirements

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 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 any material misstatements in the strategic report or the directors' report.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF HOUSING ASSOCIATION PROPERTY MUTUAL LIMITED (continued)

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters 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.

We have nothing to report in respect of these matters.

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.



Andrew Downes (Senior Statutory Auditor)

For and on behalf of Deloitte LLP

Statutory Auditor

United Kingdom

13 September 2019

HOUSING ASSOCIATION PROPERTY MUTUAL LIMITED

INCOME AND EXPENDITURE ACCOUNT

For the year ended 30 June 2019

Technical Account - General Business:

Amounts in £'000	Notes	2019	2019	2018	2018
Earned premiums, net of reinsurance					
Gross premiums written		-		-	
Release of Reinsurance premium provision	5	-		-	
Earned premiums, net of reinsurance			-		-
Claims incurred net of reinsurance					
Claims paid					
Gross amount	6	-		-	
		-		-	
Change in provision for claims					
Gross and net amount	6	296		336	
		296		336	
			296		336
Change in provision for run-off expenses	7		382		511
Net operating expenses	8		(428)		(420)
Balance on the Technical Account – General Business			250		427

HOUSING ASSOCIATION PROPERTY MUTUAL LIMITED

INCOME AND EXPENDITURE ACCOUNT (CONTINUED)

For the year ended 30 June 2019

Non-Technical Account:

Amount in £'000	Notes	2019	2019	2018	2018
Balance on the technical account – general business			250		427
Investment income	9	122		353	
Investment expenses and charges	10	(4)		(5)	
Unrealised gain/(loss) on investments	11	65		(84)	
			183		264
Surplus on ordinary activities before tax			433		691
Tax on surplus on ordinary activities	16		(43)		(1)
Surplus for the financial year after tax			390		690

The Company's income and expenses all relate to the Company's activities as an insurer. The Company ceased underwriting from 21 May 2002. All amounts derive from discontinued operations.

The Company has no recognised gains or losses other than those shown in the Income and Expenditure account for the current year and preceding year and therefore no separate statement of total recognised gains and losses has been presented.

The accompanying notes 1 to 21 form an integral part of these Financial Statements.

HOUSING ASSOCIATION PROPERTY MUTUAL LIMITED

RECONCILIATION OF MOVEMENTS IN OTHER RESERVES

For the year ended 30 June 2019

Amount in £'000	Note	2019	2018
Surplus for the financial year		390	690
Reserves brought forward		13,727	13,037
Surplus on reserves carried forward	13	14,117	13,727

The accompanying notes 1 to 21 form an integral part of these Financial Statements.

HOUSING ASSOCIATION PROPERTY MUTUAL LIMITED

BALANCE SHEET

As at 30 June 2019

Amount in £'000	Notes	2019	2019	2018	2018
ASSETS					
Investments:					
Other financial investments	14		18,574		18,770
Debtors:					
Debtors arising out of direct insurance operations	15		-		-
Other Assets:					
Cash at bank and in hand			25		61
Prepayments and accrued income:					
Accrued interest		100		119	
Other prepayments		3		2	
			103		121
Total Assets					
			18,702		18,952

HOUSING ASSOCIATION PROPERTY MUTUAL LIMITED

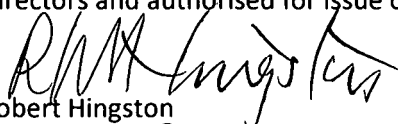
BALANCE SHEET (CONTINUED)

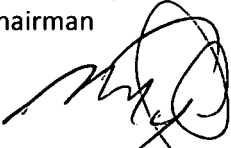
As at 30 June 2019

Amount in £'000	Notes	2019	2019	2018	2018
LIABILITIES					
Reserves:					
Surplus on reserves	13		14,117		13,727
Technical provisions:					
Claims outstanding	6	1,990		2,286	
Provision for future reinsurance costs	6	-		-	
Provision for future run-off expenses	7	2,486		2,868	
			4,476		5,154
Creditors:					
Other creditors including taxation	17	43		17	
			43		17
Accruals	18		66		54
Total Liabilities			18,702		18,952

The accompanying notes 1 to 21 form an integral part of these Financial Statements.

The Financial Statements of HAPM Ltd (registered number 1985799) were approved by the Board of Directors and authorised for issue on 13 September 2019. They were signed on its behalf by:


Robert Hingston
Chairman


Patrick Tyrrell
Deputy Chairman

HOUSING ASSOCIATION PROPERTY MUTUAL LIMITED

CASH FLOW STATEMENT

For the year ended 30 June 2019

Amount in £'000	2019	2018
Reconciliation of surplus on ordinary activities before tax to net cash outflow from operating activities:		
Surplus on ordinary activities before tax	433	691
Unrealised (gain)/loss on investments	(65)	84
Realised loss/(gain) on investments	315	(4)
Decrease/(increase) in debtors and prepayments	18	(15)
Increase in creditors and accruals	12	-
Decrease in technical provisions	(296)	(336)
Decrease in run-off provisions	(382)	(511)
Cash inflow/(outflow) from operating activities	35	(91)
Corporation tax paid	(17)	(44)
Net cash inflow/(outflow) from operating activities	18	(135)
Cash flows from investing activities:		
Purchase of investments	(21,084)	(13,434)
Sale of investments	21,030	13,500
Net cash (outflow)/inflow from investing activities	(54)	66
Net (decrease)/increase in cash	(36)	(69)
Cash at the beginning of year	61	130
Cash at the end of the year	25	61

NOTES TO THE FINANCIAL STATEMENTS

1. Constitution

The Company is registered in England and Wales as a Company limited by guarantee and not having a share capital. The address of the registered office is given on the end page of this annual report. It is authorised to conduct insurance business on the mutual principle and there is, accordingly, no profit and loss account.

In pursuance of its business and in accordance with its Memorandum and Articles of Association and its rules, the Company has the right to make unlimited calls on its members to meet its liabilities. No specific provision is made in the accounts for any such calls unless and until the Directors shall have decided that any such calls shall be made. The Directors acknowledge that the going concern status of the Company is dependent upon the ability of its members to meet any future calls.

The Other Reserves are the excess/(deficit) of assets compared to liabilities. Any ultimate shortfall in these reserves may be offset by further calls upon the membership in respect of the relevant open policy years in accordance with the Rules of the Company. Any ultimate surplus in the funds is similarly required to be treated in accordance with the relevant provisions in the Rules of the Company.

In the event of the winding up of the Company, after its liabilities have been satisfied, the remaining assets of the Company shall be distributed to the members as set out in the Articles of Association.

2. Accounting policies

2.1 Statement of compliance and basis of preparation

The Financial Statements have been prepared in accordance with the provisions of Section 396 of the Companies Act 2006, and Schedule 3 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008.

The financial statements have been prepared under the historical cost convention, modified to include certain items at fair value, and amended for compliance with Financial Reporting Standard 102 (FRS 102) 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' issued by the Financial Reporting Council.

2.2 Policy year accounting

All business is accounted for on an annual basis. Premiums, instalment interest, reinsurance premiums, claims and reinsurance recoveries are allocated to the year in which the major defects insurance cover incepts, along with associated expenses, but are accounted for in the financial year in which they are incurred.

The investment income is allocated proportionately to the average balance of funds available on each open policy year and other funds at annual intervals.

The administrative expenses are allocated to the policy year, which benefits from the expenditure.

All accounting policies have been applied consistently in the current and prior year.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. Accounting policies (continued)

2.3 Premiums

Registration premiums are credited to the Income and Expenditure Account on receipt of the registration application. The basic premiums are credited to the Income and Expenditure Account on completion of the property.

Basic premiums are payable half on inception and the balance may be settled over a period not exceeding 20 years subject to an appropriate interest charge.

The premiums comprise the total premiums receivable for the whole period of cover provided by the contracts entered into during the accounting period together with any adjustments arising for prior accounting periods. The policies provide cover for a period of up to twenty years.

All the premiums are treated as earned because the cover is for inherent structural defects which, by definition, exist at the inception of the cover.

2.4 Claims

Claims include all claims incurred during the accounting period whether paid or estimated. This includes the expected ultimate cost of settlement of all claims incurred in respect of events up to the balance sheet date, whether reported or not, together with the related claims handling expense.

Claims outstanding includes estimates relating to the future claims on all the policies incepting before the balance sheet date. The incidence of risk is deemed to occur at the date of completion of the property and as a consequence the outstanding claims provision includes the expected cost of future claims and costs emanating from all policies included in the Financial Statements.

2.5 Reinsurance

Reinsurance premiums payable are charged to the Technical Account when the major defects cover is charged to the member. The future costs of reinsurance premium from the expiry of the current cover to the 20th year are estimated and a provision made in the Technical Account.

Reinsurance recoveries, including receipts and amounts due under current and future policies, are included in the Technical Account.

2.6 Income from investments

Income from investments comprising interest on bonds and bank deposits is accounted for on an accruals basis. The distributions from unit trusts are accounted for when advised by the unit trust managers.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. Accounting policies (continued)

2.7 Taxation

Current tax is provided at amounts to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax returns in periods different from those in which they are recognised in the financial statements. Deferred tax is measured at the tax rates that are expected to apply in the periods in which the timing differences are expected to reverse based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax assets are only recognised to the extent that it is regarded as more likely than not that to be recovered. Deferred tax assets and liabilities are not discounted.

2.8 Investments

Investments are shown at market value. All investment return, including unrealised gains or losses, is recognised in the Non-Technical Account. Unrealised gains or losses represent the difference between the value of investments at the balance sheet date and their purchase price. The movement in the unrealised investment gains and losses therefore comprises the increase or decrease in the year in the value of the investments held at the balance sheet date together with the reversal of previously recognised gains and losses on investments disposed of in the current year.

2.9 Going Concern

After making enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue operations for the foreseeable future. For this reason, the going concern basis has been adopted in preparing the accounts.

HAPM's activities, together with the factors likely to affect its future development, performance and position are set out in the Directors' Report. The Directors' Report also describes the financial position of HAPM; its cash flows, liquidity position; the HAPM's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposure to credit risk and liquidity risk.

3. Critical accounting estimates and judgements

The Company makes estimates and assumptions that affect the reported amounts of assets and liabilities. Estimates and judgements are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. The following critical accounting estimates and judgements are made by the Company:

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3. Critical accounting estimates and judgements (continued)

3.1 The ultimate liability arising from claims made under insurance contracts

The estimation of the ultimate liability arising from claims made under insurance contracts is the Company's most critical accounting estimate. There are several sources of uncertainty that need to be considered in the estimate of the liability that the Company will ultimately pay for such claims. Estimates are made for the expected ultimate cost of claims, whether reported or unreported, at the end of the reporting period.

3.2 Fair value estimations

In accordance with section 11 of FRS 102, as a financial institution, the Company applies the requirements of paragraph 11.27 of FRS 102. This requires, for financial instruments held at fair value in the balance sheet, disclosure of fair value measurements by level of the following fair value hierarchy:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, price) or indirectly (that is, derived from prices).

Level 3 – Inputs for the assets that are not based on observable market data (that is, unobservable inputs).

The table below presents the Company's assets measured at fair value by level of the fair value hierarchy:

As at 30 June 2019				
Amounts in £'000	Level 1	Level 2	Level 3	Total
Assets:				
Fixed interest - Government	-	12,293	-	12,293
Equities & Alternatives	2,852	-	-	2,852
Cash & cash equivalents	3,429	-	-	3,429
	6,281	12,293	-	18,574
As at 30 June 2018				
Amounts in £'000	Level 1	Level 2	Level 3	Total
Assets:				
Fixed interest - Government	-	15,187	-	15,187
Equities & Alternatives	2,648	-	-	2,648
Cash & cash equivalents	935	-	-	935
	3,583	15,187	-	18,770

The fair values of financial assets included in the level 2 category have been independently valued by BNYM based on observable market conditions prevailing at the valuation date.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4. Management of Risk

The Company is governed by the Board of Directors which drives decision making within the Company from Board level through to operational decision making within the Managers. The Board considers the type and scale of risk that the Company is prepared to accept in its ordinary course of activity and this is used to develop strategy and decision making.

The Company is focused on the identification and management of potential risks. This covers all aspects of risk management including that to which the Company is exposed through its core activity as a provider of insurance services, and the broader range of risks. The Company's key risks are the following:

- 4.1 Insurance risk – incorporating underwriting and reserving risk;
- 4.2 Market risk – incorporating investment risk, and interest rate risk;
- 4.3 Credit risk –the risk that a counterparty is unable to pay amounts in full when due;
- 4.4 Liquidity risk –the risk that cash may not be available to pay obligations as they fall due;
and
- 4.5 Operational risk –the risk of failure of internal processes or controls.

4.1 Insurance Risk

The Company's exposure to insurance risk is initiated by the underwriting process and incorporates the possibility that an insured event occurs, leading to a claim on the Company from a Member. The risk is managed by the underwriting process, acquisition of reinsurance cover, and the management of claims costs.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4. Management of Risk (continued)

4.1 Insurance Risk (continued)

Underwriting process

The Company ceased underwriting from 21 May 2002 with all amounts shown derived from discontinued operations.

Reinsurance

The Company's reinsurance programme is designed to manage risk to an acceptable level and to optimise the Company's capital position. The programme comprises excess of loss reinsurance cover to protect against individual large losses, and additional fees break out cover.

The risk of the Company's reinsurers being unable to meet their obligations is presented in section 4.3 on Credit Risk.

Reserving process

The Company establishes provisions for unpaid claims, both reported and unreported, and related expenses to cover its expected ultimate liability. These provisions are established through the application of actuarial techniques and assumptions as set out in Note 2 of the Financial Statements as directed and reviewed by the Audit and Risk Committee. In order to minimise the risk of understating these provisions the assumptions made and actuarial techniques employed are reviewed in detail by senior members of HAPM Management Company.

The Company considers that the liability for insurance claims recognised in the statement of financial position is adequate. However, actual experience will differ from the expected outcome.

The results of sensitivity testing are set out below, showing the impact on the surplus before tax and equity, gross and net of reinsurance. The impact of a change in a single factor is shown, with other assumptions unchanged. The sensitivity analysis assumes that a change in loss ratio is driven by a change in claims incurred.

	2019	2018
	£	£
Increase in loss ratio by 5 percentage points		
Gross	14,789	16,820
Net	14,789	16,820

A 5 per cent decrease in loss ratios would have an equal and opposite effect.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4. Management of Risk (continued)

4.2 Market Risk

Market risk is the risk of adverse financial impact as a consequence of market movements such as currency exchange rates, interest rates and price changes. Market risk arises due to fluctuations in both the value of assets held and the value of liabilities.

The investment policy is formally reviewed every three years (but more frequently if required). The policy reflects the risk appetite of the Company and is designed to hold the risk to a level deemed acceptable while maximising return.

The Investment Strategy is formally reviewed annually and sets the parameters within which the Investment Manager must operate in investing the portfolio in order to meet the investment objectives set by the Board.

Interest rate risk management

Interest rate risk arises primarily from investments in fixed interest securities the value of which is inversely correlated to movements in market interest rates.

Interest rate risk is managed through the investment strategy and accordingly debt and fixed interest securities are predominantly invested in high quality corporate and government backed bonds.

Interest rate sensitivity analysis

An increase of 100 basis points in interest rates at the year-end date, with all other factors unchanged will result in a £123k fall in the value of the Company's investments. A decrease of 100 basis points would have an equal and opposite effect.

Equity price risk

The Company is exposed to price risk through its holding of equities as financial investments at fair value through profit and loss. At the year end the holding in equity instruments amounted to 15.27% of the investment portfolio (2018: 14.02%).

A 1% increase in equity values would be estimated to have increased the surplus before tax at the year-end by £29k. A 1% fall in equity values would have an equal and opposite effect. This analysis assumes that all other variables remain constant.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4. Management of Risk (continued)

4.3 Credit Risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Company.

The key areas where the Company is exposed to credit risk are:

- Amounts recoverable from reinsurance contracts;
- Amounts due from members; and
- Counterparty risk with respect to cash and investments.

Amounts recoverable on reinsurance contracts

The Company is exposed to credit risk from a counterparty failing to comply with their obligations under a contract of reinsurance. In order to manage this risk the Board considers the financial position of significant counterparties. The Company has set selection criteria whereby each reinsurer is required to hold a credit rating greater than or equal to "A-" at the time the contract is made and no single reinsurer carries more than a 25% line. The terms of the reinsurance contract give the Company the right to remove any reinsurer whose rating falls below A- at any time during the year.

Amounts due from Members

Amounts due from Members represent premium owing to the Company in respect of insurance business written. The risk of Member default is managed by the option of cancelling a Members policy in the event of claim arising.

Counterparty risk with respect to cash and investments

The Company's primary investment objective is to preserve capital to maintain solvency and pay future claims and expenses. The secondary objective is to maximise the longer term investment return.

The Investment Manager will maintain a mix of pooled sterling UCITS cash funds and sterling bond investments and undertake the necessary transactions to meet previously agreed benchmark targets. The desired split between cash, bonds and equities will be determined from time to time by the Investment Manager in consultation with the Board. Equity exposure will be through unit trusts and/or Exchange Traded Funds (ETFs) managed by external fund managers.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4. Management of Risk (continued)

4.3 Credit Risk (continued)

The following tables provide information regarding aggregate credit risk exposure for financial assets with external credit ratings.

As at 30 June 2019

Amount in £'000	AAA/AA	A	BBB or less / not rated	Total
Fixed interest-Government	12,293	-	-	12,293
Equities	-	-	2,852	2,852
Cash & cash equivalents	-	-	3,429	3,429
Total assets subject to credit risk	12,293	-	6,281	18,574

As at 30 June 2018

Amount in £'000	AAA/AA	A	BBB or less / not rated	Total
Fixed interest-Government	15,187	-	-	15,187
Equities	-	-	2,648	2,648
Cash & Cash equivalents	-	-	935	935
Total assets subject to credit risk	15,187	-	3,583	18,770

There were no past due or impaired assets at 30 June 2019 (2018: Nil).

4.4 Liquidity Risk

Liquidity and cash flow risk is the risk that cash may not be available to pay obligations as they fall due at a reasonable cost. The Company maintains holdings in short term deposits to ensure there are sufficient funds available to cover anticipated liabilities and unexpected levels of demand. As at 30 June 2019, the Company's short term deposits (including cash and UCITs) amounted to £3.454m (2018: £0.997m). The Company has sufficient liquid assets to meet its liabilities as they fall due.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4. Management of Risk (continued)

4.4 Liquidity Risk (continued)

The tables below provide a maturity analysis of the Company's financial assets:

As at 30 June 2019

Amount in £'000	Short term assets	Within 1year	2-5year	Total
Fixed interest-Government	-	-	12,293	12,293
Equities	2,852	-	-	2,852
UCITS	3,429	-	-	3,429
Total Assets	6,281	-	12,293	18,574

As at 30 June 2018

Amount in £'000	Short term assets	Within 1year	2-5year	Total
Fixed interest-Government	-	6,856	8,331	15,187
Equities	2,648	-	-	2,648
UCITS	935	-	-	935
Total Assets	3,583	6,856	8,331	18,770

4.5 Operational risk

Operational risks relate to the failure of internal processes, systems or controls due to human or other error. In order to mitigate such risks the Company has engaged HAPM Management Company as Managers to document all key processes and controls in a procedures manual. This manual is embedded into the organisation and available to all staff. Compliance with the procedures and controls documented within the manual is audited on a regular basis through quality control checks and the internal audit function which is directed and reviewed by the Board of Directors. A human resource manual including all key policies has also been documented.

The sensitivity analysis in note 4 shows the impact of a change in one input assumption with other assumptions remaining unchanged. In reality, there is normally correlation between the change in certain assumptions and other factors which would potentially have a significant impact on the effects noted in note 4.

The Company maintains capital, comprising policyholders' funds (surplus and reserves), consistent with the Company's risk appetite and the regulatory requirements.

The Company's objective is to hold free reserves at a safe margin in excess of the solvency capital requirement and to ensure it is able to continue as a going concern.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4. Management of Risk (continued)

4.5 Operational risk (continued)

At year end capital resources under the current Solvency I regime of £14.117m exceed the Company's regulatory capital requirement of £231k by £13.886m.

The Company was not expected to comply with capital requirements set out in Solvency II, the new regulatory regime.

5. Reinsurance premiums

The Company was contracted to purchase reinsurance cover for major defects up to the twentieth year which was payable at ten-year intervals. All instalments have been satisfied with no further payments due. The actual outward reinsurance premium, therefore, comprises the costs to date for all units debited and a provision for the future estimated costs of reinsurance of purchasing cover for major defects. These future costs are no longer discounted to present value in line with the provision for outstanding claims.

6. Claims and technical provisions

Claims incurred in the year are made up as follows:

Amounts in £'000	2019	2018
Release in claims reserves	296	336

No payments were made to Building Life Plans Ltd (BLP is a wholly owned subsidiary of Thomas Miller) (2018: Nil) during the year for technical support on claims.

Technical provisions

Claims charged to the technical account include quantified claims and a provision for incurred but not reported claims:

Amounts in £'000	Claims Outstanding	Future Reinsurance	Total
	2019	2019	2019
Gross and net			
At beginning of year	(2,286)	-	(2,286)
Movement in provision	296	-	296
At end of year	(1,990)	-	(1,990)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

6. Claims and technical provisions (continued)

Amounts in £'000	Claims Outstanding	Future Reinsurance	Total
	2018	2018	2018
Gross and net			
At beginning of year	(2,622)	-	(2,622)
Movement in provision	336	-	336
At end of year	(2,286)	-	(2,286)

The future costs of claims are no longer discounted to present value using a discount rate. The undiscounted gross claims provision before inflation is the same as the discounted gross claims provision at £1.990m (2018: £2.286m).

There is no further provision for outward reinsurance premium (2018: Nil) or accruals within creditor relating to reinsurance operations in the balance sheet.

Claims development tables

The Company ceased to write business in July 2005. Since that date the business has been in run-off.

Amounts in £'000	As at 2013	As at 2014	As at 2015	As at 2016	As at 2017	As at 2018	As at 2019
2005 and prior years							
Total Gross/Net Insurance Liabilities	6,202	5,737	4,602	3,571	2,622	2,286	1,990

7. Provision for run-off expenses

The provision will cover the costs of settling claims and collecting premiums of the Company until such time as all the policies have expired and all the claims have been settled. The provision has been discounted to present value using the discount rate of 1.25% (2018: 1.40%). The undiscounted value is £2.580m (2018: £3.010m).

Amounts in £'000	2019	2018
Discounted value brought forward	2,868	3,379
Decrease in run-off expense reserve	(382)	(511)
Value carried forward	2,486	2,868

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

8. Net operating expenses

Net operating expenses are made up as follows:

Amounts in £'000	2019	2018
Administrative costs	350	350
Directors' meeting costs	21	12
Directors' and Officers' liability insurance	6	6
Auditor's remuneration – audit of the Financial Statements	30	30
Auditor's remuneration – audit of the regulatory returns	12	12
Non audit fees –tax compliance services	7	8
Other – tax compliance services	1	2
Other administrative expenses	1	-
Net Operating Expenses	428	420

No loans have been made to the managers, nor are any contemplated. The Company had no employees throughout the year, or the preceding year.

There were no Directors' emoluments paid or payable in respect of services to the Company during the current or preceding year.

9. Investment income

Amounts in £'000	2019	2018
Bank deposit interest	14	5
Interest on debt securities	423	344
(Loss)/gain on sale of investments	(315)	4
	122	353

10. Investment expenses and charges

Amounts in £'000	2019	2018
Investment management expenses	(4)	(5)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

11. Unrealised gains/(loss) on investments

Amounts in £'000	2019	2018
Debt securities and other fixed expenses	158	(174)
Unit trusts	(93)	90
Total unrealised gains/(loss)	65	(84)

12. Directors' interests and related party disclosures

The Company has no share capital and is controlled by the members who are also the insured. The subsequent insurance transactions are consequently deemed to be between related parties but these are the only transactions between the Company and the members.

All of the Directors are or were representatives or agents of member housing associations and other than the insurance and membership interests of the Directors' housing associations, the Directors have no financial interests in the Company.

All the Directors are Members of the Company other than the Chief Executive Officer and Chief Financial officer who are employed by Thomas Miller, Managers of H.A.P.M Management Company. Other than their own insurance the Directors have no financial interests in the Company. The Member Directors received no remuneration for their services to the company.

H.A.P.M Management Company received £350,000 (2018: £350,000) from the Company in respect of management fees for the year.

13. Surplus on reserves

This represents a surplus of £14.117m (2018: £13.727m) of assets over the liabilities. Any surplus will be transferred to the reserves, whereas any deficit will be made up by additional supplementary calls on members (see note 20).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

14. Other financial investments

Amounts in £'000	Market Value	Market Value	Cost	Cost
	2019	2018	2019	2018
Other financial investments comprise:				
Units in unit trusts	6,198	3,417	6,136	3,262
Debt securities and other fixed interest securities	12,293	15,187	12,362	15,414
Cash and deposits	83	166	83	166
	18,574	18,770	18,581	18,842
Units in unit trusts comprise:				
Unit trusts	2,852	2,648	2,790	2,493
UCITS	3,346	769	3,346	769
	6,198	3,417	6,136	3,262

All investment in unit trusts is in authorised unit trusts. Debt securities and other fixed income securities are all listed on a recognised stock exchange. "Undertakings for Collective Investment in Transferable Securities" (UCITS) are funds held for the short term.

15. Debtors arising out of direct insurance operations

There are no further balances due from members (2018: Nil).

16. Taxation

- (i) By virtue of its mutual status, the Fund is not liable to tax on its insurance operations. However, it is liable to tax on its instalment interest, investment income and net gains. The charge in the income and expenditure account represents:

Amounts in £'000	2019	2018
Income and expenditure account:		
Current tax		
UK taxation at 19% (2018: 19%)	31	13
Adjustment in respect of previous periods	2	
	33	13
Deferred tax		
Timing differences, origination and reversal	10	(12)
Total tax on surplus on ordinary activities	43	1

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

16. Taxation (continued)

- (ii) The tax assessed for the period differs from the standard rate of corporation tax in the UK: 19% (2018: 19%). The differences are explained below:

Amounts in £'000	2019	2018
Surplus on ordinary activities before tax	433	691
Tax at 19% (2018: 19%) thereon:	82	131
Effects of:		
Non-taxable mutual insurance operations	(47)	(81)
Non-taxable investment income	(2)	(44)
Chargeable gains	-	7
Unrealised movements on investments	10	(12)
Current tax charge for the period	43	1

The non-taxable investment income relates to dividends from equities which are not subject to Corporation tax.

(iii) Balance Sheet

Taxation creditor

Amounts in £'000	2019	2018
United Kingdom corporation tax	31	13

Provisions for taxation - deferred taxation

Amounts in £'000	2019	2018
Reconciliation of movement:		
Opening balance asset/(liability)	-	(12)
Credit/(charge) movement in year	(10)	12
Closing balance asset/(liability)	(10)	-
Amounts in £'000	2019	2018
Analysis of deferred tax liability:		
Unrealised losses/(gains) on equities	(10)	-

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

17. Other creditors including taxation

Amounts in £'000	2019	2018
Corporation tax payable	43	17

18. Accruals

Amounts in £'000	2019	2018
Accrued expenses	66	54

19. Segmental Information

All the business underwritten by the Company is general insurance written for providers of social housing in the United Kingdom.

20. Supplementary Call

The club retains the power to make future supplementary calls if required.

21. Controlling Party

The Company is a mutual limited by guarantee of its members. The Directors do not believe that any one member of the mutual exercises control and consequently the Company does not have an ultimate controlling party.

HOUSING ASSOCIATION PROPERTY MUTUAL LIMITED

MANAGERS AND OFFICERS

H.A.P.M. Management Company Limited

Directors

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B M Kesterton
K. Vernau

Secretary

K. Halpenny

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