HAVEN FUNDING (32) PLC

Annual Report

For the year ended 31 December 2018

Companies House no: 03480042

HAVEN FUNDING (32) PLC

Annual report and financial statements for the year ended 31 December 2018

Contents

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Directors

C. Burke
F. Edge
P. Williamson

Company Secretary

T.H.F.C. (Services) Limited

Registered Office

3rd Floor
17 St Swithin's Lane
London
EC4N 8AL

Company Number

03480042

Independent Auditor

Nexia Smith & Williamson Audit Limited
Chartered Accountants and Statutory Auditor
25 Moorgate
London
EC2R 6AY

DIRECTORS' REPORT
Year ended 31 December 2018

The directors submit their Directors' report, Strategic report and audited financial statements for the year ended 31 December 2018.

RESULTS AND DIVIDEND

Haven Funding (32) Plc (the **company**) made neither a profit nor a loss for the year. The directors do not propose the payment of a dividend

SHARE CAPITAL AND COMPANY STRUCTURE

Haven Funding (32) Plc is a public limited company incorporated and domiciled in England and Wales. The entire share capital of the company is held by Prudential Trustee Company Limited.

The directors have no beneficial interest in the share capital of Prudential Trustee Company Limited.

DIRECTORS

The directors of the company who served throughout the year and up to the date of signing the financial statements were:

C. Burke
F. Edge
I. Peacock (resigned 4th July 2018)
P. Williamson

CORPORATE GOVERNANCE

As an issuer of asset-backed securities (the secured bonds), the operations of the company are conducted by an administrator, T.H.F.C. (Services) Limited, in accordance with the requirements of a corporate services agreement and the trust deed. This arrangement is monitored by the board of directors who are also directors of the administrator. There is no requirement for a separate audit committee.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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 prepared the financial statements in accordance with International Financial Reporting Standards **(IFRSs)** as adopted by the European Union as applied in accordance with the provisions of the Companies Act 2006. 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 International Financial Reporting Standards (IFRSs) as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They 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.

The directors are responsible for the maintenance and integrity of any information published on the administrator's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

DISCLOSURE OF INFORMATION TO AUDITOR

In the case of each director in office at the date the Directors' report is approved:

- so far as the director is aware, there is no relevant audit information of which the company's auditor is unaware; and
- he/she has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the company's auditor is aware of that information.

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

Colin Burke
T.H.F.C. (Services) Limited
Company Secretary
24 June 2019

STRATEGIC REPORT
Year ended 31 December 2018

PRINCIPAL ACTIVITIES

The company was incorporated on 8 December 1997. The principal activity of the company is to provide finance for registered providers of social housing, registered social landlords and registered housing associations, in England, Wales, Scotland and Northern Ireland (**HAs**) through the issue of bonds secured on the assets of the company (the **secured bonds**).

On 11 February 1998 the company made an initial issue of secured bonds to a nominal value of £60,750,000, the proceeds of which were lent to HAs (the **borrowers**) on terms that ensured the company was not exposed to any risk on changes of interest rates. Further issues of secured bonds to a nominal value of £21,600,000 and £18,150,000 were made on 23 June 1998 and 18 November 1998 respectively.

All the company's operating costs, net of interest earned, are recoverable from borrowers. The borrowing HAs of the company are:

Midland Heart Limited
Paradigm Homes Charitable Housing Association Limited
South Yorkshire Housing Association Limited
Festival Housing Limited
The Riverside Group Limited
Yorkshire Housing Limited

Prudential Trustee Company Limited acts as trustee on behalf of all secured bondholders, under the terms of a trust deed, and has the benefit of a fixed charge over certain assets of the borrowing HAs on behalf of the secured bondholders.

The company expects to continue its principal activity for the life of the secured bonds, which have a final repayment date of 2032.

The company does not use derivative financial instruments in its risk management procedures.

REVIEW OF BUSINESS AND FUTURE DEVELOPMENTS

The company has fulfilled its obligations under the bonds. Given the straight forward nature of the business, the company's directors are of the opinion that analysis using key performance indicators is not necessary for an understanding of the development, performance or position of the business. The directors consider the position of the company at the year end to be satisfactory.

During the year the directors of the issuer's holding company, Haven Funding (Holdings) (2) Limited simplified the group structure by transferring its investment in the issuer to the Prudential Trustee Company Limited and then dissolving the holding company.

FINANCIAL RISK MANAGEMENT

The key financial risks of the company and how they are mitigated are explained in note 3.

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

Colin Burke
T.H.F.C. (Services) Limited
Company Secretary
24 June 2019

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF HAVEN FUNDING (32) PLC
Year ended 31 December 2018

Opinion

We have audited the financial statements of Haven Funding (32) Plc (the **company**) for the year ended 31 December 2018 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Cash Flows and the 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 International Financial Reporting Standards (**IFRSs**) as adopted by the European Union.

In our opinion, the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2018 and of its result for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The other information comprises the information included in the Annual Report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information. 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 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.

Opinion 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.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic report or the Directors' report.

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on pages 1 to 2, 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.

A further description of our responsibilities for the audit of the financial statements is located 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 HAVEN FUNDING (32) PLC (continued)

Year ended 31 December 2018

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.

Guy Swarbreck
Senior Statutory Auditor, for and on behalf of
Nexia Smith & Williamson
Statutory Auditor
Chartered Accountants

25 Moorgate
London
EC2R 6AY

25 June 2019

STATEMENT OF COMPREHENSIVE INCOME
Year ended 31 December 2018

	Note	2018 £	2017 £
OPERATING INCOME			
Interest receivable	4	**4,059,995**	4,151,332
Costs receivable from borrowers		**83,914**	78,314
		4,143,909	4,229,646
OPERATING EXPENDITURE			
Interest payable	5	**4,059,995**	4,151,332
Operating expense	6	**83,914**	78,314
		4,143,909	4,229,646
RESULT BEFORE AND AFTER TAXATION	7	-	-
Other comprehensive income		-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		-	-

There have been no changes in equity in the current or prior year, therefore no separate statement of changes in equity has been prepared.

STATEMENT OF FINANCIAL POSITION
As at 31 December 2018

	Note	**2018** £	2017 £
ASSETS			
Non-current assets			
Loans to borrowers	9	**55,467,907**	56,928,743
Current assets			
Other receivables	10	**1,839,573**	1,747,396
Cash and cash equivalents		**52,896**	51,515
TOTAL ASSETS		**57,360,376**	58,727,654
EQUITY AND LIABILITIES			
Current liabilities			
Other payables	11	**1,879,969**	1,786,411
Non-current liabilities			
Financial liabilities – secured bonds	12	**55,467,907**	56,928,743
TOTAL LIABILITIES		**57,347,876**	58,715,154
Equity			
Share capital	13	**12,500**	12,500
Retained earnings		-	-
TOTAL EQUITY		**12,500**	12,500
TOTAL EQUITY AND LIABILITIES		**57,360,376**	58,727,654

The accompanying notes on pages 11 - 25 are an integral part of these financial statements.

These financial statements on pages 8 - 25 were approved by the board and signed on its behalf by:

Piers Williamson
Director
24 June 2019

Haven Funding (32) Plc

Registration Number 03480042

STATEMENT OF CASH FLOWS
Year ended 31 December 2018

NET CASH FLOW FROM OPERATING ACTIVITIES	Note	2018 £	2017 £
Cash generated from operations	14	**1,381**	4,714
Interest paid on bonds		**(4,063,031)**	(4,154,088)
Interest received on loans		**4,063,031**	4,154,088
Principal received from borrowers		**1,368,630**	1,277,572
Principal repaid on bonds		**(1,368,630)**	(1,277,572)
NET CASH INFLOW FROM OPERATING ACTIVITES		**1,381**	4,714
NET MOVEMENT IN CASH AND CASH EQUIVALENTS IN THE YEAR		**1,381**	4,714
CASH AND CASH EQUIVALENTS AT 1 JANUARY		**51,515**	46,801
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		**52,896**	51,515

1 GENERAL INFORMATION

Haven Funding (32) Plc (**the company**) provides finance for registered providers of social housing, registered social landlords and registered housing associations, in England, Wales, Scotland and Northern Ireland (HAs). The company is a public limited company, limited by shares which has secured bonds listed on the Professional Securities Market of the London Stock Exchange. It is incorporated and domiciled in England and Wales. The address of the registered office is 3rd Floor, 17 St Swithin's Lane, London, EC4N 8AL.

The company on-lent the proceeds of the issue of the secured bonds to HAs (**the borrowers**).

2 ACCOUNTING POLICIES

Basis of preparation

The financial statements have been prepared on a going concern basis in accordance with International Financial Reporting Standards (**IFRSs**) as adopted by the European Union, applied in accordance with the provisions of the Companies Act 2006.

The financial statements have been prepared under the historical cost convention.

Going concern

All of the company's operating costs are recoverable from its borrowers throughout the life of the bonds and on this basis the directors are of the opinion that the company has adequate resources to continue in operational existence for the foreseeable future. For this reason, the directors continue to adopt the going concern basis in preparing the financial statements.

Changes in accounting policies and disclosures

(a) New and amended Standards and Interpretations adopted by the company.

In the current year, the following new and amended Standards and Interpretations have been adopted by the company:

- IFRS 9 Financial Instruments (Effective 1 January 2018): This deals with the classification, measurement and impairment of financial assets and financial liabilities.

- IFRS 15 Revenue from Contracts with Customers (Effective 1 January 2018): The standard represents a single revenue recognition standard to be applied across various industries. The standard replaces IAS 18 Revenue.

The adoption of these amendments has not had a material impact on the reported results or financial position of the company except in relation to IFRS9 which has given rise to additional disclosure requirements in accounting policies.

(b) New and amended Standards and Interpretations mandatory for the first time for the financial year beginning 1 January 2018 but not currently relevant to the company.

Other standards effective or amended in the year have not had a material impact on the reported results or financial position of the company.

(c) New and amended Standards and Interpretations issued but not effective for the financial year beginning 1 January 2018.

- Amendments to IFRS 9 Prepayment Features with Negative Compensation (Effective 1 January 2019, not yet endorsed by the EU): These amendments are designed to enable, if certain conditions are met, companies to measure at amortised cost certain prepayable financial assets with so-called negative compensation and also clarifies the accounting for non-substantial modifications of financial liabilities should follow the same process as financial assets in similar circumstances.

The directors are currently assessing the impact and timing of adoption of these Standards on the company's results and financial position.

The effect of all other new and amended Standards and Interpretations which are in issue but not yet mandatorily effective is not expected to be material.

Critical Accounting Judgements

The preparation of financial statements in accordance with IFRSs requires the use of certain critical accounting adjustments; these require management's judgement in applying the accounting policies. The main critical accounting judgement in preparing these financial statements is the evaluation as to whether the loans to HAs are impaired. The directors have concluded that no impairment provision is required in relation to the loans in accordance with IFRS9. This is for a number of reasons which includes, but is not limited to, the credit quality of the borrowers and the company's zero loss experience to date. As the company is not subject to any net credit risk any incurred loss impairment would be matched by a similar adjustment to the gross liability.

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented unless otherwise stated.

Interest

Interest receivable on loans to HAs and interest payable on the bonds is accounted for using the effective interest rate method. Any premiums/discounts on issue are added to/deducted from the original loan amount or secured bond nominal value and charged/credited to the statement of comprehensive income over the expected life of the loan or bond using the effective interest rate method so that the interest receivable and payable, as adjusted for the amortisation of premiums/discounts, gives a constant yield to maturity.

Costs recoverable

All operating costs are recovered from the borrowers on an agreed basis in the year in which they are incurred. Issue costs were incurred and recovered from the borrowers.

Loans to Borrowers ('loans')

Initial recognition and measurement

Financial assets and financial liabilities are recognised when the company becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Net transaction costs that are directly attributable to the acquisition or issue of the financial assets and financial liabilities (other than financial assets and financial liabilities at FVPL) are respectively added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. The company recovers all transaction costs from its borrowers so they do not form part of the fair value at recognition.

Financial assets

Classification and measurement

The company applies IFRS 9 and classifies its financial assets in the following measurement categories:

- fair value through profit or loss (FVPL); or
- fair value through other comprehensive income (FVOCI); or
- amortised cost.

The classification requirements for debt instruments are described below. Classification and subsequent measurement of debt instruments depend on:

1) the company's business model for managing the asset; and
2) the cash flow characteristics of the asset ("SPPI test").

1) Business model: The business model reflects how the company manages the assets in order to generate cash flows. That is, whether the company's objective is:

- solely to collect the contractual cash flows from the assets ("Hold to collect"); or
- to collect both the contractual cash flows and cash flows arising from sale of the assets ("Hold to collect and sell"); or
- neither of these ("Other").

Factors considered by the company in determining the business model for a group of assets include past experience of how the cash flows for these assets were collected, how the assets' performance is evaluated and reported to key management personnel, the likely future experience of cash flows, and how credit risks are assessed and managed.

2) SPPI test: Where the business model is "Hold to collect" or "Hold to collect and sell", the company assesses whether the financial instruments' contractual cash flows represent solely payment of principal and interest on that principal ("SPPI"). In making this assessment, the company considers whether those cash flows are consistent with a basic lending arrangement (i.e. interest includes only consideration for the time value of money, credit risk and other basic lending risks that are consistent with a basic lending arrangement) or reflect exposure to risk or volatility that are inconsistent with a basic lending arrangement.

Based on these factors, the company classifies its debt instruments into one of the measurement categories detailed above. All of the company's financial assets have been assessed as falling within a "Hold to collect" business model whose contractual cash flows are SPPI and therefore measured at amortised cost.

Amortised cost is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortisation using the effective interest rate method, adjusted for any loss allowance.
The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the gross carrying amount of an asset.

Interest income from these financial assets is calculated by applying the effective interest rate to the gross carrying amount of the financial asset and is included in the statement of comprehensive income within 'operating income'.

Reclassification

The company reclassifies debt investments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change.

The company holds the following debt instrument under financial assets:

Loan receivable

Loans receivable represents monies lent to Housing Associations under loan agreements and held at amortised cost.

Cash and bank balances

Cash and cash equivalents comprise cash balances that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

Short term deposits

Short-term deposits consist of term deposits whose original maturity dates are greater than three months or less from the investment date, but not more than twelve months.

Trade and other receivables

Other receivables are recognised at transaction price and are subsequently measured at amortised cost.

Impairment

The company assesses on a forward-looking basis the expected credit losses (ECL) associated with any debt instruments carried at amortised cost. The company may recognise a loss allowance for such losses at each reporting date.

The IFRS 9 impairment model has three stages – Stage 1, Stage 2 and Stage 3 (default).

The company may recognise a 12-month expected credit loss allowance on initial recognition (stage 1) and a lifetime expected loss allowance when there has been a significant increase in credit risk (stage 2) that would no longer render the instrument low risk. Stage 3 requires objective evidence that an asset is credit impaired.

The measurement of ECL reflects:

(a) Probability-weighted amounts of loss given default using an agreed methodology;
(b) the time value of money; and

(c) reasonable and supportable information on the social housing sector that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of the future operating environment.

The company operates within a default free sector and all six borrowers have complied with their performance and payment obligations in accordance with their respective loan agreements since inception. For these reasons the company does not use a complex expected loan loss model and bases its assessment of 12-month expected credit loss solely on its loss experience in the period since the loans were made. Loss experience to date is zero so management's assessment of the 12-month expected credit loss is also zero.

Collateral arrangements are described in note 3 on page 18.

Significant Increase in Credit Risk (movement from stage 1 to stage 2)

The company has identified a number of early warning indicators (EWIs) against which assets are monitored. If any of the events occur, internal consideration is given as to whether an individual loan should move to stage 2 classification.

EWIs include but are not restricted to, the following:

a) unexpected adverse changes in the executive and management structure of the borrowers;
b) annual financial statements carry an auditor's qualification;
c) government action which negatively impacts on the client's business;
d) significant adverse changes in the business or financial condition of the borrowers;
e) failure of semi-annual performance tests;
f) regulatory down grade to a non-compliant financial grading;
g) payment of interest and capital after due date but within grace period;
h) early warning signs of cash flow/ liquidity problems;
i) decline in credit grading to a level below an equivalent investment grade.

Definition of default (movement to stage 3)

The company has identified a series of quantitative and qualitative criteria that will be used to determine if an account meets the definition of default, and therefore should move to stage 3:

a) Payment default;
b) Cross default;
c) Breach of covenant(s).

Derecognition

Financial assets, or a portion thereof, are derecognised when the contractual rights to receive the cash flows from the assets have expired, or when they have been transferred and either:

- The company transfers substantially all the risks and rewards of ownership; or
- The company neither transfers nor retains substantially all the risks and rewards of ownership and the company has not retained control.

Financial liabilities

Classification and measurement

Financial liabilities are recognised where the substance of the contractual arrangement results in the company having an obligation to either deliver cash or another financial asset to the holder.

Financial liabilities include borrowings and trade and other payables.

Initial recognition and subsequent measurement

Financial liabilities (other than derivatives) are initially recognised at the fair value of consideration less directly attributable net transaction costs and subsequently at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the effective interest rate method.

Derecognition

Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

Secured bonds

Secured bonds are stated at amortised cost. Any premium or discount on issue is added to/deducted from the nominal value of the secured bond and charged or credited to the statement of comprehensive income over the expected life of the secured bond so that the interest charge as adjusted for the amortisation of premium/discount gives a constant yield to maturity. Secured bonds are recognised in the financial statements as a liability when the proceeds are received.

Netting

The company does not net financial assets and liabilities and has no other enforceable offsets.

Fair Values

The fair value of a financial instrument is the amount to which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

IFRS 13 *Fair value measurement* requires an entity to classify for disclosure purposes its financial instruments held at amortised cost according to a hierarchy that reflects the significance of observable market inputs. The three levels of the fair value hierarchy are defined below.

Quoted market prices – Level 1

Financial instruments are classified as Level 1 if their value is observable in an active market. Fair values for such instruments are reported by reference to unadjusted quoted prices for identical assets or liabilities where the quoted price is readily available, and the price represents actual and regularly occurring market transactions on an arm's length basis.

Valuation technique using observable inputs – Level 2

Financial instruments classified as Level 2 are fair valued using models whose inputs (for example, interest rates and credit spreads) are observable in an active market.

Valuation technique using significant unobservable inputs – Level 3

Financial instruments are classified as Level 3 if their valuation incorporates significant inputs that are not based on observable market data. The company has no instruments classified in Level 3 (2017: none).

The company's secured bonds are tradable but the markets are not considered to be active. Accordingly market prices of the reference gilt have been adjusted for an appropriate credit spread to arrive at a fair value (Level 2 valuation). The fair value of the associated fixed rate loans is similarly adjusted for appropriate credit spreads (Level 2 valuation).

Prepayment

It is expected that each loan will run to maturity however each loan agreement provides that any borrower may at any time purchase bonds at any price and following such a purchase the borrower is required to surrender the bonds to the issuer by way of prepayment of the borrower's loan in an amount equal to the outstanding balance of the bonds being surrendered. The prepaid amount of the loan and the equivalent bond nominal amounts is removed from the statement of financial position on delivery of the Deed of Surrender.

Segmental Analysis

All operating income and expenditure is derived from activities undertaken in the United Kingdom. The company's only activity is to provide finance to HAs. Other relevant segmental information is given in note 19.

3 FINANCIAL RISK MANAGEMENT

The proceeds from the issue of the 7% secured bonds 2032 were used to make loans to the HAs.

Credit risk

The company is subject to gross credit risk on its loans but no net risk.

The ability of the company to make payments of interest, principal and any other sums due in respect of the bonds will depend on the company receiving like amounts from the borrowers under their loan agreements.

To the extent that the company does not receive sufficient amounts in respect of such loan agreements (whether in the ordinary course of business, following the enforcement of its security obtained in respect of each loan agreement or otherwise) then the company will not have sufficient monies to pay interest, principal or other sums due in respect of the bonds. Non-payment by the company may not necessarily constitute an event of default under the bonds.

The carrying value of the loans represents the maximum exposure to gross credit risk. No loans are past due or impaired at 31 December 2018 (2017: None).

Gross credit risk on the loans is mitigated by the collateral and security arrangements described below:

The secured bonds are rated "A3/A-" by Moody's Investor Service and Standard & Poor's at 31 December 2018 (2017: "A1/A-").

On 21 September 2018 Moody's lowered their rating on the bonds following the enactment of the Housing Administration regime on 5 July 2018 under the Housing and Planning Act 2016.

Collateral and security arrangements

The company's gross credit risk is mitigated by the following factors. The loans are secured by way of a fixed charge over certain assets of the borrowers. All borrowers are subject to external regulation by the Regulator of Social Housing. Each borrower has provided a first legal mortgage over property owned or leased by the borrower to ensure that the debt is adequately serviced from the relevant assets through to maturity in the event of a default.

As the on-going cash flow from the underlying security is the key component to securing the transaction, measurement of the book value and fair value of the secured properties is not required by the transaction documentation. For this reason, it would not be practical or cost effective to obtain this information on an annual basis.

Prudential Trustee Company Limited acts as the trustee on behalf of all secured bondholders (the bond trustee), under the terms of a Trust Deed, and has the benefit of a fixed charge over certain assets of the borrowers and a floating charge over all the assets of the company.

The bond trustee has the power to take control of the charged properties in certain pre-determined circumstances to protect cash flows to be used to satisfy obligations under the bonds.

Collateral, unless subject to enforcement, is not recorded on the company's statement of financial position.

Liquidity risk

To mitigate liquidity risk the company collects capital repayments and interest from borrowers four business days prior to payment to bondholders. Additionally borrowers maintain a debt service reserve fund with the trustee of the secured bondholders, amounting to a minimum of one year's worth of interest and capital repayments that can be drawn upon in the event of a late payment.

The loan repayments by the borrowers commenced four business days before 30 November 2008. The repayments are calculated on an annuity basis with the final repayments being made four business days before 30 November 2032. Interest is receivable half yearly in arrears at an amount equal to the relevant borrower's proportionate share of all interest falling due for payment by the company on the secured bonds. The maturity analysis of financial liabilities is given in note 12.

As with credit risk to the extent that the company does not receive sufficient amounts in respect of the loan agreements (whether following the enforcement of its security obtained in respect of each loan agreement or otherwise) then the company will not have sufficient monies to pay interest, principal or other sums due in respect of the bonds. Non-payment by the company may not necessarily constitute an event of default under the bonds.

Interest rate risk

The interest charged on the loans is fixed and is equal to the interest payable on the related secured bonds and hence there is no cash flow risk between the receipt and payment of the interest. Accordingly, the directors consider that the company is not subject to any risk on the fluctuation of interest rates.

Fair value risk and market price risk

There is a gross fair value risk on the loans and secured bonds but there is no net risk. Market price risk is not expected to impact on the company because (i) the loans and secured bonds are held at amortised cost in the financial statements and (ii) the company expects to hold them until maturity.

Currency risk

All financial assets and liabilities are denominated in sterling and hence there is no currency risk.

4 INTEREST RECEIVABLE

	2018 £	2017 £
On loans to borrowers	**4,054,894**	4,146,492
Amortisation of net discount	**5,101**	4,840
	4,059,995	4,151,332

5 INTEREST PAYABLE

	2018 £	2017 £
On 7% secured bonds 2032	**4,054,894**	4,146,492
Amortisation of net discount	**5,101**	4,840
	4,059,995	4,151,332

6 OPERATING EXPENSES

Operating expenses comprise management fees payable to T.H.F.C (Services) Limited and other professional service fees.

7 RESULT BEFORE AND AFTER TAXATION

The result before taxation is wholly attributable to the company's principal activity, arose wholly within the United Kingdom and is stated after charging:

	2018 £	2017 £
Fees paid to current auditor for annual audit of financial statements - current year	**8,112**	6,990

8 EMPLOYEES

There were no employees during the year other than the directors (2017: Nil). The directors received no remuneration during the year directly from the company in respect of their qualifying services (2017: £Nil). All directors are remunerated by T.H.F.C. (Services) Limited for their services to the company. It is not practicable to obtain the relevant data to accurately disclose the company's share of this cost.

9 LOANS TO BORROWERS

	2018	2017
	£	£
Outstanding loan amount	**57,011,000**	58,379,629
Unamortised premium	**395,399**	423,246
Unamortised discount	**(477,630)**	(510,578)
Amortised cost	**56,928,769**	58,292,297
Net discount due within one year	**5,180**	5,076
Less amounts due within one year	**(1,466,042)**	(1,368,630)
Non-current amortised cost	**55,467,907**	56,928,743

Collateral arrangements are set out in note 3.

10 OTHER RECEIVABLES

	2018	2017
	£	£
Net discount on loans due within one year	**5,180**	5,076
Loans due within one year	**1,466,042**	1,368,630
Interest receivable	**338,942**	347,079
Other receivables	**8,622**	7,500
Prepayments	**20,787**	19,111
	1,839,573	1,747,396

11 OTHER PAYABLES

	2018 £	2017 £
Net discount on secured bonds due within one year	**5,180**	5,076
7% secured bonds due within one year	**1,466,042**	1,368,630
Interest payable	**338,942**	347,079
Other payables	**40,396**	39,015
Accruals	**29,409**	26,611
	1,879,969	1,786,411

12 FINANCIAL LIABILTIES – SECURED BONDS

	2018 £	2017 £
7% secured bonds 2032	**57,011,000**	58,379,629
Unamortised premium	**395,399**	423,246
Unamortised discount	**(477,630)**	(510,578)
Amortised cost	**56,928,769**	58,292,297
Net discount due within one year	**5,180**	5,076
Less amounts due within one year	**(1,466,042)**	(1,368,630)
Non-current amortised cost	**55,467,907**	56,928,743

Details of security are set out in note 3.

The 7% secured bonds are listed and are repayable between 2008 and 2032 and were issued in the following tranches:

	Nominal Value £	(Discount)/ Premium £
11 February 1998	60,750,000	(1,494,174)
23 June 1998	21,600,000	418,716
18 November 1998	18,150,000	1,002,579
	100,500,000	(72,879)
Prepayments	(32,900,000)	(80,963)
	67,600,000	(153,842)

The net discount and cumulative amortisation at the beginning of the year was £87,332 and £66,510 respectively (2017: £92,172 and £61,670). Amortisation charged during the year was £5,101 (2017: £4,840).

The net proceeds of these issues were used to make loans to the borrowers of the company.

The discount arising on the issue on 11 February 1998, together with the issue costs, was incurred directly by the borrowers. The premiums arising on the issues on 23 June 1998 and 18 November 1998 were utilised to cover the issue costs for these issues. The remaining balance was transferred to the borrowers. The issue costs relating to these issues amounted to £1,015,026.

The premiums/discounts have been added to/deducted from the value of the secured bonds and are amortised through the statement of comprehensive income over the life of the bond.

Interest on the bonds is payable half yearly in arrears. From 30 November 2008, each half yearly payment increased to include a capital element in order to redeem part of the principal amount of the bonds.

Contractual cash flows on secured bonds

2018	**Due within one year**	**Due within one to two years**	**Due within two to five years**	**Due in over five years**	**Total 2018**
	£	**£**	**£**	**£**	**£**
Principal	**1,466,041**	**1,570,551**	**5,415,233**	**48,559,176**	**57,011,001**
Interest	**3,965,556**	**3,861,135**	**10,879,793**	**23,986,905**	**42,693,389**
Total	**5,431,597**	**5,431,686**	**16,295,026**	**72,546,081**	**99,704,390**

2017	Due within one year	Due within one to two years	Due within two to five years	Due in over five years	Total 2017
	£	£	£	£	£
Principal	1,368,630	1,466,041	5,055,196	50,489,763	58,379,630
Interest	4,063,035	3,965,556	11,239,849	27,487,985	46,756,425
Total	5,431,665	5,431,597	16,295,045	77,977,748	105,136,055

13 SHARE CAPITAL

	2018	2017
	£	£
Allotted, and part paid		
50,000 (2017: 50,000) ordinary shares of £1 each of which 25p per share is paid	**12,500**	12,500

The company's capital comprises only its share capital which the directors consider adequate for its ongoing working capital requirements in relation to its obligations under the bonds. The company is not subject to externally imposed capital requirements.

14 RECONCILIATION OF RESULT BEFORE TAXATION TO CASH GENERATED FROM OPERATIONS

	2018	2017
	£	£
Result before taxation	-	-
Adjustments for:		
Interest receivable	**(4,059,995)**	(4,151,332)
Interest payable	**4,059,995**	4,151,332
Changes in working capital:		
(Increase) / decrease in receivables	**(2,798)**	382
Increase in payables	**4,179**	4,332
Cash generated from operations	**1,381**	4,714

15 FAIR VALUES OF FINANCIAL STATEMENTS

The Level 2 fair value of the 7% secured bonds due 2032 and associated loans, as at 31 December 2018 are shown below. The fair value is derived from the market value of the reference gilts at that date. There is no difference between the fair value and carrying value of all other financial assets and liabilities.

	2018		2017	
	Carrying value	**Fair value**	Carrying value	Fair value
	£	**£**	£	£
Financial assets:				
Classified as loans & receivables				
Loans to borrowers				
Non-current	**55,467,907**		56,928,743	
Current	**1,466,042**		1,368,630	
Net discount	**(5,180)**		(5,076)	
Total	**56,928,769**	**93,087,638**	58,292,297	84,212,727
Interest receivable	**338,942**	**338,942**	347,079	347,079
Other receivables	**8,622**	**8,622**	7,500	7,500
Total financial assets	**57,276,333**	**93,435,202**	58,646,876	84,567,306
Financial liabilities:				
Classified as financial liabilities at amortised cost				
Secured bonds				
Non-current	**56,467,907**		56,928,743	
current	**1,466,042**		1,368,630	
Net discount	**(5,180)**		(5,076)	
Total	**56,928,769**	**93,087,638**	58,292,297	84,212,727
Interest payable	**338,942**	**338,942**	347,079	347,079
Other payables and accruals	**69,804**	**69,804**	65,626	65,626
Total financial liabilities	**57,337,515**	**93,496,384**	58,705,002	84,625,432

16 ULTIMATE PARENT COMPANY

At 31 December 2018, the company's immediate and ultimate parent company was Prudential Trustee Company Limited, a company incorporated in the England and Wales. The share capital of the company is held by Prudential Trustee Company Limited on a fiduciary basis on behalf of qualifying charities as defined in the Declaration of Trust and hence no group financial statements are prepared.

On 11 May 2018 the directors of Haven Funding (Holdings) (2) Limited, the previous intermediate parent company, simplified the group structure by transferring its investment in the issuer to the Prudential Trustee Company Limited and then dissolving the holding company.

17 RELATED PARTY TRANSACTIONS

All administrative services are provided under a management agreement with T.H.F.C. (Services) Limited a subsidiary of The Housing Finance Corporation Limited. The current directors are employees of T.H.F.C. (Services) Limited. Management fees payable to T.H.F.C. (Services) Limited during the year amounted to £38,836 (2017: £36,568). Amounts prepaid in respect of the next period to T.H.F.C. (Services) Limited at 31 December 2018 amounted to £14,553 (2017: £13,020).

The company has granted security in favour of The Prudential Trustee Company Limited **(the trustee)** to secure the bonds and other monies under the terms of a trust deed dated 12 February 1998 (as amended by supplemental agreements). Fees payable to the trustee for the year amounted to £15,347 (2017: £14,989). Amounts prepaid in respect of the next period to the trustee at 31 December 2018 amounted to £1,843 (2017: £1,713).

18 TAXATION

The company has incurred no tax liability in the current or prior year.

19 SEGMENTAL INFORMATION

Details of borrowers whose total interest payable to the company exceeds 10% of the total interest receivable for the year are given below.

Borrower	**2018**	2017
	%	%
The Riverside Group Limited	**37**	37
Midland Heart Limited	**24**	24
Festival Housing Limited	**10**	10
South Yorkshire Housing Association Limited	**10**	10
Yorkshire Housing Limited	**10**	10
Paradigm Homes Charitable Housing Association Limited	**9**	9
Total	**100**	100

20 SECURITY OFFERED TO INVESTORS

Haven Funding (32) Plc is a special purpose vehicle and the security offered to investors is limited only to the assets of the company being principally the secured loans and share capital. The shareholders of the company's parent, the Prudential Trustee Company Limited cannot be held liable for the debts of the company in the event of insolvency.