Aviva ERFA 15 UK Limited

Registered in England and Wales No. 6518135

Annual Report and Financial Statements 2023

Contents

Directors and officer

Directors

J Downes
B Fletcher
E J Rayfield

Officer – Company Secretary

Aviva Company Secretarial Services Limited
80 Fenchurch Street
London
EC3M 4AE

Independent Auditors

PricewaterhouseCoopers LLP
7 More London Riverside
London
SE1 2RT

Registered office

Aviva
Wellington Row
York
YO90 1WR

Company number

Registered in England and Wales no. 6518135

Other information

The Company is a member of the Aviva plc group of companies ("the Group")

Strategic report

The directors present their strategic report for Aviva ERFA 15 UK Limited (the "Company") for the year ended 31 December 2023.

Review of the Company's business

Principal activities

The Company is a limited company, incorporated under the laws of England and Wales. The principal strategy and objective of the Company continues to be the investment in lifetime mortgage loans secured by first charges over properties within the United Kingdom. During the year, the Company was funded by its parent undertaking, Aviva Life & Pensions UK Limited (UKLAP), and granted security over its assets. The directors consider that this strategy will continue unchanged into the foreseeable future.

Under the terms of the securitisation transaction, the proceeds of the loan notes were used to acquire a portfolio of lifetime mortgage loans held by UKLAP. Cash flows received from these mortgages upon redemption are utilised to pay expenses and to repay the borrowings of the Company.

The Directors of the Company have concluded under IFRS9 that UKLAP retain substantially all the exposure to risk and rewards of the pool of equity release mortgage loans at the point of sale through its retention of 100% of loan notes issued by the Company. As a consequence of the accounting treatment, the Company cannot recognise the mortgage loans on its balance sheet, but rather it recognises a deemed loan due from UKLAP.

Financial position and performance

The financial position of the Company at 31 December 2023 is shown in the statement of financial position on page 15, with the results shown in the income statement on page 14 and the statement of cash flows on page 17.

Income for the year, including unrealised gains and losses on financial instruments, is a profit of £6,021 thousand *(2022: £2,724 thousand profit*) and profit before tax is £396 thousand *(2022: £43 thousand before tax).*

The level of borrowings has increased by £547.4 million to £7,925.0 million *(2022: £7,377.6 million)*, driven by a combination of reduction in yields, increasing the fair value of the loans, and increased further from further securitisations deals offset by loan coupon payment.

Shareholders' equity has increased by £33 thousand *(2022: increase of £32 thousand)*, reflecting the profit after tax for the year.

Section 172 (1) statement

We report here on how our Directors have discharged their duties under Section 172 (s.172) of the Companies Act 2006. S.172 sets out a series of matters to which the directors must have regard to in performing their duty to promote the success of the Company for the benefit of its shareholders, which includes having regard to other stakeholders. Where this statement draws upon information contained in other sections of the Strategic report, this is signposted accordingly.

Our Board considers it crucial that the Company maintains a reputation for high standards of business conduct. The Board is responsible for establishing, monitoring and upholding the culture, values, standards, ethics, and reputation of the Company to ensure that our obligations to our stakeholders are met. The Board monitors adherence to our policies and compliance with local corporate governance requirements and is committed to acting if our businesses fall short of the standards we expect.

The Company's culture

Our culture is shaped, in conjunction with the wider Aviva Group, by our clearly defined purpose – with you today for a better tomorrow. As the provider of financial services to millions of customers, Aviva seeks to earn their trust by acting with integrity and a sense of responsibility at all times. We look to build relationships with all our stakeholders based on openness and transparency and we value diversity and inclusivity in our workforce and beyond.

Key strategic decisions in 2023

For each matter that comes before the Board, the Board considers the likely consequences of any decision on the long term, identifies stakeholders who may be affected, and carefully considers their interests and any potential impact as part of the decision-making process.

Our Stakeholders

This section provides insight into how the Board engages with our stakeholders. The Board recognises that stakeholders have diverse interests and that these interests need to be heard. Engaging with our stakeholders is essential to understand what matters most to them and the likely impact of key decisions. The Board has established its awareness of the likely consequences of its long term decisions as part of its consideration of Aviva's strategy. Our Section 172(1) Statement on page 4 sets out our approach on how our directors have performed their duty. Our Board's activities section on page 4 to 5 provides further information on key decisions taken in 2023, including how stakeholder views and inputs have been factored into the Board's decision making.

Stakeholder engagement

The table below sets out our approach to stakeholder engagement during 2023:

<table>
<tr><td colspan="2">Our people
Our people's wellbeing and commitment to serving our customers are the foundation for our performance.</td></tr>
<tr><td>How we have engaged
• The Company has no employees. The majority of staff engaged in the activities of the Company are employed by fellow subsidiary undertakings of Aviva plc. As part of the Aviva Group, these staff enjoy the benefit of the Aviva Group policies and benefits made available to them.
• Aviva Group staff have the opportunity to share in the business's success as shareholders through membership of our global share plans. All employees are eligible for our global share plans.</td><td>Focus during the year
• The Aviva plc Board focused on attracting and retaining the best people in the industry.</td></tr>
</table>

Strategic report (continued)

Stakeholder engagement (continued)

Customers **Understanding what's important to our customers is key to our long-term success.**	
How we have engaged • The Company's parent entity is UKLAP. On behalf of the Company, the UKLAP Board and its Conduct Committee receives regular reporting on customer experience, customer journeys, customer service levels and outcomes and customer related strategic initiatives.	**Focus during the year** • The UKLAP Board monitored and responded to the impact that inflationary pressures exerted on our customers. • The UKLAP Board focused on our digital customer journeys, making it easier and more convenient for customers to interact with us.

Shareholders **Our retail and institutional shareholders are the ultimate owners of the Company.**
How we have engaged • The Company's ultimate shareholder is Aviva plc and there is ongoing communication and engagement with the Aviva plc Board. Any matters requiring escalation are escalated by the Board through the Chair to its parent.

Communities **We recognise the importance of contributing to our communities through volunteering, community investment, and long term partnerships.**	
How we have engaged • Aviva supported the communities in which we operate, through investment in business and infrastructure, paying tax revenues and community support activity. • The Aviva plc Customer and Sustainability Committee received regular updates on the progress of Aviva's Sustainability Ambition throughout 2023.	**Focus during the year** • Sustainability and inclusive behaviours training was provided for the Group and subsidiary Boards. **Outcomes and actions during the year** • Employees across the Aviva Group were offered the opportunity to volunteer their time to support charities and organisations.

Suppliers **We operate in conjunction with a wide range of suppliers to deliver services to our customers. It is vital that we build strong working relationships with our intermediaries.**	
How we have engaged • On behalf of the Company, UKLAP maintains oversight of the management of its most important suppliers and reviews reports on their performance. • All supplier related activity is managed in line with the group procurement and outsourcing business standards. This ensures that supplier risk is managed appropriately in relation to customer outcomes, data security, corporate responsibility, and financial, operational and contractual issues.	**Focus during the year** • The Risk Committee on behalf of the UKLAP Board reviewed the Aviva Group's cyber risk and control environment including the threat posed by the risk of ransomware attacks on both the group and our material third party suppliers. **Outcomes and actions during the year** • To ensure continued efforts to strengthen controls, Aviva plc refreshed the procurement & outsourcing (P&O) Business Standard for 2023. • Aviva remains a signatory to the Prompt Payment Code.

Future outlook

Strategies for the Group as a whole are determined by the Board of Aviva plc and these are shown in the Group 2023 Annual Report and Accounts. The Company will work with the Group to support the implementation of these strategies.

The strategic direction of the Company is set by the directors of the Company. The directors consider that the Company's principal activities will continue unchanged for the foreseeable future.

The Company is well positioned to compete in its key markets by leveraging the power of Aviva's breadth of offering within the UK to deliver compelling propositions to meet our customer needs, alongside driving digitisation through customer services, propositions and ensuring we are easy for customers to do business with, however they chose.

The Directors anticipate muted market growth in 2024, driven by improving macroeconomic factors reducing pressure on interest rates and maximum loan size that providers can offer to customers. As ever competitiveness in the market is expected to continue to be strong.

Strategic report (continued)

Principal risks and uncertainties

A description of the principal risks and uncertainties facing the Company and the Company's risk management policies are set out in note 18 to the financial statements.

Risk factors beyond the Company's control that could cause actual results to differ materially from those estimated include, but are not limited to:

- Market risk is the risk of loss or adverse change in the financial situation (including the value of assets, liabilities and income) resulting, directly or indirectly, from fluctuations in the level or the volatility of market variables, such as interest rates and property prices.
- Credit risk is the risk of adverse financial impact resulting from fluctuations in credit quality of third parties including default, rating transition and credit spread movements.
- Liquidity risk is the risk that liabilities cannot be met in a timely and cost-effective manner as they fall due.
- Operational risk is the risk of loss arising from inadequate or failed internal processes, people or systems, or from external events.

The company uses a number of metrics to identify, measure, manage, monitor and report risks and a fuller explanation of these risks other than operational risk may be found in note 18 to the financial statements. Also refer to Accounting Policy (B) - Critical accounting policies and use of estimates.

Key performance indicators

The directors consider that the Company's key performance indicators (KPIs) that communicate the financial performance are as follows:

Measure	**2023**	2022
	£'000	£'000
Profit after tax for year	**33**	32
Shareholders' equity	**243**	210

By order of the Board on 21st May 2024

Laura McGowan

L E McGowan
For and on behalf of Aviva Company Secretarial Services Limited
Company Secretary

Directors' report

In accordance with Section 415 of the Companies Act 2006 (the Act), the directors submit their annual report and the audited financial statements for the Company for the year ended 31 December 2023.

Directors

The names of the current directors of the Company are shown on page 3.

Details of Board appointments and resignations during the year and since the year ended are shown below:

J Downes	Appointed 11 April 2023
J M J Curness	Resigned 11 April 2023
B Fletcher	Appointed 1 June 2023
R J Priestley	Resigned 1 June 2023

Company Secretary

Aviva Company Secretarial Services Limited is appointed as the Company Secretary.

Dividends

The directors do not recommend the payment of a dividend for the year *(2022: £nil).*

Going concern

The Company and its ultimate holding company, Aviva plc, have considerable financial resources together with a diversified business model, with a spread of businesses and geographical reach. The directors believe that the Company is well placed to manage its business risks successfully.

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the strategic report, which includes a section describing the principal risks and uncertainties. In addition, the financial statements include notes on: the Company's borrowings (note 14); its capital structure (note 17); management of its risks including market, credit and liquidity risk (note 18).

After making enquiries, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for a period of at least twelve months from the date of approval of the financial statements. For this reason, they continue to adopt, and to consider appropriate, the going concern basis in preparing the financial statements.

Future outlook

Likely future developments in the business of the Company are discussed in the strategic report on page 5.

Stakeholder Engagement

Our statements summarising our employee engagement, and our engagement with suppliers, customers and our other stakeholders are included in our Strategic Report.

Financial instruments

The Company uses a financial instrument to manage liquidity risk. Details of the objectives and management of this instrument are contained in note 18 on risk management. The Company does not hold any financial instruments to manage risks relating to credit, cash flow, interest rates and property prices however this position is monitored under a risk management framework details of which are contained in note 18 on risk management.

Employees

The Company has no employees. The majority of employees engaged in the activities of the Company are employed by subsidiary undertakings of Aviva plc, Aviva Employment Services Limited. Disclosures relating to employees may be found in the annual report and financial statements of these companies. The Company is recharged with the costs of the staff provided by these companies.

Disclosure of information to the auditors

In accordance with section 418 of the Companies Act 2006, the directors in office at the date of approval of this report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's External Auditors, PricewaterhouseCoopers LLP, is unaware and each director has taken all steps that ought to have been taken as a director in order to make themselves aware of any relevant audit information and to establish that PricewaterhouseCoopers LLP is aware of that information.

Independent auditors

Under the Competition and Markets Authority Regulations, the Company's ultimate parent company, Aviva plc, is required to tender for the provision of the external audit every 10 years. PricewaterhouseCoopers LLP was appointed for the first time for the 31 December 2012 financial year end and, therefore, a mandatory re-tender was required for the year ending 31 December 2022. Following a full and rigorous competitive tender process, which was overseen by the Group's Audit Committee, the selection of Ernst & Young LLP was approved by the Aviva plc Board. Subject to their appointment by the Company's shareholders at the 2024 Annual General Meeting, Ernst & Young LLP will undertake the audit for the financial years ended 31 December 2024.

Directors' report (continued)

Qualifying indemnity provisions

In 2004, Aviva plc, the Company's ultimate parent, granted an indemnity to the directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act 1985, which continue to apply in relation to any provision made before 1 October 2007. This indemnity is a "qualifying third party indemnity" for the purposes of section 309A to section 309C of the Companies Act 1985. These qualifying third party indemnity provisions remain in force as at the date of approving the directors' report by virtue of paragraph 15, Schedule 3 of The Companies Act 2006 (Commencement No. 3, Consequential Amendments, Transitional Provisions and Savings) Order 2007.

The directors also have the benefit of the indemnity provision contained in the Company's articles of association, subject to the conditions set out in the Companies Act 2006. This is a "qualifying third party indemnity" provision as defined by section 234 of the Companies Act 2006.

Corporate governance

The Company's ultimate controlling party is Aviva plc. The Group's Corporate Governance manual is available on the Group website at www.aviva.com.

A Group Reporting Manual, including International Financial Reporting Standards (IFRS), has been defined and rolled out across the Group. A Financial Reporting Control Framework (FRCF) is in place across the Group. FRCF relates to the preparation of reliable financial reporting and preparation of local financial statements in accordance with IFRS.

The FRCF process follows a risk-based approach, with management identification, assessment (documentation and testing), remediation as required, reporting and certification over key financial reporting related controls. Management quality assurance procedures over the application of the FRCF process are signed off by the business unit and regional Chief Executives and Chief Financial Officers.

Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the strategic report, directors' report and the financial statements in accordance with applicable law and regulation.

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 the UK-adopted international accounting standards.

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;
- state whether applicable UK-adopted international accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; 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 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 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.

The financial statements on pages 11 to 31 were approved by order of the Board on 21st May 2024

Laura McGowan

L E McGowan
For and on behalf of Aviva Company Secretarial Services Limited
Company Secretary

Independent auditors' report to the members of Aviva ERFA15 UK Limited

Report on the audit of the financial statements

Opinion

In our opinion, Aviva ERFA 15 UK Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2023 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with UK-adopted international accounting standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the statement of financial position as at 31 December 2023; the income statement, the statement of changes in equity and the statement of cash flows for the year then ended; the accounting policies; and the notes to the financial statements.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the company's ability to continue as a going concern.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance 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 an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of 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 based on these responsibilities.

With respect to the Strategic report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' Report for the year ended 31 December 2023 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' Report.

Independent auditors' report to the members of Aviva ERFA15 UK Limited (cont)

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors' responsibilities in respect of the financial statements, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they 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.

Auditors' 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 auditors' 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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to Companies Act 2006, and we considered the extent to which non-compliance might have a material effect on the financial statements. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to manipulate reported results and management bias in accounting estimates. Audit procedures performed by the engagement team included:

- Enquired of management and those charged with governance around actual and potential litigation claims;
- Reviewed minutes of meetings attended by those charged with governance;
- Enquired of management and those charged with governance to identify any instances of fraud or non-compliance with laws and regulations;
- Performed testing over accounting estimates, including equity release mortgages and associated borrowings, which involve judgemental assumptions that are susceptible to manipulation;
- Reviewed financial statement disclosures and agreed them to supporting documentation to assess compliance with applicable laws and regulations;
- Performed testing over the risk of management override of controls, including through testing journals entries posted by management, unusual account combinations and backdated journals; and
- Assessed matters reported on the Aviva Group's whistleblowing helpline and fraud register and the results of management's investigation of such matters.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

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 auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Independent auditors' report to the members of Aviva ERFA15 UK Limited (cont)

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have no exceptions to report arising from this responsibility.

Sean Forster (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
21st May 2024

Accounting policies

The Company, a limited company incorporated and domiciled in the United Kingdom (UK), invests in lifetime mortgage loans.

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

(A) Basis of preparation

The financial statements of the Company have been prepared and approved by the directors in accordance with UK-adopted international accounting standards and the legal requirements of the Companies Act 2006.

The financial statements have been prepared under the historical cost convention, except for mortgage loans and those financial instruments and financial liabilities (including derivative instruments) at fair value through profit and loss.

The financial statements have been prepared on the going concern basis as explained in the Directors' report on page 7.

The financial statements are stated in pounds sterling, which is the Company's functional and presentational currency. Unless otherwise noted, the amounts shown in these financial statements are in thousands of pounds sterling (£'000).

New standards, interpretations and amendments to published standards that have been adopted by the Company

The Company has adopted the following amendments to standards which became effective for the annual reporting period beginning on 1 January 2023. The amendments have been issued and endorsed by the UK and do not have a significant impact on the Company's financial statements.

(i) Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting Policies

(ii) Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates

(iii) Amendments to IAS 12 Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction

(iv) Amendments to IAS 12 Income Taxes: International Tax Reform – Pillar Two Model Rules

Standards, interpretations and amendments to published standards that are not yet effective and have not been adopted early by the Company

The following amendments to existing standards have been issued, are not yet effective for the Company, and gave not been adopted early by the Company. None of the amendments are expected to have a significant impact on the Company's financial statements:

(i) Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current
Published by the International Accounting Standards Board (IASB) in January 2020. The amendments are effective for annual reporting beginning on or after 1 January 2024 and have been endorsed by the UK.

(ii) Amendments to IAS 1 Presentation of Financial Statements: Non-current Liabilities with Covenants
Published by the IASB in October 2022. The amendments are effective for annual reporting beginning on or after 1 January 2024 and have been endorsed by the UK.

(iii) Amendments to IFRS 16 Leases: Lease Liability in a Sale and Leaseback
Published by the IASB in September 2022. The amendments are effective for annual reporting beginning on or after 1 January 2024 and have been endorsed by the UK.

(iv) Amendments to IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments Disclosures: Supplier Finance Arrangements
Published by the IASB in May 2023. The amendments are effective for annual reporting beginning on or after 1 January 2024 and have been endorsed by the UK.

(v) Amendments to IAS 21 The Effects of Changes in Foreign Exchange Rates: Lack of Exchangeability
Published by the IASB in August 2023. The amendments are effective for annual reporting beginning on or after 1 January 2025 and have yet to be endorsed by the UK.

(vi) IFRS 18 Presentation and Disclosure of Financial Statements
Published by the IASB in April 2024. The amendments are effective for annual reporting beginning on or after 1 January 2027 and have yet to be endorsed by the UK.

(vii) IFRS 19 Subsidiaries without Public Accountability: Disclosures
Published by the IASB in May 2024. The amendments are effective for annual reporting beginning on or after 1 January 2027 and have yet to be endorsed by the UK.

(B) Critical accounting policies and use of estimates

The preparation of the Company's financial statements in accordance with IFRS, requires management to make judgements, estimates and assumptions in applying the accounting policies that affect the reported amounts of assets, liabilities, income and expenses. The only area of key judgement is recognition of the deemed loans (see policy note G). These major areas of estimation on policy application are summarised below:

(i) Fair value of deemed loans (set out in policy G and note 7)

(ii) Fair value of borrowings (set out in policy M and note 14)

All estimates are based on management's knowledge of current facts and circumstances, assumptions based on that knowledge and their predictions of future events and actions. Actual results may differ from those estimates, possibly significantly.

The list below sets out those items we consider particularly susceptible to changes in estimates and assumptions, and the relevant accounting policy:

(i) Deemed loans (set out in policy G and note 7)

(ii) Deferred income reserve (set out in policy K)

(iii) Borrowings (set out in policy M and note 14)

The sensitivity of fair value of these items most significant unobservable inputs is disclosed in note 7 to the financial statements.

Accounting policies (continued)

(C) Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. This presumes that the transaction takes place in the principal (or most advantageous) market under current market conditions. Fair value is a market-based measure and in the absence of observable market prices in an active market, it is measured using the assumptions that market participants would use when pricing the asset or liability.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price i.e. the fair value of the consideration given or received. In certain circumstances, the fair value at initial recognition may differ from the transaction price. If the fair value is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging), or is based on a valuation technique whose variables include only data from observable markets, then the difference between the fair value at initial recognition and the transaction price is not recognised immediately in the income statement but deferred and recognised in the income statement on an appropriate basis over the life of the instrument but no later than when the valuation is supported wholly by observable market data or the transaction is closed out or otherwise matured.

(D) Interest and similar income

Interest and similar income consists of interest receivable for the year. Interest income is recognised as it accrues, taking into account the effective yield on the investment.

(E) Other operating income

Other operating income consists of realised gains arising from each securitisation offset by the cost of establishing an equivalent deferred income reserve liability.

(F) Financial instruments

The principal financial instruments used by the Company, from which financial instrument risk arises, are: deemed loans, receivables, cash and cash equivalents, borrowings and payables and other financial liabilities.

The Company classifies the deemed loans and the associated liabilities at fair value through profit or loss (FVTPL), since they are managed as a portfolio on a fair value basis. Presentation at fair value provides more relevant information and ensures that any accounting mismatch is minimised.

Changes in the fair value of financial instruments are included in the income statement in the period in which they arise.

(G) Loans

Under IFRS 9, where a transferor retains substantially all the risks and rewards associates with the transferred assets, the transaction is accounted for as a financing transaction, notwithstanding that legally it is a sale transaction and that the Company has acquired legal and beneficial title to the mortgages.

The Directors of the Company have concluded under IFRS 9 that the Seller (UKLAP) retained substantially all the exposure to risks and rewards of the pool of equity release mortgage loans at the point of sale through its retention of 100% of loan notes issued by the Company. As a consequence of the accounting treatment, the Company cannot recognise the mortgage loans on its balance sheet, but rather it recognises a deemed loan due from UKLAP.

The initial amount of the deemed loans correspond with the cash consideration paid by the Company to the Seller to obtain the lifetime mortgages. The deemed loans are designated at fair value through profit or loss, since they are managed as a portfolio on a fair value basis, and presentation at fair value provides more relevant information and ensures that any accounting mismatch with the associated liabilities is minimised. The fair values are estimated using discounted cash flow forecasts of the underlying lifetime mortgages. These include a risk adjusted discount rate to reflect the risks associated with these products. They are revalued at each period end, with movements in their fair values being taken to the income statement.

(H) Collateral

The Company receives collateral in the form of non-cash assets in respect of loans, in order to reduce the credit risk of these transactions. Non-cash collateral received is not recognised in the statement of financial position unless the transfer of the collateral meets the derecognition criteria from the perspective of the transferor.

(I) Receivables and payables

Receivables and payables are initially recognised at cost, being fair value. Subsequent to initial measurement they are held at amortised cost, which given the short term nature of the items is considered a reasonable approximation to fair value.

(J) Statement of cash flows

Cash and cash equivalents

Cash and cash equivalents consist of cash at banks and in hand, deposits held on call with banks, treasury bills and other short-term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value. Such investments are those with less than three months' maturity from the date of acquisition, or which are redeemable on demand with only an insignificant change in their fair values.

(K) Deferred income reserve

At the outset of each securitisation, the difference between the value of mortgages transferred (represented by the intercompany loan with parent undertaking) and the corresponding value of loan notes issued has been recognised in a Deferred Income Reserve (DIR). The difference relates to an allowance for future expenses included in the value of the loan notes. DIR is amortised in line with the expected run off of expenses included in the initial valuation of the loan notes.

Accounting policies (continued)

(L) Income taxes

The current tax expense is based on the taxable profits for the year, after any adjustments in respect of prior years. Tax, including tax relief for losses if applicable, is allocated over profits before taxation and amounts charged or credited to components of other comprehensive income and equity, as appropriate.

Provision is made for deferred tax liabilities, or credit taken for deferred tax assets, using the liability method, on all material temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

The rates enacted or substantively enacted at the statement of financial position date are used to value the deferred tax assets and liabilities.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Where there is a history of tax losses, deferred tax assets are only recognised in excess of deferred tax liabilities if there is convincing evidence that future profits will be available.

Deferred tax is provided on any temporary differences arising from investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the difference will not reverse in the foreseeable future.

Deferred taxes are not provided in respect of any temporary differences arising from the initial recognition of goodwill, or from the initial recognition of an asset or liability in a transaction which is not a business combination and affects neither accounting profit nor taxable profit or loss at the time of the transaction.

Current and deferred tax relating to items recognised in other comprehensive income and directly in equity are similarly recognised in other comprehensive income and directly in equity respectively, except for the tax consequences of distributions from certain equity instruments, to be recognised in the income statement.

Deferred tax related to any fair value re-measurement of investments, held at fair value through other comprehensive income, owner-occupied properties, pensions and other post-retirement obligations and other amounts charged or credited directly to other comprehensive income is recognised in the statement of financial position as a deferred tax asset or liability.

(M) Borrowings

Loan notes backed by mortgages are designated at fair value through profit or loss as presentation at fair value provides more relevant information and ensures that any accounting mismatch is minimised.

The fair values are estimated using discounted cash flow models, as described in note 7.

All borrowing costs are expensed as they are incurred.

(N) Share capital

Equity instruments

An equity instrument is a contract that evidences a residual interest in the assets of an entity after deducting all its liabilities. Accordingly, a financial instrument is treated as equity if:

(i) there is no contractual obligation to deliver cash or other financial assets or to exchange financial assets or liabilities on terms that may be unfavourable; and

(ii) the instrument will not be settled by delivery of a variable number of shares or is a derivative that can be settled other than for a fixed amount of cash, shares or other financial assets.

Income statement

For the year ended 31 December 2023

	Notes	**2023**	2022
		£'000	£'000
Income			
Interest and similar income	D & 1	**22,749**	5,149
Unrealised losses on financial instruments - net	F & 1	**(21,433)**	(6,681)
Amortisation of deferred income reserve	K & 1	**4,705**	4,256
		6,021	2,724
Expenses			
Other operating expenses	2	**(5,625)**	(2,681)
		(5,625)	(2,681)
Profit before tax		**396**	43
Tax charge	L & 6	**(363)**	(11)
Profit for the year		**33**	32

The Company has no other comprehensive income (*2022: £nil*).

The accounting policies (identified alphabetically) on pages 11 to 13 and notes (identified numerically) on pages 18 to 31 are an integral part of the financial statements.

Statement of financial position

As at 31 December 2023

	Notes	**2023**	2022
		£'000	£'000
Assets			
Loans	G & 8	**7,522,746**	6,956,595
Deferred tax assets	L & 12	**30,818**	32,774
Current tax assets	L & 12	**1,593**	—
Receivables	I & 9	**9,880**	6,915
Cash and cash equivalents	J & 16	**486,404**	528,303
Total assets		**8,051,441**	7,524,587
Equity			
Ordinary share capital	N & 10	**—**	—
Retained earnings	11	**243**	210
Total equity		**243**	210
Liabilities			
Deferred income reserve	K & 13	**123,272**	127,700
Borrowings	M & 14	**7,924,990**	7,377,580
Current tax liabilities	L & 12	**—**	16,000
Payables and other financial liabilities	I & 15	**2,936**	3,097
Total liabilities		**8,051,198**	7,524,377
Total equity and liabilities		**8,051,441**	7,524,587

The accounting policies (identified alphabetically) on pages 11 to 13 and notes (identified numerically) on pages 18 to 31 are an integral part of the financial statements.

The financial statements on pages 11 to 31 were approved by the Board of Directors on 21st May 2024 and signed on its behalf by:

B K Fletcher

Director

Statement of changes in equity

For the year ended 31 December 2023

				2023
	Note	Ordinary share capital	Retained earnings	Total equity
		£'000	£'000	£'000
Balance at 1 January		**—**	**210**	**210**
Profit for the year and total comprehensive income	11	**—**	**33**	**33**
Balance at 31 December		**—**	**243**	**243**

				2022
	Note	Ordinary share capital	Retained earnings	Total equity
		£'000	£'000	£'000
Balance at 1 January		—	178	178
Profit for the year and total comprehensive income	11	—	32	32
Balance at 31 December		—	210	210

The accounting policies (identified alphabetically) on pages 11 to 13 and notes (identified numerically) on pages 18 to 31 are an integral part of the financial statements.

Statement of cash flows

For the year ended 31 December 2023

	Note	2023 £'000	2022 £'000
Cash flows from operating activities			
Cash generated from operating activities	16	**456,383**	692,815
Tax paid		**(16,000)**	—
Net cash generated from operating activities		**440,383**	692,815
Cash flows from financing activities			
Repayment of borrowings	14	**(482,282)**	(472,285)
Net cash used in financing activities		**(482,282)**	(472,285)
Net (decrease) / increase in cash and cash equivalents		**(41,899)**	220,530
Cash and cash equivalents at 1 January		**528,303**	307,773
Cash and cash equivalents at 31 December	16	**486,404**	528,303

The accounting policies (identified alphabetically) on pages 11 to 13 and notes (identified numerically) on pages 18 to 31 are an integral part of the financial statements.

Notes to the financial statements

1. Income

	2023 £'000	2022 £'000
Interest and similar income		
Bank deposits	**22,749**	5,149
Financial instruments		
Unrealised gains / (losses) deemed loans	**435,521**	(1,834,871)
Unrealised (losses) / gains borrowings	**(456,954)**	1,828,190
	(21,433)	(6,681)
Other operating income / (expense)		
Gains on securitisation of mortgages	**277**	815
Cost of establishing deferred income reserve	**(277)**	(815)
	—	—
Amortisation of deferred income reserve	**4,705**	4,256
Total income	**6,021**	2,724

Included within other operating income are initial gains arising on each securitisation transaction. Within the value of the loan notes is an allowance for future expenses which reduces their value compared to the corresponding lifetime mortgages (represented by the intercompany loan), creating a profit at the point of each new securitisation. Offsetting this profit is the establishment of a deferred income reserve liability, which is amortised in line with the expected run-off of expenses included in the initial valuation of the loan notes.

2. Other operating expenses

	2023 £'000	2022 £'000
Audit fees	**(13)**	(12)
Intercompany expenses	**(5,612)**	(2,669)
	(5,625)	(2,681)

3. Employee information

The Company has no employees *(2022: nil)*. All employees are employed by a fellow subsidiary undertaking of Aviva plc, Aviva Employment Services Limited. Disclosures relating to employee remuneration and the average number of persons employed are made in the financial statements of Aviva Employment Services Limited. The Company is recharged with the costs of the staff provided by Aviva Employment Services Limited.

4. Directors' remuneration

All directors were remunerated by Aviva Employment Services Limited, a fellow subsidiary of the ultimate parent company, Aviva plc. The emoluments are recharged, as part of a head office management charge under management service agreements, to all operation divisions of the Aviva Group. No direct recharge has been made to the Company in respect of these emoluments as these directors were not primarily remunerated for their services to the Company. Accordingly, no emoluments are disclosed in respect of these directors.

Notes to the financial statements (continued)

5. Auditors' remuneration

The total remuneration payable by the Company, excluding VAT, to its auditors, PricewaterhouseCoopers LLP is as follows:

	2023 £'000	2022 £'000
Fees payable to PricewaterhouseCoopers LLP for the statutory audit of the Company's financial statements	**13**	12

The Company is exempt under SI 2008/489 from the obligation to disclose fees in respect of 'Other services' as the Company is a subsidiary of Aviva plc, which prepares consolidated financial statements. Fees paid to the Company's auditors, PricewaterhouseCoopers LLP and its associates for services other than the statutory audit of the Company and other Group undertakings are disclosed in the consolidated financial statements of Aviva plc.

Audit fees are payable by Aviva Central Services UK Limited, a fellow Group company, and recharged as appropriate to the Company and fellow Group companies.

6. Tax

(a) Tax charged to the income statement

(i) The total tax charge/(credit) comprises:

	2023 £'000	2022 £'000
Current tax		
For this year	**(947)**	—
Prior year adjustments	**(646)**	—
Total current tax	**(1,593)**	—
Deferred tax		
Origination and reversal of temporary differences	**1,956**	11
Total deferred tax	**1,956**	11
Total tax charged to the income statement	**363**	11

(ii) Deferred tax charged to the income statement represents movements on the following items:

	2023 £'000	2022 £'000
Unused losses and tax credits	**849**	(849)
Provisions and other temporary differences	**1,107**	860
Total deferred tax charged to income statement	**1,956**	11

(b) Tax reconciliation

The tax on the Company's profit before tax differs from *(2022: differs from)* the theoretical amount that would arise using the tax rate of the United Kingdom as follows:

	2023 £'000	2022 £'000
Profit before tax	**396**	43
Tax calculated at standard UK corporation tax rate of 23.5% (2022: 19%)	**93**	8
Adjustment in respect of prior years	**204**	—
Movement in valuation of deferred tax	**66**	3
Total tax charged to the income statement	**363**	11

The UK Government has enacted an increase in the UK corporation tax rate to 25% to take effect from 1 April 2023. This rate has been used in the calculation of the Company's deferred tax assets as at 31 December 2022 and 31 December 2023.

Notes to the financial statements (continued)

During 2023, legislation on The Organisation for Economic Co-operation and Development proposals to reform the international tax system and introduce a global minimum effective rate of corporation tax of 15% was enacted in the UK, to take effect from 31 December 2023. The Company (as part of the Aviva Group) has assessed its potential exposure, based on the available information, and does not anticipate any exposure to additional tax under these provisions.

7. Fair value methodology

(a) Basis for determining fair value hierarchy of financial instruments

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the 'fair value hierarchy' described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Quoted market prices in active markets - ("Level 1")

Inputs to Level 1 fair values are quoted prices (unadjusted) in active markets for identical assets and liabilities.

Modelled with significant observable market inputs - ("Level 2")

Inputs to Level 2 fair values are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. If the asset or liability has a specified (contractual) term, a Level 2 input must be observable for substantially the full term of the instrument. Level 2 inputs include the following:

- Quoted prices for similar assets and liabilities in active markets;
- Quoted prices for identical or similar assets and liabilities in markets that are not active, the prices are not current, or price quotations vary substantially either over time or among market makers, or in which little information is released publicly;
- Inputs other than quoted prices that are observable for the asset or liability (for example, interest rates and yield curves observable at commonly quoted intervals, implied volatilities, and credit spreads);
- Inputs that are derived principally from, or corroborated by, observable market data by correlation or other means (market-corroborated inputs).

Modelled with significant unobservable market inputs - ("Level 3")

Inputs to Level 3 fair values are unobservable inputs for the asset or liability. Unobservable inputs may have been used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date.

However, the fair value measurement objective remains the same, i.e. an exit price at the measurement date from the perspective of a market participant that holds the asset or owes the liability. Unobservable inputs reflect the assumptions the Company considers that market participants would use in pricing the asset or liability. Examples are lifetime mortgage loans and the associated borrowings backing these loans.

Changes to valuation techniques:

There were no changes in the valuation techniques during the year.

Comparison of the carrying amount and fair values of financial instruments:

Fair value of the following assets and liabilities approximate to their carrying amounts:

- Receivables
- Cash and cash equivalents
- Payables and other financial liabilities

(b) Fair value hierarchy analysis

An analysis of financial assets and liabilities according to fair value hierarchy is given below:

		2023		2022
	Level 3	**Total fair value**	Level 3	Total fair value
	£'000	**£'000**	£'000	£'000
Financial assets				
Loans	**7,522,746**	**7,522,746**	6,956,595	6,956,595
Financial liabilities				
Borrowings	**(7,924,990)**	**(7,924,990)**	(7,377,580)	(7,377,580)
Total	**(402,244)**	**(402,244)**	(420,985)	(420,985)

(c) Transfers between levels of the fair value hierarchy

There were no transfers during 2023 *(2022: £nil)*. For financial instruments that are recognised at fair value on a recurring basis, the Company determines whether transfers have occurred between levels of the fair value hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of the reporting year.

Notes to the financial statements (continued)

(d) Further information on Level 3 financial instruments

(i) The table below shows movements in the Level 3 financial assets and liabilities measured at fair value.

	2023		2022	
	Loans	**Borrowings**	Loans	Borrowings
	£'000	**£'000**	£'000	£'000
Balance at 1 January	**6,956,595**	**(7,377,580)**	8,714,344	(8,947,427)
Additions	**573,015**	**(572,738)**	731,443	(730,628)
Cash (receipts) / repayments	**(442,385)**	**482,282**	(654,321)	472,285
Gains / (losses) recognised in the year	**435,521**	**(456,954)**	(1,834,871)	1,828,190
Balance at 31 December	**7,522,746**	**(7,924,990)**	6,956,595	(7,377,580)

The net result recognised in the income statement during the year for Level 3 assets and liabilities was a loss of £21,433 thousand *(2022: loss of £6,681 thousand).*

(ii) The principal assets and liabilities classified as Level 3, and the valuation techniques applied to them, are:

- Deemed loans linked to Lifetime mortgages loans amounting to £7,523 million *(2022: £6,957 million)* valued using a discounted cash flow model. Cash flows are adjusted for credit risk and discounted using a yield curve and assumptions for the liquidity premium. The model derives a best estimate view on property growth and explicitly calculates the additional return that would be demanded by investors due to uncertainties in the asset cash flows. The assets and liabilities have been classified as Level 3 as assumptions used to derive the property growth rates, mortality and morbidity assumptions, cost of capital, liquidity premium and credit risk are not deemed to be market observable. The primary inputs to the model are:
  - A liquidity premium added to the risk-free discount rate to reflect the illiquidity of the equity release mortgage portfolio. The liquidity premium is 205bps *(2022: 155bps)*. The liquidity premium is the excess margin over risk-free rates after allowing for the no negative equity guarantee, the cost of capital and future loan administration expenses that is obtainable in the market on new equity release mortgages.
  - The base property growth rate assumption is RPI + 0.75% *(2022: RPI + 0.75%).* The growth rates include an adjustment for the 5-year period 2024-2028 to reflect the market view of short-term growth being lower than long-term growth and for 2023, an allowance of 0.75% per annum is included for the potential impact of climate change actions. The combination of the adjusted rate over the first five years and the base property growth rate equates to a long-term average growth rate of 3.0% pa as 31 December 2023 (*2022: 3.1% pa*) over a twenty five year projection.In addition, as the mortgages have a no negative equity guarantee ('NNEG') such that the cost of any potential shortfall between the value of the loan and the realised value of the property, at the end of the term, is recognised by a deduction to the value of the loan, the model also makes allowances for a cost of capital charge to reflect the variability in future cash flows and a dilapidation charge to reflect potential index under performance of properties backing equity release mortgages when compared to the wider property market. After inclusion of these allowances, the net long-term growth rate equates to 0.8% pa *(2022: 0.4% pa)*.
- Securitised mortgage loan notes amounting to £7,925 million *(2022: £7,378 million)*, valued using an 'equation of value' approach in which the total value of loan notes has been set equal to the total value of the non-restructured mortgage assets less frictional costs of restructuring plus any additional assets held in the Company.

(iii) The table below shows the sensitivity of the fair value of Level 3 investments at 31 December to changes in unobservable inputs to a reasonable alternative:

	2023		Change in fair value	
	Fair value	**Most significant unobservable inputs**	**Positive impact**	**Negative impact**
	£m		**£m**	**£m**
Deemed loans	**7,523**	Liquidity premium - 50bps	**355**	**(329)**
		House price valuation - 10%	**151**	**(190)**
		Base property growth rate - 50bps p.a.	**113**	**(119)**
Securitised mortgage loan notes	**(7,925)**	Liquidity premium - 50bps	**302**	**(325)**

Notes to the financial statements (continued)

	2022 Fair value £m	Most significant unobservable inputs	Change in fair value Positive impact £m	Negative impact £m
Deemed loans	6,957	Liquidity premium - 50bps	341	(317)
		House price valuation - 10%	140	(175)
		Base property growth rate - 50bps p.a.	110	(116)
Securitised mortgage loan notes	(7,378)	Liquidity premium - 50bps	293	(315)

An increase in the liquidity premium used in the discounted cash flow model for lifetime mortgage loans will decrease the fair value of the assets. Fair value movements in assets and liabilities arising from a change in liquidity premium will largely offset.

Changes in unobservable inputs to reasonable alternatives for other assumptions (e.g. mortality and morbidity) will produce smaller changes in fair value which will also largely offset.

8. Loans

(a) Carrying amounts

The carrying amounts of loans at 31 December were as follows:

	2023 £'000	2022 £'000
Mandatorily held at FVTPL:		
Deemed loans - parent undertaking	**7,522,746**	6,956,595

On 1 January 2016 and 1 October 2016, lifetime mortgages with a value of £4,179 million and £435 million respectively were transferred to the Company from Aviva Annuity UK Limited (UKA) in exchange for loan notes issued by the Company. On 30 September 2017, 30 September 2018, 30 September 2019, 30 September 2020, 30 November 2021, 1 April 2022, 1 July 2022, 1 April 2023 and 1 July 2023 lifetime mortgages with a value of £738 million, £749 million, £835 million, £659 million, £590 million, £323 million, £406 million, £328 million and £245 million, respectively, were transferred to the Company from UKLAP in exchange for loan notes issued by the Company. As UKLAP retains substantially all the exposure to risk and rewards of the pool of equity release mortgage loans at the point of sale, under IFRS 9 and IAS 39, it could not derecognise the mortgages from its Statement of Financial Position. Accordingly, the fair value of the equity release mortgages in the financial statements of the Company are represented by deemed loans due from the parent undertaking. The movement in the deemed loans balance will move in line with fair value of the underlying mortgages. Following a Part VII transfer, all loan notes and deemed loans are held by UKLAP.

Of the above total, £6,990 million *(2022: £6,538 million)* is expected to be recovered more than one year after the statement of financial position date. This is because the loan is linked to lifetime mortgages, which by their nature do not have any contractual maturity and significant levels of early redemption are not anticipated.

There was no change *(2022: £nil)* in fair value of underlying mortgage loans during the year attributable to a change in credit risk. The cumulative change attributable to changes in credit risk to 31 December 2023 was £nil *(2022: £nil).* The amount has been determined as the amount that is not attributable to changes in market conditions that give rise to market risk. Further details of the fair value methodology are given in note 7.

(b) Collateral

The Company holds collateral in respect of all loans, in order to reduce the risk of non-recovery. This collateral generally takes the form of liens or charges over properties. As security for the lifetime mortgage and any other money owing from the customer, the property is charged to the Company by way of a legal mortgage with full title guarantee.

Notes to the financial statements (continued)

9. Receivables

	2023	2022
	£'000	£'000
Held at amortised cost:		
Amounts due from fellow group undertaking	**3,075**	721
Amounts due from immediate parent undertaking	**4,624**	4,946
Other receivables	**2,181**	1,248
Total as at 31 December	**9,880**	6,915
Expected to be recovered in less than one year	**9,880**	6,915
Expected to be recovered in more than one year	**—**	—
	9,880	6,915

Amounts due from immediate parent undertaking include redemption receipts paid into UKLAP which are to be transferred to the Company.

10. Ordinary share capital

Details of the Company's ordinary share capital at 31 December are as follows:

	2023	2022
	£	£
Allotted, called up and fully paid		
1 (2022: 1) ordinary shares of £1 each	**1**	1

11. Retained earnings

	2023	2022
	£'000	£'000
Balance at 1 January	**210**	178
Profit for the year	**33**	32
Balance at 31 December	**243**	210

12. Tax assets and liabilities

(a) Current tax

Current tax assets recoverable in more than one year are £947 thousand *(2022: £nil).*

(b) Deferred tax

(i) The balance at 31 December comprises:

	2023	2022
	£'000	£'000
Unused losses and tax credits	**—**	849
Provisions and other temporary differences	**30,818**	31,925
Net deferred tax assets	**30,818**	32,774

Provisions and other temporary differences arise in respect of the differences in accounting and tax valuations of the deferred income reserve.

Notes to the financial statements (continued)

(ii) The movement in the net deferred tax assets was as follows:

	2023 £'000	2022 £'000
Net deferred tax assets 1 January	**32,774**	32,785
Amounts charged to income statement	**(1,956)**	(11)
Net deferred tax assets 31 December	**30,818**	32,774

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

13. Deferred income reserve

	2023 £'000	2022 £'000
Balance at 1 January	**127,700**	131,141
Increase in reserve	**277**	815
Amortisation	**(4,705)**	(4,256)
Balance at 31 December	**123,272**	127,700
Expected to be released in less than one year	**5,427**	4,702
Expected to be released in more than one year	**117,845**	122,998
	123,272	127,700

14. Borrowings

(a) Carrying amount

	2023 £'000	2022 £'000
Designated at FVTPL		
Securitised mortgage loan notes		
Fixed rate loan notes	**7,631,897**	7,130,224
Variable rate loan notes	**293,093**	247,356
	7,924,990	7,377,580
Expected to be settled in less than one year	**505,132**	472,367
Expected to be settled in more than one year	**7,419,858**	6,905,213
	7,924,990	7,377,580

The carrying amounts of the above borrowings are stated at fair value. The loan notes are secured on mortgage loans by first charges over residential properties in the UK.

There was no change *(2022: £nil)* in fair value of loan notes during the year attributable to a change in credit risk. The cumulative change attributable to changes in credit risk to 31 December 2023 was £nil *(2022: £nil)*. The amount has been determined as the amount that is not attributable to changes in market conditions that give rise to market risk. The above liabilities stated at fair value have been calculated in a consistent manner with the assets stated at fair value. Further details of the fair value methodology are included in note 7.

The contractual undiscounted cash flows in relation to the maturity of the fixed loan notes is shown in note 18. The variable loan notes mature on June 2037 but the amount is not guaranteed.

(b) Loan notes - description and features

On 1 January 2016, the Company issued £4,101 million of mortgage backed fixed rate loan notes and £53 million of variable rate loan notes to UKA. On 1 October 2016, a second tranche of £430 million of mortgage backed fixed rate loan notes and £3 million of variable rate loan notes were issued to UKA. On 30 September 2017, a third tranche of £728 million of mortgage backed fixed rate loan notes and £6 million of variable rate loan notes were issued to UKLAP. On 30 September 2018, a fourth tranche of £741 million of mortgage backed fixed rate loan notes and £6 million of variable rate loan notes were issued to UKLAP.

Notes to the financial statements (continued)

On 30 September 2019, a fifth tranche of £828 million of mortgage backed fixed rate loan notes and £4 million of variable rate loan notes were issued to UKLAP. All loan notes were issued as part of securitisation arrangements involving the purchase of lifetime mortgages from the immediate parent undertaking. The fixed rate loan notes were issued at a discount to the eventual redemption proceeds, with a fixed return built into the redemption proceeds.

On 23rd December 2019, the Company restructured its fixed rate loan notes and variable rate loan notes (tranches 1 to 4). UKLAP paid £1,064 million to the Company, increasing the notional value of the variable rate loan notes. The notional value of variable rate loan notes for tranche 1 increased by £921 million, tranche 2 increased by £11 million, tranche 3 increased by £74 million and tranche 4 increased by £58 million. This was immediately repaid back to UKLAP together with an additional payment of £811 million from cash holdings already accumulated within the securitisation tranches to compensate for the cancellation of fixed rate loan note coupons, with no net impact on the income statement.

On 30 September 2020, a sixth tranche of £654 million of mortgage backed fixed rate loan notes and £3 million of variable rate loan notes were issued to UKLAP.

On 30 November 2021, a further restructure of the Company's fixed rate loan notes and variable loan notes took place. The existing six tranches of notes were settled for a total value of £8,443 million. On the same date the Company issued 10 new mortgage backed fixed rate loan notes and £73 million of variable loan notes to UKLAP. The fixed rate notes were issued with values of £1,127 million, £1,044 million, £998 million, £957 million, £918 million, £884 million, £822 million, £788 million, £750 million, £586 million respectively. The fixed rate loan notes are backed by the mortgages backing the previous six tranches of loan notes along with new lifetime mortgages written by UKLAP between September 2020 and July 2021. As part of the restructure the company made a payment of £1,254 million to UKLAP from cash holdings already accumulated within the securitisation tranches.

On 1 April 2022 and 1 July 2022, following two further securitisations of equity release mortgages, the Company increased the principal amount outstanding of its mortgage backed fixed rate loan notes by £325 million and £410 million, respectively, and reduced the variable rate loan notes by £4 million.

On 1 April 2023 and 1 July 2023, for two securitisations of equity release mortgages the Company increased the principal amount outstanding of its mortgage backed fixed rate loan notes by £332 million and £236 million, respectively, and reduced the variable rate loan notes by £4 million and £1 million, respectively.

All loan notes are issued to UKLAP.

Following the restructure, the fixed rate loan notes will be redeemed in pre-defined amounts on an annual basis according to a redemption schedule, commencing on 30 June 2022 and ending on the final maturity date in 2067. The payments on the variable rate loan note are determined by reference to the distribution accounts of the relevant tranche. The prioritisation of payments is ranked by reference to a payment waterfall, with any payments due on the variable rate loan note ranking after the fixed rate loan notes. The variable rate loan notes will be redeemed after the fixed rate loan notes have been fully redeemed in 2068.

All loan notes issued by the company are unrated.

15. Payables and other financial liabilities

	2023 **£'000**	2022 £'000
Held at amortised cost:		
Amounts due to group undertakings	**2,339**	1,000
Other financial liabilities	**597**	2,097
Total as at 31 December	**2,936**	3,097
Expected to be settled within one year	**2,936**	3,097
Expected to be settled in more than one year	**—**	—
	2,936	3,097

Notes to the financial statements (continued)

16. Statement of cash flows disclosures

(a) The reconciliation of profit before tax to the net cash inflow from operating activities is:

	2023 £'000	2022 £'000
Profit before tax	**396**	43
Adjustments for:		
Amortisation of deferred income	**(4,705)**	(4,256)
Fair value (gains) / losses on:		
Mortgages	**(435,521)**	1,834,871
Loan notes	**456,954**	(1,828,190)
Changes in working capital:		
(Increase) / decrease in receivables	**(2,965)**	32,981
(Decrease) / increase in payable and other financial liabilities	**(161)**	3,045
Proceeds from redemption of mortgages	**442,385**	654,321
Total cash generated from operating activities	**456,383**	692,815

(b) Cash and cash equivalents in the statement of cash flows at 31 December comprise:

	2023 £'000	2022 £'000
Cash at bank	**104**	103
Cash investment fund	**486,300**	528,200
Cash at bank and in hand	**486,404**	528,303

17. Capital structure

The Company maintains an efficient capital structure from equity shareholders' funds, consistent with the Company's overall risk profile and market requirements of the business. This note describes the way the Company manages capital and shows how this is structured.

(a) General

IFRS underpins the Company's capital structure and accordingly the capital structure is analysed on this basis.

(b) Capital Management

In managing its capital, the Company seeks to:

(i) match the profile of its assets and liabilities, taking account of the risks inherent in the business;

(ii) maintain financial strength to support new business growth and satisfy the requirements of its policyholders and regulator;

(iii) retain financial flexibility by maintaining strong liquidity; and

(iv) allocate capital efficiently to support growth and repatriate excess capital where appropriate.

(c) Different measures of capital

The Company measures its capital on an IFRS basis to comply with the regulatory regime within which the Company operates and those which the Directors consider appropriate for the management of the business.

In managing its capital, the Company seeks to retain financial stability by maintaining a strong balance sheet position and sufficient liquidity to meet its obligations. The Company is not subject to any externally imposed capital requirements.

The Company manages shareholders' equity of £243 thousand *(2022: £210 thousand)* as capital.

Further details on risk and capital management are given in note 18.

18. Risk management

(a) Risk management framework

The Company operates a risk management framework (RMF) that forms an integral part of the management and Board processes and decision-making framework, aligned to the Group's risk management framework. The key elements of the risk management framework comprise risk appetite; risk governance, including risk policies and business standards, risk oversight committees and roles and responsibilities; and the processes the Company uses to identify, measure, manage, monitor and report ("IMMMR") risks.

The RMF has been adopted by the boards of the legal entities within the business collectively referred to as "Insurance, Wealth & Retirement (IWR)" (including this Company).

For the purposes of risk identification and measurement, and aligned to the Company's risk policies, risks are usually grouped by risk type: credit, market, liquidity, life insurance (including long-term health), and operational risk. Risks falling within these types may affect a number of metrics including those relating to statement of financial position strength, liquidity and profit.

To promote a consistent and rigorous approach to risk management across the business, the Company has a set of risk policies and business standards which set out the risk strategy, appetite, framework and minimum requirements for the Company's operations.

A regular top-down key risk identification and assessment process is carried out by the risk function at an overall UK IWR level. This includes the consideration of emerging risks and is supported by deeper thematic reviews. UK IWR also operates a risk and control self-assessment process. The risk assessment processes are used to generate risk reports which are shared with the relevant risk committees.

Roles and responsibilities for risk management in the Company are based around the 'three lines of defence model' where ownership for risk is taken at all levels. Line management in the business is accountable for risk management, including the implementation of the risk management framework and embedding of the risk culture. The risk function is accountable for quantitative and qualitative oversight and challenge of the IMMMR processes and for developing the risk management framework. Internal Audit provides an independent assessment of the risk management framework and internal control processes.

(b) Market risk

Market risk is the risk of loss or adverse change in the financial situation (including the value of assets, liabilities and income) resulting, directly or indirectly, from fluctuations in the level or the volatility of market variables, such as interest rates or property prices.

For each of the major components of market risk, described in more detail below, the Company has put in place additional policies and procedures to set out how each risk should be managed and monitored, and the approach to setting an appropriate risk appetite. The business monitors adherence to this market risk policy and regularly reviews how these risks are being managed.

Profit for the Company for the year is calculated as 0.01% of interest accruing on the mortgages. The profit or loss for the year is also influenced by the accounting policy on the deferred income reserve (DIR), which is to account for this at amortised cost. This can give rise to profits and losses caused by timing differences between the value of the DIR on an amortised cost basis and the discounted value of future expenses included in the valuation of the loan notes. The impact of this and other changes in economic factors and assumption on the company are ultimately reflected in a change in the value of the variable loan notes issued by the Company.

Consequently, the Company has not provided any detailed sensitivity analysis as required by IFRS 7 and the impact of the risks referred to below is restricted to the statement of financial position of the Company. Exposure to these risks is borne by the note holders and other creditors of the company.

(i) Property price risk

Property price risk arises from sustained underperformance in house price inflation, with the resultant increase in the likelihood that the mortgage debt will exceed the proceeds of the property sale at the date of redemption. The level of house price inflation is monitored and the impact of exposure to adverse movements is regularly reviewed. To mitigate this risk the loan to value ratios on origination are at low levels and the performance of the mortgage portfolio is monitored through dilapidation reviews.

The Loan to Value (LTV) percentage of the mortgage asset interest bearing balances as at 31 December are as follows:

2023 - LTV						
<70%	**70-80%**	**80-90%**	**90-95%**	**95-100%**	**>100%**	**Total**
£'m	**£'m**	**£'m**	**£'m**	**£'m**	**£'m**	**£'m**
7,463.5	36.2	17.8	3.7	0.8	0.7	**7,522.7**

2022 - LTV						
<70%	70-80%	80-90%	90-95%	95-100%	>100%	Total
£'m	£'m	£'m	£'m	£'m	£'m	£'m
6,925.3	25.0	5.3	0.6	0.2	0.2	6,956.6

(ii) Interest rate risk

Interest rate risk arises primarily from fluctuations in the value of lifetime mortgage assets. Interest rate risk is controlled through the close matching of the duration and value of mortgages and mortgage funding in order to hedge against unfavourable or unmatched market movements in interest rates inherent in the underlying mortgages. The impact of exposure to sustained adverse interest rates is regularly monitored.

Notes to the financial statements (continued)

(iii) Prepayment risk

Prepayment risk is the risk that the Equity Release mortgages will be repaid in a materially different profile to the expected profile at securitisation. This could lead to changes in the expected repayment rate of loan note interest and principal. This risk is mitigated by repayment charges applied to early redemptions.

(c) Credit risk

Credit risk is the risk of adverse financial impact resulting from fluctuations in credit quality of third parties, including default, rating transition and credit spread movements. The Company's management of credit risk under the oversight of UK IWR Asset Liability Committee (ALCO), includes the articulation of risk appetite, exposure limit frameworks and investment and lending criteria within credit risk policies and management agreements. The credit ratings of financial institutions to which the Company is exposed are monitored and if these fall below a certain threshold collateralisation or other risk mitigation techniques are implemented.

The carrying amount of assets included in the statement of financial position represents the maximum credit exposure of the Company at the statement of financial position date.

There are no financial assets which are either past due or impaired.

Concentrations of credit risk

Individual loans represent little credit risk as the debt is ultimately repayable from the proceeds of the sale of the property on death of the mortgagee or on their transfer to long-term care.

The impact of collateral held on the net credit exposure is shown below.

			2023
	Carry value in the statement of financial position	**Collateral held**	**Net credit exposure**
	£'000	**£'000**	**£'000**
Loans	7,522,746	7,522,666	80

			2022
	Carry value in the statement of financial position	Collateral held	Net credit exposure
	£'000	£'000	£'000
Loans	6,956,595	6,956,575	20

To the extent that the property value exceeds the value of the loan balance, the table above shows only an amount equal to the latter, representing the value receivable by the Company on redemption of the loans.

As at the reporting date, there are no material expected credit losses recognised in relation to loans due from subsidiaries held at amortised cost.

(d) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet commitments associated with financial instruments, if the cash flows from the mortgages differ from those expected. Such differences would arise from mortality, morbidity and voluntary prepayment risks.

The risk is mitigated by monitoring and modelling redemptions from a large diversified portfolio of individual equity release mortgage loans and the loan note profile ensures sufficient cash flows to meet liabilities. Ultimately, as all the risks and rewards are transferred via the deemed loans, UKLAP bears the impact of the risk.

The Company had an undrawn liquidity facility of £1,068 million (*2022: £879 million*), which has been sized to cover potential shortfalls between mortgage cash flows and fixed rate loan coupon payments.

The contractual undiscounted cash flows in relation to liabilities have the following maturities:

				2023
	Within 1 year	1-5 years	Over 5 years	No contractual maturity
	£'000	**£'000**	**£'000**	**£'000**
Liabilities				
Borrowings - fixed notes	**505,132**	**1,966,993**	**11,812,724**	**—**
Deferred income reserve	**5,427**	**25,980**	**91,865**	**—**
Payables and other financial liabilities	**2,936**	**—**	**—**	**—**

Notes to the financial statements (continued)

				2022
	Within 1 year	1-5 years	Over 5 years	No contractual maturity
	£'000	£'000	£'000	£'000
Liabilities				
Borrowings - fixed notes	472,367	1,824,619	11,183,044	—
Deferred income reserve	4,703	24,637	98,360	—
Payables and other financial liabilities	3,097	—	—	—

The borrowings and DIR payment profit mirrors the repayment of the equity release mortgages and based on current modelling assumptions.

(e) Operational risk

Increasing geo-political tensions have heightened the risk of cyber security attacks on the Aviva Group or its suppliers, with the potential to cause business service interruption and/or data or intellectual property theft. In response, the Aviva Group continues to actively monitor the threat environment and enhance its IT infrastructure and Cyber controls to identify, detect and prevent attacks. Aviva's Cyber defences are regularly tested using our own 'ethical hacking' team and the Aviva Group has engaged with suppliers to put in place all reasonable measures so that services to Aviva and its customers are protected.

19. Related party transactions

The members of the Board of Directors are listed on page 3 of these financial statements.

All the loan notes issued by the Company are solely held by the immediate parent undertaking. Interest settled during the year in respect of these loan notes amounted to £nil *(2022: nil).*

The deemed loans held with the immediate parent undertaking are held in lieu of lifetime mortgages which cannot be derecognised from the immediate parent undertaking as a result of IFRS 9 , as detailed in note 7.

(a) Expenses payable to related parties

	2023	2022
	Expenses incurred in year	Expenses incurred in year
	£'000	£'000
Cash handling and portfolio administration fee	**(5,612)**	(2,669)

(b) Payable at year end

	2023	2022
	£'000	£'000
Parent undertaking	**7,924,990**	7,377,580
Other related parties	**2,339**	1,000
	7,927,329	7,378,580

(c) Receivable at year end

	2023	2022
	£'000	£'000
Parent undertaking	**7,527,370**	6,961,541
Other related parties	**3,075**	721
	7,530,445	6,962,262

(d) Key management compensation

No charge is disclosed by the Company for key management personnel as they are key management of a number of fellow subsidiary undertakings and it is not possible to make an accurate apportionment of their compensation in respect or each of the individual subsidiary undertakings.

Details of directors' emoluments are given in note 4.

(e) Parent entity

The immediate parent undertaking is Aviva Life & Pensions UK Limited, registered in England.

Notes to the financial statements (continued)

(f) Ultimate controlling entity

The ultimate controlling entity, and parent of the largest and smallest groups which consolidate the results of the Company, is Aviva plc. Its Group Financial Statements are available on application to the Group Company Secretary, Aviva plc, 80 Fenchurch Street, London, EC3M 4AE and on the Aviva plc website at www.aviva.com.