Aviva Equity Release UK Limited

Registered in England and Wales No. 3286484

Annual Report and Financial Statements 2023

Contents

Directors and officer

Directors

C M Agius (independent non-executive director)
A P D Larkin
M R McGill
D Elliot

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. 3286484

Other information

Aviva Equity Release UK Limited ("the Company") is covered by the Financial Ombudsman Service and is authorised and regulated by the Financial Conduct Authority ("FCA").

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

Strategic report

The directors present their strategic report for 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 activity of the Company is the provision of lifetime mortgages. The product's aim to fulfil the demand for additional personal finance in an environment of lower pensions provision and increased equity values tied up in property. The Directors consider that this strategy will continue unchanged into the foreseeable future.

The Company has continued to generate sales of lifetime mortgages through independent financial advisers, an in-house advisory function and positions on referral panels run by distribution networks. Activity in the Equity Release market, which dipped in late 2022 following the September 2022 mini-budget, remained at lower than normal levels in 2023 due to continued pressure from macroeconomic factors on the interest rates and maximum loan sizes that providers can offer to customers. Overall sales in the market were £2.6 billion *(2022: £6.2 billion)*. Aviva's market share increased from the previous year, though sales volumes declined. Aviva advanced £446 million of loans in 2023 *(2022: £804 million)*, with the majority of new mortgages completed during 2023 being sold to a fellow group undertaking.

Significant events

There were no significant events in the year.

Financial position and performance

The financial position of the Company at 31 December 2023 is shown in the statement of financial position on page 18, with the results shown in the income statement on page 16 and the statement of cash flows on page 19.

Profit for the year is £9.6 million *(2022: Loss £4.0 million)*.

Shareholders' equity has decreased by £75.4 million (*2022: decreased by £4.0 million)*, reflecting the profit for the year less dividend paid.

Section 172(1) Statement and our Stakeholders

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 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 where 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 in 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.

Stakeholder Engagement

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 any 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. The Board held a strategy day in August 2023 to consider the long-term strategic direction of the legal entity in line with its parent company and Group. As part of these strategic discussions, the Board considered the industry and market and the potential impact to stakeholders.

Our section 172(1) Statement on page 4 sets out our approach on how our directors have performed their duty. Board's activities section on pages 4 and 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.

Details of how we engaged with our different groups of stakeholders during 2023 can be found on the following pages.

Our people **Our people's wellbeing and commitment to serving our customers are the foundation of our performance.**	
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. • The Board always aims to provide an inclusive working environment where talent is developed, performance is rewarded, support is provided and our differences are valued. • Our people 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.	**Focus during the year** • The Board focused on attracting and retaining the best people in the industry.

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 Board received regular reporting on customer experience, customer journeys, customer service levels and outcomes and customer related strategic initiatives. • The Board closely monitors customer experience and outcomes and engages with the senior leadership team to understand the issues if performance does not meet customer expectations. The Company's parent entity, Aviva Life & Pensions UK Limited, is supported by a Conduct Committee that is responsible for appropriate conduct focused culture and fair value, should escalations be required.	**Focus during the year** • The Board monitored and responded to the impact that inflationary pressures exerted on our customers. • The Board focussed on our digital customer journeys, making it easier and more convenient for customers to interact with us. **Outcomes and actions during the year** • The Board received regular updates on the progress of Phase 1 of the implementation of Consumer Duty framework.

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 through its parent, Aviva Life & Pensions UK Ltd. Any matters requiring escalation are escalated by the Board through the Chair to its parent. Additionally, members of the Aviva plc board can attend the Company's Board meetings by invitation.	**Focus during the year** • Ensuring shareholders understand our strategy and business model. **Outcomes and actions during the year** • In March 2023, Aviva became one of the first UK employers to be awarded the Living Pension accreditation.

Regulators **As an insurance company, we are subject to financial services regulation and approvals in all the markets we operate in.**	
How we have engaged • We have maintained a constructive and open relationship with our regulators and have a programme of regular meetings between the directors and our UK Regulators.	**Focus during the year** • Continued focus on Consumer Duty with training provided to the Board.

Communities **We recognise the importance of contributing to our communities through volunteering, community investment, and long term partnerships.**	
How we have engaged • As part of the Aviva Group, we support the communities in which we operate, through investment in business and infrastructure, paying tax revenues, and community support activity. • The Aviva plc Board received updates on the Aviva Foundation and Aviva partnerships with third sector organisations including Citizens Advice, and our community programmes including the Aviva Community Fund where we support community investment projects aligned to our values. • 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 • The Company maintains oversight of the management of its most important suppliers and reviews reports on their performance. • The Board normally delegates engagement with suppliers and oversight to senior management. • 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. • The Board, via reporting from the Chief Operating Officer, was kept updated on the development of any key supplier risk	**Focus during the year** • Simplification of platforms. **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.

Strategic report (continued)

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 sizes that providers can offer to customers. As ever competitiveness in the market is expected to continue to be strong.

Principal risks and uncertainties

A description of the principal risks and uncertainties facing the Company and Company's risk management policies are set out in note 23 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.
- Improvements in longevity result in loans remaining in force for a longer period, increasing the likelihood that the mortgage loans will exceed the proceeds of the property sale at the date of redemption.
- Operational risk is the risk of loss arising from inadequate or failed internal processes, personnel or systems, or from external events.
- The Company operates in a complex legislative environment and may be impacted by changes in legislation.

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 23 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** **£m**	2022 £m
Income	**115.2**	114.1
Profit / (loss) for the year	**9.6**	(4.0)
New mortgage lending	**446.0**	804.0

By order of the Board on 22 April 2024

Laura McGowan

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

Directors' report

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 end are shown below:

A P D Larkin	Appointed 9 June 2023
M Tipple	Resigned 9 June 2023

Company Secretary

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

Dividends

There was a dividend of £85 million paid in 2023 *(2022: £nil million)*.

Going concern

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 on page 6. In addition, the financial statements include notes on: the Company's borrowings (note 17); its contingent liabilities and other risk factors (note 19); its capital structure (note 22); management of its risks including market, credit and liquidity risk (note 23); and derivative financial instruments and hedging (note 24).

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.

After making an assessment, 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.

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 financial instruments to manage certain types of risks, including those relating to credit, cash flow, liquidity, interest rates and property prices. Details of the objectives and management of these instruments are contained in note 23 on risk management.

Employees

The company has no employees. The staff are employed by a fellow subsidiary undertaking of Aviva plc, Aviva Employment Services Limited, who make a management charge for the provision of services including provision of staff to the Company. It is not possible to ascertain separately the element of the management charge that relates to staff costs. Disclosures relating to employee remuneration and the average number of persons employed are made in the financial statements of Aviva Employment Services Limited.

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 Auditor, 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 (PwC) 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 Aviva Life Holdings UK Limited Audit Committee, the selection of Ernst & Young LLP (EY) was approved by the Aviva plc Board. PwC will undertake the audit for the financial year ending 31 December 2023, and subject to their appointment by the Company's shareholders at the 2024 Annual General Meeting, EY will undertake the audit for the financial year ending 31 December 2024.

Qualifying indemnity provisions

Aviva plc, the Company's ultimate parent, granted in 2004 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 were in force throughout the year and 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.

Directors' report (continued)

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.

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 UK-adopted international accounting standards.

Under company law, 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 the 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 also 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 12 to 40 were approved by order of the Board on 22 April 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 Equity Release UK Limited

Report on the audit of the financial statements

Opinion

In our opinion, Aviva Equity Release 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, statement of changes in equity, and 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..

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the 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 Financial Conduct Authority (FCA) regulations, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006. 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 and claims;
- enquired of management and those charged with governance to identify any instances of non-compliance with laws and regulations;
- reviewed minutes meetings held by those charged with governance;
- reviewed key correspondence with the FCA, including those in relation to compliance with laws and regulations;
- reviewed financial statement disclosures and testing to support 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
- performed testing over accounting estimates, including equity release mortgages which involve judgemental assumptions that are susceptible to manipulation.

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.

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

Independent auditors’ report (continued)

- 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

22 April 2024

Accounting policies

The Company, a limited company incorporated and domiciled in the United Kingdom (UK), is a provider of lifetime mortgage products.

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 Company is exempt from preparing group financial statements by virtue of section 400 of the Companies Act 2006, as it is a subsidiary of a UK parent and is included in the consolidated financial statements for the Group, i.e. the ultimate parent company, Aviva plc, and its subsidiaries, joint ventures and associates, at the same date. These financial statements therefore present information about the Company as an individual entity.

The Company's 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 millions of pounds sterling ("£m").

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 have 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.

(v) 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.

(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 major area of judgement is derecognition of financial assets and liabilities (set out in policy G).

The major area of estimation is fair valuation of loan assets, derivatives, borrowings, fees earned on the sale of lifetime mortgages and amounts owed to credit institutions (set out in policies J, I, O, E, Q and notes 10, 24, 17, 2 and 18).

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 estimates considered particularly susceptible to changes in assumptions, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year, and the relevant accounting policy and note disclosures.

(i) Financial investments (set out in policy H and note 12)

(ii) Derivative financial instruments (set out in policy I, note 9 and note 24)

(iii) Loans (set out in policy J and note 10)

(iv) Borrowings (set out in policy O and note 17)

(v) Payables and other financial liabilities (set out in policy Q and note 18)

Accounting policies (continued)

The sensitivity of fair value of these items to the most significant unobservable inputs is disclosed in note 9.

(C) Subsidiaries

Subsidiaries are those entities over which the Company has control. The Company controls an investee if, and only if, the Company has all of the following;

- power over the investee;
- exposure, or rights, to variable returns from its involvement with the investee; and
- the ability to use its power over the investee to affect its returns.

The Company considers all relevant facts and circumstances in assessing whether it has power over an investee including the purpose and design of an investee, relevant activities, substantive and protective rights, and voting rights and potential voting rights. The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control.

Investments in subsidiaries are recognised at cost less impairment. The carrying value of the Company's investments in subsidiaries is £nil.

(D) 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 not 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.

(E) Fee, commission and other income

Lifetime mortgage customers are charged fees for property valuation, the administration of applications and early repayments. Fees are also charged to the special purpose securitisation companies, Aviva Life & Pensions UK Limited (UKLAP) and to other third parties for the administration of the mortgages that have been securitised or sold. These fees are recognised as revenue as the services are provided. In most cases this revenue is recognised in the same period in which the fees are collected, unless they relate to services to be provided in future periods. If the fees are for services to be provided in future periods, then they are deferred and recognised as the service is provided.

The Company also earns an upfront fee from UKLAP in respect of the new business lending funded by UKLAP which is linked to the value of the lifetime mortgages. The fee is recognised as revenue in the period in which the policy is sold and is settled periodically.

(F) Net investment income

Investment income consists of interest receivable for the year, realised gains and losses, and unrealised gains and losses on financial assets and liabilities at fair value (as defined in policy H). Interest income is recognised as it accrues, taking into account the effective yield on the investment. Interest on lifetime mortgages is accrued and payment of interest is not received until the mortgage is redeemed.

(G) Derecognition and offset of financial assets and financial liabilities

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Company retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Company has transferred its rights to receive cash flows from the asset and has either transferred substantially all the risks and rewards of the asset, or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

If the Company has neither transferred nor retained substantially all the risks and rewards of ownership of the financial asset, but has retained control, it shall continue to recognise the financial asset to the extent of its continuing involvement in the financial asset.

The transfer of risks and rewards is evaluated by comparing the Company's exposure, before and after transfer, with the variability in the amounts and timing of the net cash flows of the transferred asset and associated liability.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a currently enforceable legal right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

(H) Financial instruments

The Company classifies the lifetime mortgages and the associated liabilities, derivative financial instruments, subordinated loans and early redemption charges due from fellow subsidiaries 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 eliminated.

Financial assets within this portfolio are classified as mandatorily held at FVTPL, based on a business model assessment. Derivative financial instruments and liabilities that are associated with partially derecognised mortgages are also classified as mandatorily held at FVTPL. Other financial liabilities in this portfolio are designated at FVTPL. Changes in the fair value of these instruments are included in the income statement in the period in which they arise. To

Accounting policies (continued)

avoid an accounting mismatch all gains or losses on financial liabilities designated at FVTPL are presented in profit or loss, including the amount of the change in fair value that is attributable to changes in the credit risk of that liability.
Instruments carried at fair value are presented using a fair value hierarchy, described in note 9.

(I) Derivative financial instruments

Derivative financial instruments include interest rate swaps, interest rate options and other financial instruments that derive their value mainly from underlying interest rates. All derivatives are initially recognised in the statement of financial position at their fair value, which usually represents their cost. They are subsequently re-measured at their fair value with fair value gains and losses recognised immediately in net investment income. The fair values are obtained from quoted market prices or, if these are not available, by using valuation techniques such as discounted cash flow models or option pricing models. All derivatives are carried as assets when the fair values are positive and as liabilities when the fair values are negative. Premiums paid for derivatives are recorded as an asset on the statement of financial position at the date of purchase, representing their fair value at that date.

Derivative contracts are traded over-the-counter (OTC). OTC derivative contracts are individually negotiated between contracting parties and include options, swaps, caps and floors. Derivatives are subject to various risks including market, liquidity and credit risk, similar to those related to the underlying financial instruments. OTC transactions are contracted and documented under ISDA (International Swaps and Derivatives Association) master agreements or their equivalent, which is designed to provide legally enforceable set-off in the event of default, reducing the Group's exposure to credit risk.

The Company has collateral agreements in place between relevant counterparties. Accounting policy K below covers collateral pledged in respect of these derivatives.

The notional or contractual amounts associated with derivative financial instruments are not recorded as assets or liabilities on the statement of financial position as they do not represent the fair value of these transactions. These amounts are disclosed in note 24.

Interest rate swaps

Interest rate swaps are contractual agreements between two parties to exchange periodic payments in the same currency, each of which is computed on a different interest rate basis, on a specified notional amount. Most interest rate swaps involve the net exchange of payments calculated as the difference between the fixed and floating rate interest payments. Exposure to gain or loss on swap contracts will increase or decrease over their respective lives as a function of maturity dates, interest rates, and the timing of payments.

Interest rate option contracts

Interest rate options, which consist primarily of caps and floors, are interest rate protection instruments that involve the obligation of the seller to pay the buyer an interest rate differential in exchange for a premium paid by the buyer. This differential represents the difference between current rate and an agreed rate applied to a notional amount. Exposure to gain or loss on all interest rate options contracts will increase or decrease over their respective lives as interest rates fluctuate.

(J) Loans

The Company classifies the lifetime mortgages and the associated liabilities, derivative financial instruments, subordinated loans and early redemption charges due from fellow subsidiaries (the latter being included within receivables and other financial assets) at 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 eliminated. The fair values are estimated using discounted cash flow models, as described in note 9.

The Company has transferred the beneficial interest in certain portfolios of lifetime mortgages to various UK building societies, retaining a proportion of the interest earned. The transfers qualify for partial de-recognition and, as such, the interest receivable on the mortgages is recognised as an asset, carried at fair value, with a corresponding liability recognising the fair value of future interest payable to the building societies.

Loans to parent are held at amortised cost, using the effective interest rate method, less expected credit losses. To the extent that a loan is considered to be uncollectible, it is written down as impaired through the income statement. Subsequent recoveries in excess of the loan's written down carrying value are credited to the income statement.

(K) Collateral

The Company pledges collateral in the form of non-cash assets in respect of certain derivative contracts and loans, in order to reduce the credit risk of these transactions.

Non-cash collateral pledged is not derecognised from the statement of financial position unless the Company defaults on its obligations under the relevant agreement, and therefore continues to be recognised on the statement of financial position within the appropriate asset classification.

(L) 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 and treasury bills 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.

Operating cash flows

Purchases and sales of loans and financial instruments are included within operating cash flows as they represent the operating activities of the Company.

(M) Contingent liabilities

Contingent liabilities are disclosed if there is a possible future obligation as a result of a past event, or if there is a present obligation as a result of a past event but either a payment is not probable or the amount cannot be reasonably estimated.

Accounting policies (continued)

(N) 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.

(O) Borrowings

The Company classifies the borrowings, lifetime mortgages, derivative financial instruments, subordinated loans at 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 eliminated.

The fair values are estimated using discounted cash flows models, as described in note 9.

All borrowing costs are expensed as they are incurred.

(P) 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.

Dividends

Interim dividends on ordinary shares are recognised in equity in the period in which they are paid. Final dividends on these shares are recognised when they have been approved by shareholders.

(Q) Receivables, payables and other financial liabilities

The Company classifies amounts owed to credit institutions, derivative financial instruments, subordinated loans, early repayment charges due from fellow subsidiaries, lifetime mortgages and the associated liabilities at 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 eliminated.

The fair values are estimated using discounted cash flow models, as described in note 9.

All other receivables and financial liabilities are initially recognised at cost, being fair value. Subsequent to initial measurement they are measured at amortised cost which, given the short term nature of these items, is considered a reasonable approximation to fair value.

Payables include indemnities on securitised mortgages for Equity Release Funding (No.1) plc (ERF1) and Equity Release Funding (No.2) plc (ERF2) for any losses they may suffer should its customers set off any shortfall in their annuities purchased from another Aviva Group company against amounts they owe to those companies, and any shortfall due to negative equity not insured elsewhere as detailed in note 10.

Other financial liabilities include the Company's exposure to contractual commitments for mortgage advances, net of the expected funding from UKLAP. It has been recognised in the statement of financial position as described in notes 18 and 20.

Income Statement

For the year ended 31 December 2023

	Note(s)	2023 £m	2022 £m
Income			
Net investment income	F & 1	**49.3**	20.8
Fee and commission income	E & 2	**65.9**	89.2
Other income	E & 2	**—**	4.1
		115.2	114.1
Expenses	3		
Fee and commission expense		**(37.3)**	(53.2)
Other operating expenses		**(20.8)**	(21.7)
Finance costs		**(43.6)**	(44.5)
		(101.7)	(119.4)
Profit/(loss) before tax		**13.5**	(5.3)
Tax (charge)/credit	N & 7	**(3.9)**	1.3
Profit/(loss) for the year		**9.6**	(4.0)

There is no other comprehensive income for the year (*2022: £nil*).

The accounting policies (identified alphabetically) on pages 12 to 15 and notes (identified numerically) on pages 20 to 40 are an integral part of the financial statements.

Statement of changes in equity

For the year ended 31 December 2023

	Note	Ordinary share capital £m	Retained earnings £m	2023 Total equity £m
Balance at 1 January		**66.7**	**214.3**	**281.0**
Profit for the year	15	**—**	**9.6**	**9.6**
Dividends - 127.44 pence per share (2002: nil pence per share)		**—**	**(85.0)**	**(85.0)**
Balance at 31 December		**66.7**	**138.9**	**205.6**

	Note(s)	Ordinary share capital £m	Retained earnings £m	2022 Total equity £m
Balance at 1 January		66.7	218.3	285.0
Loss for the year	15	—	(4.0)	(4.0)
Dividends		—	—	—
Balance at 31 December		66.7	214.3	281.0

The accounting policies (identified alphabetically) on pages 12 to 15 and notes (identified numerically) on pages 20 to 40 are an integral part of the financial statements.

Statement of financial position

As at 31 December 2023

	Note(s)	**2023**	2022
		£m	£m
Assets			
Loans	J & 10	**488.7**	527.0
Financial investments	H & I & 12	**44.2**	46.0
Receivables and other financial assets	Q & 13	**18.0**	18.7
Deferred tax assets	N & 16	**3.2**	15.4
Current tax assets	N & 16	**8.3**	—
Prepayments		**0.6**	0.7
Cash and cash equivalents	L & 21	**86.3**	147.4
Total assets		**649.3**	755.2
Equity			
Ordinary share capital	P & 14	**66.7**	66.7
Retained earnings	15	**138.9**	214.3
Total equity		**205.6**	281.0
Liabilities			
Current tax liabilities	N & 16	**—**	13.2
Borrowings	O & 17	**150.0**	161.3
Payables and other financial liabilities	I & Q & 18	**293.7**	299.7
Total liabilities		**443.7**	474.2
Total equity and liabilities		**649.3**	755.2

The financial statements on pages 12 to 40 were approved by the Board of Directors on 22 April 2024 and signed on its behalf by Paul Larkin:

Director

The accounting policies (identified alphabetically) on pages 12 to 15 and notes (identified numerically) on pages 20 to 40 are an integral part of the financial statements.

Statement of cash flows

For the year ended 31 December 2023

	Note(s)	2023 £m	2022 £m
Cash flows from operating activities			
Cash generated from operating activities	21	**23.9**	35.4
Total net cash generated from operating activities		**23.9**	35.4
Cash flows from financing activities			
Dividends paid		**(85.0)**	—
Total net cash used in financing activities		**(85.0)**	—
Total net (decrease) / increase in cash and cash equivalents		**(61.1)**	35.4
Cash and cash equivalents at 1 January		**147.4**	112.0
Cash and cash equivalents at 31 December	L & 21	**86.3**	147.4

The accounting policies (identified alphabetically) on pages 12 to 15 and notes (identified numerically) on pages 20 to 40 are an integral part of the financial statements.

Notes to the financial statements

1. Net investment income

	2023 £m	2022 £m
Interest and similar income:		
Financial instruments held at FVTPL	**64.6**	55.4
Unrealised (losses) / gains in the year:		
Financial instruments mandatorily held at FVTPL	**(16.0)**	(47.9)
Financial instruments designated at FVTPL	**0.7**	13.3
	49.3	20.8

2. Fee, commission and other income

a. Fee and commission income

	2023 £m	2022 £m
Fair value losses early repayment charges	**(0.3)**	(1.9)
Other fee and commission income	**13.4**	14.0
Project Recharges	**8.2**	9.8
Fee earned on the sale of lifetime mortgages	**44.6**	67.3
	65.9	89.2

b. Other income

	2023 £m	2022 £m
Income received from deferred consideration	**–**	4.1
	–	4.1

3. Expenses

	2023 £m	2022 £m
Fee and commission expense	**37.3**	53.2
Other operating expenses	**20.8**	21.7
Finance costs		
Interest expense on:		
Amounts owed to other credit institutions	**35.0**	35.4
Other borrowings	**8.6**	9.1
	43.6	44.5
Total expenses	**101.7**	119.4

Other operating expenses comprise of charges from Aviva Life Services UK Limited (UKLS), a fellow group undertaking, for the provision of operational assets and services to the Company. The agreement specifies the amounts payable in respect of these services.

4. 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.

5. Directors' remuneration

The emoluments in respect of directors in office are shown in the table below:

	2023 £'000	2022 £'000
Aggregate emoluments	**1,379**	1,233
Company pension contributions to a money purchase scheme	**90**	105
	1,469	1,338

The details of the highest paid director are as follows:

	2023 £'000	2022 £'000
Aggregate emoluments	**760**	356
Company pension contributions to a money purchase scheme	**44**	18
	804	374

The highest paid director received shares under the executive long-term incentive scheme.

Pension contributions consist of employer contributions into the money purchase section of the Aviva Staff Pension Scheme, excluding salary exchange contributions made by employees, plus payments in lieu of pension above the lifetime or annual allowance caps.

During the year three *(2022: none)* of the directors exercised share options and three *(2022: three)* of the directors received shares under long term incentive schemes.

All directors are remunerated by Aviva Employment Services (AES), a fellow subsidiary of the ultimate parent company, Aviva plc.

6. 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	**104.8**	99.8
	104.8	99.8

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.

7. Tax charge / (credit)

(a) Tax charged / (credited) to the income statement

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

	2023 £m	2022 £m
Current tax		
For this period	**(8.3)**	—
Total current tax	**(8.3)**	—
Deferred tax		
Origination and reversal of temporary differences	**12.2**	(1.3)
Total deferred tax	**12.2**	(1.3)
Total tax charged/(credited) to the income statement	**3.9**	(1.3)

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

	2023 £m	2022 £m
Provisions and other temporary differences	**1.4**	9.5
Unused losses and tax credits	**10.8**	(10.8)
Total deferred tax charged/(credited) to the income statement	**12.2**	(1.3)

(b) Tax reconciliation

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

	2023 £m	2022 £m
Total profit/(loss) before tax	**13.5**	(5.3)
Tax calculated at standard UK corporation tax rate of 23.5% (2022: 19%)	**3.2**	(1.0)
Movement in valuation of deferred tax	**0.7**	(0.3)
Total tax charged/(credited) to the income statement	**3.9**	(1.3)

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 asset as at 31 December 2022 and 31 December 2023.

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.

8. Investments in subsidiaries

The following entities are controlled by the Company and are classed as subsidiaries. The Company does not own the share capital of any of these entities.

Company	Address	Incorporated in
Equity Release Funding (No.1) plc	c/o Wilmington Trust SP Services (London), Third Floor 1 King's Arms Yard London EC2R 7AF	England and Wales
Equity Release Funding (No.2) plc	c/o Wilmington Trust SP Services (London), Third Floor 1 King's Arms Yard London EC2R 7AF	England and Wales
Equity Release Funding (No.3) plc	c/o Wilmington Trust SP Services (London), Third Floor 1 King's Arms Yard London EC2R 7AF	England and Wales
Equity Release Funding (No.4) plc	c/o Wilmington Trust SP Services (London), Third Floor 1 King's Arms Yard London EC2R 7AF	England and Wales
Equity Release Funding (No.5) plc	c/o Wilmington Trust SP Services (London), Third Floor 1 King's Arms Yard London EC2R 7AF	England and Wales

The carrying value of the investment in the above entities is £nil *(2022: £nil).* For further information on the Company's interest in these entities see note 11.

9. 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 that the entity can access at the measurement date. Level 1 inputs already reflect market participant views of climate change impacts and no further adjustments are made to these values..

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. Therefore, unobservable inputs reflect the assumptions the business unit considers that market participants would use in pricing the asset or liability. Examples are partially de-recognised and non-securitised mortgage loans.

Changes to valuation techniques:

There were no changes in the valuation techniques during the year compared to those applied in the 2022 financial statements.

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

Fair value of the following assets and liabilities carried at amortised cost approximate to their carrying amounts:

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

There were no assets held at amortised cost where the fair value did not approximate to the carrying amount.

Fair value hierarchy

An analysis of assets and liabilities measured at fair value categorised by fair value hierarchy is given below:

			2023
	Level 2	**Level 3**	**Total**
	£m	**£m**	**£m**
Recurring fair value measurements			
Financial investments and loans			
Loans	**—**	**488.7**	**488.7**
Debt securities	**—**	**29.9**	**29.9**
Derivative financial instruments	**13.8**	**0.5**	**14.3**
Early repayment charges due from fellow subsidiaries	**—**	**0.8**	**0.8**
Total	**13.8**	**519.9**	**533.7**
Financial liabilities			
Borrowings	**—**	**150.0**	**150.0**
Amounts owed to credit institutions	**—**	**270.5**	**270.5**
Derivative liabilities	**—**	**1.7**	**1.7**
Other liabilities	**—**	**10.6**	**10.6**
Total	**—**	**432.8**	**432.8**

			2022
	Level 2	Level 3	Total
	£m	£m	£m
Recurring fair value measurements			
Financial investments and loans			
Loans	—	527.0	527.0
Debt securities	—	28.4	28.4
Derivative financial instruments	16.6	1.0	17.6
Early repayment charges due from fellow subsidiaries	—	1.1	1.1
Total	16.6	557.5	574.1
Financial liabilities			
Borrowings	—	161.3	161.3
Amounts owed to credit institutions	—	286.6	286.6
Derivative liabilities	—	0.2	0.2
Other liabilities	—	5.2	5.2
Total	—	453.3	453.3

(b) Further information on Level 3 financial instruments

The table below shows movements in the Level 3 assets and liabilities measured at fair value:

	Loans	Debt securities	Other receivables	Derivative assets	Borrowings	Amounts owed to credit	Derivative liabilities	Other financial liabilities
	£m	£m	£m	£m	£m	£m	£m	£m
Balance at 1 January 2023	**527.0**	**28.4**	**1.1**	**1.0**	**(161.3)**	**(286.6)**	**(0.2)**	**(5.2)**
Increases	**57.1**	**2.0**	**—**	**—**	**(8.6)**	**(35.0)**	**—**	**—**
Redemptions	**(58.4)**	**—**	**—**	**—**	**16.5**	**22.2**	**—**	**—**
(Losses) / gains recognised in the income statement	**(37.0)**	**(0.5)**	**(0.3)**	**(0.5)**	**3.4**	**28.9**	**(1.5)**	**(5.4)**
Balance at 31 December 2023	**488.7**	**29.9**	**0.8**	**0.5**	**(150.0)**	**(270.5)**	**(1.7)**	**(10.6)**

	Loans	Debt securities	Other receivables	Derivative assets	Borrowings	Amounts owed to credit	Derivative liabilities	Other financial liabilities
	£m	£m	£m	£m	£m	£m	£m	£m
Balance at 31 December 2021	686.7	41.6	27.5	0.8	(205.6)	(376.9)	(6.1)	(5.9)
Transfers into Level 3	—	—	—	0.3	—	—	—	—
Balance at 1 January 2022	686.7	41.6	27.5	1.1	(205.6)	(376.9)	(6.1)	(5.9)
Increases	56.0	2.0	—	—	(9.4)	(35.4)	—	—
Redemptions	(51.2)	(6.8)	—	—	16.5	20.6	0.2	—
Gains / (losses) recognised in the income statement	(164.5)	(8.4)	(26.4)	(0.1)	37.2	105.1	5.7	0.7
Balance at 31 December 2022	527.0	28.4	1.1	1.0	(161.3)	(286.6)	(0.2)	(5.2)

The Company assesses the fair value hierarchy of its financial investments annually at 31 December and transfers between fair value hierarchy levels are deemed to have occurred at the assessment date.

The assets and liabilities classified as Level 3 are valued using an internal model. The valuation of the equity release mortgages is dependent on the term of the mortgage (primarily determined by the customer's longevity) and the movement in property valuations over this term. The internal model calculates a credit risk adjusted value for the mortgages. Cash flows are adjusted for credit risk (the no negative equity guarantee) and discounted using a yield curve and portfolio-wide assumptions for liquidity premium. The model uses best estimate assumptions to derive the modelled future property growth scenarios and explicitly calculates the additional return that would be expected by investors due to uncertainties in the asset cash flows. The primary inputs to the model are:

– The base property growth rate assumption is RPI + 0.75%, which includes an allowance of 0.5% per annum for the potential impact of climate change actions. The modelled 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. 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 at 31 December 2023 *(2022: 3.1% pa)* over a twenty year projection. After applying the cost of capital charge, dilapidations and the stochastic distribution, the effective net long-term growth rate equates to 0.9% pa *(2022: 0.4% pa)* over a twenty year projection.

– The net long-term rate which represents an average of a range of possible future scenarios. Best estimate calculations of the value of the no negative equity guarantee in respect of these loans are derived from a stochastic model and are predominantly driven by scenarios where the growth rate is lower than the average position quoted above. The no negative equity guarantee ensures that the customer or their estate are never required to pay back more than the realised value of the property, as long as it is sold for the best price reasonably obtainable. Property valuations at the reporting date are obtained by taking the most recent valuation for the property and indexing using a historic house price model based on ONS data.

– A liquidity premium added to the risk-free discount rate to reflect the illiquidity of the equity release mortgage portfolio. The premium used in the discount rate was 205bps at 31 December 2023 *(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 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 £m	**Most significant unobservable inputs**	**Positive impact £m**	**Negative impact £m**
Equity release mortgages	**461.3**	Current property market values - 10%	**29.4**	**(34.1)**
		Base property growth rate - 50bps p.a.	**15.1**	**(15.0)**
Subordinated loans	**27.4**	Credit spreads - 50bps	**1.3**	**(1.2)**
Debt securities	**29.9**	Credit spreads - 50bps	**0.9**	**(0.9)**
Borrowings	**(150.0)**	Credit spreads - 50bps	**4.7**	**(4.9)**
Amount owed to credit institutions	**(270.5)**	Credit spreads - 50bps	**13.4**	**(14.3)**
Financial liabilities	**(10.6)**	Current property market values - 10%	**1.2**	**(1.6)**

	2022		Change in fair value	
	Fair value £m	Most significant unobservable inputs	Positive impact £m	Negative impact £m
Equity release mortgages	489.8	Current property market values - 10%	25.4	(29.5)
		Base property growth rate - 50bps p.a.	13.6	(13.5)
Subordinated loans	37.2	Credit spreads - 50bps	1.9	(1.8)
Debt securities	28.4	Credit spreads - 50bps	1.0	(0.9)
Borrowings	(161.3)	Credit spreads - 50bps	5.4	(5.6)
Amount owed to credit institutions	(286.6)	Credit spreads - 50bps	15.9	(17.0)
Net mortgage advance commitment (included within Other receivables)	—	Current property market values - 10%	10.2	(12.7)
Financial liabilities	(5.2)	Current property market values - 10%	1.1	(1.5)

Any change in fair value of the equity release mortgage loans would be substantially offset by a change in fair value of the borrowings and amounts owed to credit institutions. Any change in fair value of the continued involvement in securitised mortgage loans would be matched by a change in the fair value of other liabilities, as disclosed in note 10(c).

10. Loans

(a) Carrying amounts

The carrying amounts of loans at 31 December 2023 and 2022 were as follows:

	2023 £m	2022 £m
Mandatorily held at FVTPL:		
Continued involvement in securitised mortgage loans	**3.5**	3.5
Continued involvement in other partially derecognised mortgage loans	**310.9**	326.8
Non-securitised mortgage loans	**146.9**	159.5
Other loans	**27.4**	37.2
	488.7	527.0

	2023 £m	2022 £m
Expected to be recovered in less than one year	**45.4**	43.7
Expected to be recovered in more than one year	**443.3**	483.3
	488.7	527.0

(b) Collateral

The Company holds collateral in respect of all mortgage 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.

(c) Securitisations and other structured transactions

The Company enters into transactions in the normal course of business by which it transfers recognised financial assets directly to third parties or to special purpose entities. These transfers may give rise to the full or partial derecognition, with continuing involvement, of the financial assets concerned (as described in accounting policy (G).

The following tables analyse the carrying amount of financial instruments at 31 December to the extent of the Company's continuing involvement that qualified for derecognised with continuing involvement during the year, and their associated liabilities.

(i) Carrying amounts and associated liabilities- Securitisations

	2023 £m	2022 £m
Carrying amount of mortgages (currently recognised)	**3.5**	3.5
Carrying amount of associated liability	**4.6**	5.2
Current fair value of original assets	**1,633.5**	1,749.2

The beneficial interest in five portfolios of lifetime mortgages have been transferred to five special purpose securitisation companies: Equity Release Funding (No.1) plc (ERF1), Equity Release Funding (No.2) plc (ERF2), Equity Release Funding (No.3) plc (ERF3), ERF Trustee (No.4) Limited (ERF4T) held on trust for the benefit of Equity Release Funding (No.4) plc (ERF4), and ERF Trustee (No.5) Limited (ERF5T) held on trust for the benefit of Equity Release Funding (No.5) plc (ERF5), (together "the ERF companies"), in return for initial consideration and, at later dates, deferred consideration.

The deferred consideration represents receipts accrued within the ERF companies after meeting all their obligations to the note holders, loan providers and other third parties in the priority of payments. Deferred consideration of £nil was received during the year (*2022: £4.1 million*) and recognised as income.

No gain or loss was recognised on the transfers to ERF1, ERF3 and ERF5T and gains of £5.2 million and £9.1 million were recognised on 11 June 2002 and 30 July 2004 respectively, on the transfers to ERF2 and ERF4T. The purchases of the mortgages were funded by the issue of fixed rate, floating rate and index-linked notes by the ERF companies. The proceeds of the securitisation were used to settle the funding liability to Aviva Life & Pensions UK Limited, the original mortgage funder.

The legal parent of ERF1, ERF2 and ERF3 is Equity Release Holdings Limited, whose shares are held on trust. The legal parent of ERF4T and ERF4 is Equity Release Holdings (Jersey) Limited, whose shares are also held on trust. The legal parent of ERF5T and ERF5 is Equity Release Holdings (No.5) Limited, whose shares are also held on trust.

Although the Company does not own, directly or indirectly, any of the share capital of the ERF companies or their parent companies, the Company is deemed to control the ERF companies and they have been treated as subsidiaries in the Company's financial statements.

The Company has no obligation to repurchase the benefit of any of the securitised mortgage loans, other than in certain circumstances where the Company is in breach of warranty or loans are substituted in order to effect a further advance.

The Company has indemnified ERF1 and ERF2 for any losses they may suffer should its customers set off any shortfall in their annuities purchased from another Aviva Group company against amounts they owe to those companies, and any shortfall due to negative equity not insured elsewhere. The Company's liability under these indemnities, estimated as £4.6 million *(2022: £5.2 million),* is included in other financial liabilities in the statement of financial position, and loans have been increased by the same amount, reflecting the Company's continued involvement in the securitised mortgage loans.

The Company purchased £12.5 million of subordinated fixed rate M notes in ERF1 in March 2001, which are repayable in 2031, included in debt securities within financial investments in the statement of financial position. In addition, it has purchased a £14.0 million floating rate subordinated loan from ERF3, and a £20.0 million floating rate subordinated loan from ERF5. These are included in other loans in the statement of financial position.

The Company receives payments from the ERF companies in respect of fees for loan administration and cash handling purposes. Income of £5.3 million *(2022: £5.9 million)* has been included in fee and commission income, relating to the securitised mortgage portfolios. A balance of £5.7 million *(2022: £5.2 million),* included within receivables, is outstanding at year end in relation to the services provided to the ERF companies.

In all of the above transactions, the Company is not obliged to support any losses that may be suffered by the note holders and does not intend to provide such support. The notes were issued on the basis that note holders are only entitled to obtain payment, of both principal and interest, to the extent that the available resources of the respective special purpose securitisation companies, including funds due from customers in respect of the securitised loans, are sufficient. Note holders have no recourse whatsoever to other companies in the Aviva Group.

(ii) Carrying amounts and associated liabilities- Other partially derecognised mortgages

	2023	2022
	£m	£m
Carrying amount of mortgages (currently recognised)	**310.9**	326.8
Carrying amount of associated liability	**270.5**	286.6
Current fair value of original assets	**388.7**	409.2

Mortgages that qualify for partial derecognition include blocks of business purchased by a building society or under a joint product structure with a building society. All new lending in 2023 was funded by UKLAP, however as there is no continuing involvement in these mortgages they qualified for full derecognition. It is anticipated that all new lending in 2024 will be under similar terms.

For the mortgages that qualify for partial derecognition, the Company generally retained longevity risk in new funding arrangements and transferred property risks to the purchaser of the assets. The extent of the risk that remains with the Company depends on the exact terms negotiated for each asset sale. The Company retains a proportion of interest earned.

The Company has limited its exposure to negative equity losses by transferring the majority of property risk onto third parties. The current fair value of loans where the Company retains the property risk is £146.9 million *(2022: £159.5 million).*

11. Interest in structured entities

A structured entity is defined as an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only, or when the relevant activities are directed by means of contractual arrangements.

As permitted under IAS 27 and under Section 400 of the Companies Act 2006, the Company has elected not to present consolidated financial statements and as such all holdings in structured entities are unconsolidated.

The Company holds the following interests in unconsolidated structured entities:

- Loans with a fair value of £27.4 million *(2022: £37.2 million)* provided to two securitisation vehicles (ERF3 and ERF5) (see note 10)
- Continued involvement in securitised mortgage loans of £3.5 million *(2022: £3.5 million)*, included within Loans (see note 10)
- Investment in debt securities of £29.9 million *(2022: £28.4 million)* issued by a securitisation vehicle (ERF1), included within Financial Investments (see note 12 and note 10).

The above interests are held in special purpose securitisation companies which have purchased the beneficial interests in five portfolios of mortgages from the Company. Further information about the securitisations is provided in note 10.

The maximum exposure to loss to the interests presented above is the carrying amount of the investments.

In relation to risk management, disclosures on debt securities and investment vehicles are given in note 23.

The Company has not provided any other financial or other support in addition to that described above as at the reporting date. The Company has indemnified ERF1 and ERF2 for any losses they may suffer should its customers set off any shortfall in their annuities purchased from another Aviva Group company against amounts they owe to those companies, and any shortfall due to negative equity not insured elsewhere (see note 10).

12. Financial investments

Carrying amount

	2023 £m	2022 £m
Mandatorily held at FVTPL		
Debt securities	**29.9**	28.4
Derivative financial instruments	**14.3**	17.6
	44.2	46.0

All of the above is expected to be recovered more than one year after the statement of financial position date.

13. Receivables and other financial assets

	2023 £m	2022 £m
Mandatorily held at FVTPL:		
Early repayment charges due from subsidiaries	**0.8**	1.1
Held at amortised cost:		
Amounts due from parent company	**11.5**	12.4
Amounts due from subsidiaries	**5.7**	5.2
Total as at 31 December	**18.0**	18.7
Expected to be recovered in less than one year	**17.2**	17.6
Expected to be recovered in more than one year	**0.8**	1.1
	18.0	18.7

The Company's rights to early repayment charges on the lifetime mortgages held by Equity Release Funding Trustee (No 5) Limited have been pledged as security for interest rate swaps.

14. Ordinary share capital

	2023 £m	2022 £m
Allotted, called up and fully paid		
66,700,000 (2022: 66,700,000) ordinary shares of £1 each	**66.7**	66.7

Ordinary shares in issue in the Company rank pari passu. All the ordinary shares in issue carry the same right to receive all dividends and other distributions declared, made or paid by the Company.

15. Retained earnings

	2023 £m	2022 £m
Balance at 1 January	**214.3**	218.3
Profit/(loss) for the year	**9.6**	(4.0)
Dividends - 127.44 pence per share (2002: nil pence per share)	**(85.0)**	—
Balance at 31 December	**138.9**	214.3

The Company is required to hold sufficient capital to meet acceptable solvency levels based on rules applicable to regulated companies imposed by the Financial Conduct Authority (FCA). Its ability to transfer retained earnings to its parent company is therefore restricted to the extent these earnings form part of regulatory capital.

16. Tax assets and liabilities

(a) Current tax

Current tax assets recoverable in more than one year are £8.3 million (*2022 :£nil million*).

(b) Deferred tax

(i) The net deferred tax asset arises on the following items:

	2023 £m	2022 £m
Unused losses and tax credits	**—**	10.8
Provisions and other temporary differences	**3.2**	4.6
Net deferred tax asset	**3.2**	15.4

Deferred tax assets, which are expected to be recoverable in more than one year, are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

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

	2023 £m	2022 £m
Net deferred tax asset at 1 January	**15.4**	14.1
Amounts (charged) / credited to income statement	**(12.2)**	1.3
Net deferred tax asset at 31 December	**3.2**	15.4

17. Borrowings

	2023 £m	2022 £m
Designated at FVTPL:		
Amounts due to parent	**150.0**	161.3

Following a review of the classification and measurement of financial instruments, all the amounts due to parent has been represented from financial instruments mandatorily held at FVTPL to financial instruments designated at FVTPL.

There were no defaults or breaches of loan agreements on loans payable during the year (2022: £nil).

Maturity analysis of borrowings is given in note 23(e).

The amount of change in fair value of borrowings during the year attributable to a change in credit risk was a £0.3 million gain *(2022: £10.1 million loss)*. The cumulative change attributable to changes in credit risk to 31 December 2023 was a £1.2 million gain *(2022: £0.9 million gain).*

18. Payables and other financial liabilities

	2023 £m	2022 £m
Mandatorily held at FVTPL:		
Amounts owed to credit institutions	**270.5**	286.6
Derivative financial instruments	**1.7**	0.2
Designated at FVTPL:		
Indemnities on securitised mortgages	**4.6**	5.2
Net mortgage advance commitment	**6.0**	—
Held at amortised cost:		
Amounts due to fellow subsidiaries	**3.4**	3.2
Amounts due to subsidiaries	**0.6**	0.3
Other financial liabilities	**6.9**	4.2
Total as at 31 December	**293.7**	299.7
Expected to be paid in less than one year	**16.9**	7.6
Expected to be paid in more than one year	**276.8**	292.1
	293.7	299.7

Maturity analysis of payables and financial liabilities is given in note 23(e). The amounts owed to credit institutions have no contractual maturity date and are linked to the maturity of underlying equity release mortgages.

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 9.

19. Contingent liabilities and other risk factors

(a) Regulatory compliance

The FCA regulates the Company's mortgage lending and monitors the financial resources and organisation of the Company as a whole. The FCA has broad powers including the authority to grant, vary the terms of, or cancel a regulated firm's authorisation; to investigate marketing and sales practices; and to require the maintenance of adequate financial resources.

The Directors believe that the Company dedicates appropriate resources to its compliance programme, endeavours to respond to regulatory enquiries in a constructive way, and takes corrective action when warranted. However, all regulated financial services companies face the risk that their regulator could find that they have failed to comply with applicable regulations or have not undertaken corrective action as required.

The impact of any such finding could have a negative impact on the Company's reported results or on its relations with current and potential customers. Regulatory action against a member of the Aviva Group could result in adverse publicity for, or negative perceptions regarding the Group, or could have a material adverse effect on the business of the Group, its results of operations and/or financial condition and divert management's attention from the day-to-day management of the business.

20. Commitments

(a) Capital commitments

Contractual commitments for mortgage advances were as follows:

	2023 £m	2022 £m
Mortgage loans	**1,098.2**	1,149.2

The Company's exposure to these commitments, net of the expected funding from UKLAP, has been recognised in the statement of financial position and is included within other receivables in note 13.

21. Statement of cash flows

(a) The reconciliation of profit / (loss) before tax to the net cash generated from operating activities:

The cash flows presented in this statement cover all the Company's activities and include flows from both policyholder and shareholder activities. Operating cash flows reflect the movement in both policyholder and shareholder controlled cash and cash equivalent balances.

	2023 £m	2022 £m
Profit/(loss) before tax	**13.5**	(5.3)
Adjustments for:		
Fair value losses on:		
Investments	**9.3**	10.1
Other assets	**0.3**	1.9
Other liabilities	**6.0**	24.5
Interest (income) / expense on:		
M notes and subordinated loans	**(5.3)**	(3.8)
Mortgages	**(51.4)**	(52.2)
Payables	**43.6**	44.5
Changes in working capital:		
Decrease in receivables	**0.4**	29.5
Decrease in prepayments and accrued income	**0.1**	—
Decrease in payables and other financial liabilities	**(12.8)**	(25.2)
New mortgage funding drawdown	**472.5**	827.3
Repayment of mortgage funding	**(481.8)**	(836.1)
Interest paid on mortgage funding	**(27.9)**	(26.8)
Net sales / (purchases) of operating assets:		
Financial investments	**1.3**	(2.1)
Loan advanced	**(418.6)**	(779.5)
Proceeds from sale of loan	**474.7**	828.6
Total cash generated from operating activities	**23.9**	35.4

Purchases and sales of loans and financial instruments are included within operating cash flows as they represent the operating activities of the Company.

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

	2023 £m	2022 £m
Cash at bank and in hand	**86.3**	147.4

22. Capital structure

The Company maintains an efficient capital structure from equity shareholders' funds, consistent with the Company's overall risk profile and the regulatory 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. The Company measures its capital requirements under the MIPRU (Prudential Sourcebook for Mortgage and Home Finance Firms and Insurance Intermediaries) rulebook.

(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 a number of different bases. These include measures which comply with the regulatory regime within which the Company operates and those which the directors consider appropriate for the management of the business. The measures which the Company uses are:

(i) Accounting basis

The Company is required to report its results on an IFRS basis

(ii) Regulatory basis

Relevant capital and solvency regulations are used to measure and report the Company's financial strength. These measures are based on the Company being authorised and regulated by the Financial Conduct Authority (FCA) as a MIPRU (Prudential Sourcebook for Mortgage and Home Finance Firms and Insurance Intermediaries) license firm. The Company fully complied with the relevant regulatory requirements during the year.

The reconciliation below is between total IFRS funds and total own funds under MIPRU.

	2023 **£m**	2022 £m
Total IFRS shareholders' funds	**205.6**	281.0
Adjustments onto a regulatory basis:		
Profit for the year	**(9.6)**	—
Total own funds	**196.0**	281.0

Further details on risk and capital management are given in note 23 .

23. 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 Aviva Group 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, including the use of risk models and stress and scenario testing.

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. They may also affect the performance of the products the Company delivers to its customers and the service to its customers and distributors, which can be categorised as risks to brand and reputation or as conduct risk.

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. The IWR Chief Executive Officer makes an annual declaration that the system of governance and internal controls was effective and fit for purpose for their business throughout the year; this declaration is supported by an opinion from the IWR Chief Risk Officer.

The Risk Appetite Framework was refreshed during the year, with revised risk appetites considered and approved by the Board. Since 2021, climate-related risks have been integrated and defined within the risk appetite framework as part of the use in risk-based decision-making.

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

Risk models are an important tool in the measurement of risks and are used to support the monitoring and reporting of the risk profile and in the consideration of the risk management actions available. The Company carries out a range of stress tests (where one risk factor, such as equity returns, is assumed to vary) and scenario tests (where combinations of risk factors are assumed to vary) to evaluate their impact on the business and the management actions available to respond to the conditions envisaged. For those risk types managed through the holding of capital, being the Company's principal risk types except for liquidity risk, the Company measures and monitors its risk profile on the basis of a Solvency II solvency capital requirement ("SCR").

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.

Board oversight of risk and risk management across the Company is maintained on a regular basis.

(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, foreign exchange rates and property prices.

For each of the major components of market risk, described in more detail below, the Company has put in place procedures to set out how each risk should be managed and monitored, and the approach to setting an appropriate risk appetite.

The Company manages market risks within the asset/liability management (ALM) framework and within regulatory constraints. The Company is also constrained by the requirement to meet policyholders' reasonable expectations and to minimise or avoid market risk in a number of areas.

The financial impact of market risk (such as changes in interest rates and house prices) is examined through stress tests which consider the impact on capital from variations in financial circumstances on either a remote scenario or to changes from the central operating scenario. Management actions that may be taken in mitigation of the change in circumstances are also considered.

The Financial Risk Policy sets out the minimum principles and framework for setting an ALM and investment strategy, the approaches to be taken when liabilities cannot be matched and the monitoring and reporting processes that are required. Appropriate matching techniques are applied to assets and liabilities for all classes of business in order to manage the financial risk from the mismatching of assets and liabilities when investment markets change. The Company monitors adherence to this policy through the UK IWR Asset & Liability Committee (ALCO).

(i) Property price risk

Property price risk arises from sustained underperformance in House Price Inflation (HPI) or a sharp fall in property values, 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 Company has transferred the property risk on mortgages that are sold onto or funded by building societies when the beneficial interest is transferred.

The current fair value of on balance sheet loans where the Company retains the property risk is £146.9 million (2022: £159.5 million). The Company is also exposed to property price risk at point of sale on its contractual commitments for mortgage advances (see note 20). Where property price risk remains there would need to be a significant decrease in house price values or future house price growth, in excess of that allowed for in the valuation of the loans, for significant losses to be recognised. If this were coupled with an unexpected fall in short term mortality and morbidity rates this would increase the risk of the Company experiencing losses due to negative equity.

The level of HPI is monitored and the impact of exposure to adverse HPI is regularly reviewed. To mitigate this risk the loan to value on origination are at low levels and the performance of the mortgage portfolio is monitored through dilapidation reviews.

Sensitivity tests have been performed for the impact of changes in property valuations on equity release mortgage loans and financial liabilities (see note 9).

(ii) Interest rate risk

Interest rate risk arises primarily from fluctuations in the value of lifetime mortgage assets and their related funding and derivatives. Interest rate risk is controlled through the close matching of the duration and value of mortgages and mortgage funding and the use of a variety of derivative instruments. As at 31 December 2023, the Company had entered into a number of interest rate swaps and options to mitigate the effects of potential adverse interest rate movements.

The Company has also entered into a derivative to transfer the interest rate risk through variability in the redemption profile of lifetime mortgages sold to ERF5.

The impact of exposure to sustained adverse interest rates is regularly monitored.

Sensitivity to changes in interest rates is given in section (f) below.

(iii) Derivative risk

Derivatives are used to a limited extent, within policy guidelines agreed by the Board of Directors and overseen by Group Financial Risk which monitors implementation of the policy, exposure levels and supports large or complex transactions. Derivatives are used for risk hedging purposes or to structure specific lifetime mortgage products.

Speculative activity is prohibited. Over the counter derivative contracts are entered into only with approved counterparties, in accordance with IWR policies, thereby reducing the risk of credit loss. The Company's senior management and UK Life apply strict requirements to the administration and valuation processes it uses, and has a control framework in place.

(iv) Correlation risk

Early voluntary redemptions and HPI are sensitive to, and interdependent with, interest rates.

(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 ALCO, includes the articulation of risk appetite, exposure limit frameworks and investment and lending criteria within credit risk policies and management agreements.

The approach to managing credit risk recognises that there is a risk of adverse financial impact resulting from fluctuations in credit quality of third parties including default, rating transition and credit spread movements. Credit risk categories include spread risk, default risk and rating migration risk:

- Spread risk arises from changes in level of volatility of third party credit spreads over risk-free interest rates, that can be caused by credit concerns (improving or worsening) on the issuer, or from market factors, such as risk appetite and liquidity within the market;
- Default risk is the risk that a counterparty is unable or unwilling to meet its financial obligations when they fall due, and includes delays in repayments, restructuring or repayments/interest schedule and bankruptcy;
- Rating migration risk is the risk that a change in external credit rating of counterparty adversely impacts Aviva.

The following table provides information regarding the credit risk exposure of the Company at 31 December.

	2023	2022
	Not Rated	Not Rated
	£m	£m
Debt securities	**29.9**	28.4
Derivatives	**14.2**	17.6
Loans	**488.7**	527.0
Total	**532.8**	573.0

The carrying amount of assets included on the statement of financial position represents the maximum credit exposure of the company as at the statement of financial position date.

Concentrations of credit risk

The Company is generally not exposed to significant concentrations of credit risk due to internal credit risk management practices and limits, such as monitoring and limiting of exposures by region. Exposure is spread across a large number of loans, and 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**
	£m	**£m**	**£m**
Debt securities	**29.9**	**—**	**29.9**
Derivatives	**14.3**	**—**	**14.3**
Loans	**488.7**	**461.2**	**27.5**
Total	**532.9**	**461.2**	**71.7**

			2022
	Carry value in the statement of financial position	Collateral held	Net credit exposure
	£m	£m	£m
Debt securities	28.4	—	28.4
Derivatives	17.6	—	17.6
Loans	527.0	489.8	37.2
Total	573.0	489.8	83.2

Additional information in respect to collateral is provided in note 10(b).

To the extent that collateral held is greater than the amount receivable that it is securing, the table above shows only an amount equal to the latter. In the event of default, any over-collateralised security would be returned to the relevant counterparty.

Derivative credit exposures

The Company is exposed to counterparty credit risk through derivative trades. The Company operates strict standards around collateral management and controls including the requirement that all “over the counter” derivatives are supported by credit support annexes and ISDAs.

Calculation of expected credit losses

Expected credit losses on material trade receivables and other assets held at amortised cost are calculated with reference to the Company's historical experience of losses, along with an analysis of payment terms. The Company does not hold any financial assets which are deemed to be credit-impaired at the reporting date.

The Company makes use of the simplified approach when calculating expected credit losses on trade receivables which don't include a significant financing component, and therefore calculates expected credit losses over the lifetime of the instrument in question. As at the reporting date, no lifetime expected credit losses have been recognised in relation to trade receivables.

The Company has not purchased or originated any credit-impaired financial assets as at the reporting date.

(d) Life insurance risk

Life insurance risk includes longevity risk, to which the Company is exposed. Improvements in longevity, relating to both mortality and morbidity rates, result in the loans remaining in force for a longer period, increasing the likelihood that the mortgage loans will exceed the proceeds of the property sale at the date of redemption. The Company retains the longevity risk on all loans recognised on balance sheet, including those that have been partially derecognised.

Longevity risk is carefully assessed against the latest available internal and external industry data and emerging trends. Exposure is monitored through the modelling of asset values, the ALM framework, profit reporting under IFRS, stress and scenario analysis and the Solvency II internal model process.

To mitigate the risk, the loan to value ratios at origination of the loans are capped at levels to reflect the desired risk appetite.

(e) Liquidity risk

UK IWR ALCO seeks to determine that the Company has sufficient financial resources to meet its obligations as they fall due. The following table provides an analysis of financial liabilities based on the remaining period at the statement of financial position date to their contractual maturities:

				2023
	Within 1 year	**1-5 years**	**Over 5 years**	**No contractual maturity**
	£m	**£m**	**£m**	**£m**
Liabilities				
Borrowings	**—**	**—**	**—**	**150.0**
Payables and other financial liabilities	**16.9**	**—**	**1.7**	**275.1**

				2022
	Within 1 year	1-5 years	Over 5 years	No contractual maturity
	£m	£m	£m	£m
Liabilities				
Borrowings	—	—	—	161.3
Payables and other financial liabilities	7.6	—	0.2	291.9

The borrowings and payables and other financial liabilities figures include £425.1 million *(2022: £453.2 million)* which has no contractual maturity, as it is only payable on receipt of mortgage redemption proceeds, which is how the company manages liquidity. It is estimated that £37.8 million of this will be payable within one year *(2022: £36.3 million)*.

The undiscounted value of borrowings without a contractual maturity is £222.8 million *(2022: £245.3 million)*. The undiscounted value of the payables and other financial liabilities without a contractual maturity is £533.0 million *(2022: £593.3 million)*. Further information on borrowings is included in note 17.

Contractual commitments for mortgage advances were £1,098.2 million (2022*: £1,149.2 million).* Further information on contractual commitments is provided in note 20.

(f) Risk and capital management

UK IWR uses a number of sensitivity test-based risk management tools to understand the volatility of earnings, the volatility of its capital requirements, and to manage its capital more efficiently. Sensitivities to economic and operating experience are regularly produced on all of the Company’s financial performance measurements to inform the Company’s decision making and planning processes, and as part of the framework for identifying and quantifying the risks to which the Company is exposed.

(i) Results of sensitivity analysis

The results of sensitivity testing are set out below. For each sensitivity test only the impact of the discount rate change is shown, with other assumptions left unchanged. This discount rate change can be a combination of changes in the swap rate and changes in credit spreads.

	2023 £m	2022 £m
Impact on profit before tax and pre-tax equity:		
Discount rates + 1%	**(7.4)**	(9.0)
Discount rates - 1%	**7.7**	9.5

Sensitivities are outlined in note 9.

The calculation of the fair value of equity release mortgages and related liabilities depends on the level of swap rates and allowances for property and liquidity risk.

(ii) Limitations of sensitivity analysis

The table above shows discount rate sensitivity - which includes swap rate changes, but also changes in the credit spreads (per the narrative). In reality, such an occurrence is remote due to correlations between the assumptions and other factors. Swap rates are a key driver of profitability, however, should they change this would impact other factors such as voluntary repayments, due to their correlation with swap rates. It should also be noted that these sensitivities are non-linear, and larger or smaller impacts should not be interpolated or extrapolated from these results.

Other limitations in the above sensitivity analyses include the use of hypothetical market movements to demonstrate potential risk that only represent the Company's senior management's view of possible near-term changes that cannot be predicted with any certainty; and the assumption that all interest rates move in an identical fashion.

(g) 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.

The Aviva Group actively monitors social and other media in order to manage misinformation about our business, products, colleagues and customers should we be targeted by a hostile actor in the context of the situation in Ukraine or elsewhere, taking active media action if necessary.

24. Derivative financial instruments and hedging

The Company uses derivatives to mitigate risk, as detailed below:

	2023			2022		
	Contract/ notional amount **£m**	**Fair value asset** **£m**	**Fair value liability** **£m**	Contract/ notional amount £m	Fair value asset £m	Fair value liability £m
Interest rate contracts						
Interest swaps	**145.2**	**13.8**	**(1.7)**	138.3	16.6	(0.2)
Options	**141.6**	**0.5**	**—**	150.1	1.0	—
Total as at 31 December	**286.8**	**14.3**	**(1.7)**	288.4	17.6	(0.2)

The notional amounts above reflect the aggregate of individual derivative positions on a gross basis and so give an indication of the overall scale of the derivative transaction. They do not reflect the current market values of the open positions.

Interest swaps

During 2005 the Company entered into a derivative to transfer the interest rate risk through variability in the redemption profile of lifetime mortgages sold to ERF5. The notional amount outstanding at 31 December 2023 was £74.2 million *(2022: £67.3 million).* The swap has an expiry date of April 2037. Under the terms of the swap the Company pays Compounded Daily SONIA plus 0.1193% Spread and receives 5% of the difference between the notional amount and the expected notional amount.

On 31 January 2003 and 30 January 2007 the Company entered into two interest rate swap agreements to protect the Company from interest rate risk arising from the sale of lifetime mortgages to other credit institutions. During 2019 the Company novated the interest rate swap liabilities, (facing a banking counterparty) to Aviva UK Life & Pensions Limited. In return for assuming the swap liabilities, the Company paid Aviva UK Life & Pensions Limited a cash amount equal to the fair value of the liability at transfer date. Five at the money interest rate swaps were transacted between the Company and Aviva UK Life & Pensions Limited resulting in the Company's interest rate exposure remaining materially unchanged. The swaps expire in September 2024, September 2029, September 2034, September 2039 and September 2044.

The contractual undiscounted cash flows in respect of the interest rate swap agreements have the following maturities:

	2023	2022
	£m	£m
Within 1 year	**(0.7)**	(0.1)
Between 1 and 5 years	**(3.6)**	(0.6)
After 5 years	**2.6**	0.5
	(1.7)	(0.2)

Options

The interest swap exposes the Company to movements in interest rates through changes in the redemption profiles of the lifetime mortgages in ERF5. The swap hedges the exposure from receiving any early repayment charges on the lifetime mortgages in ERF5, and is combined with an option and a cap. The notional amounts at 31 December 2023 were £74.2 million *(2022: £67.3 million)* and £67.4 million *(2022: £82.9 million),* with termination dates of April 2032 and April 2033 respectively.

Derivative assets are recognised as derivative financial instruments in note 9. Derivative liabilities are recognised as derivative financial instruments in note 18.

25. Financial assets and liabilities subject to offsetting, enforceable master netting arrangements and similar agreements

(a) Offsetting financial assets and liabilities and related net exposures

Financial assets and liabilities are offset in the statement of financial position when the Company has a currently enforceable legal right to offset and has the intention to settle the asset and liability on a net basis, or to realise the asset and settle the liability simultaneously.

The Company mitigates credit risk in derivative contracts by entering into collateral agreements, where practical, and in International Swaps and Derivatives Association (ISDA) master netting agreements to facilitate the Company's right to offset credit risk exposure. The credit support agreement will normally dictate the threshold over which collateral needs to be pledged by the Company or its counterparty.

Derivative transactions requiring the Company or its counterparty to post collateral are typically the result of over-the-counter derivative trades, comprised mostly of interest rate swaps, currency swaps and credit swaps. These transactions are conducted under terms that are usual and customary to standard long-term borrowing, derivative, securities lending and securities borrowing activities. The early repayment charges as disclosed in note 13 are pledged as collateral.

Further information in relation to lifetime mortgage collateral is set out in note 23(c).

			2023
	Gross amounts	**Net amounts presented in the statement of financial position**	**Net amount**
	£m	**£m**	**£m**
Financial assets			
Derivatives	**14.3**	**14.3**	**14.3**

			2023
	Gross amounts	**Net amounts presented in the statement of financial position**	**Net amount**
	£m	**£m**	**£m**
Financial liabilities			
Derivatives	**1.7**	**1.7**	**1.7**

The totals for each financial instrument in the tables above and below represent the total balance of the financial asset/liability as aggregated into a line item in the statement of financial position, after including any other amounts not subject to enforceable netting arrangement.

			2022
	Gross amounts	Net amounts presented in the statement of financial position	Net amount
	£m	£m	£m
Financial assets			
Derivatives	17.6	17.6	17.6

			2022
	Gross amounts	Net amounts presented in the statement of financial position	Net amount
	£m	£m	£m
Financial liabilities			
Derivatives	0.2	0.2	0.2

26. Related party transactions

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

Under a management agreement UKLS supplies and makes charges for the provision of operational assets and staff to the Company. The agreement specifies the amounts payable to UKLS in respect of acquisition costs and administrative expenses. The amount of this recharge is £38.7m million *(2022: £43.3 million)*.

(a) Income receivable from related parties

	2023	2022
	income earned in year	income earned in year
	£m	£m
Parent	**52.9**	77.3
Fellow subsidiaries	**6.7**	5.8
Subsidiaries	**8.0**	15.9
	67.6	99.0

All new business lending was funded by UKLAP. The transaction is at arm's length and the Company receives a fee on the sale of lifetime mortgages to UKLAP, included in the above.

Income from related parties includes deferred consideration income, fair value gain on UKLAP money swaps, interest on subordinated loans and fees received for the administration of mortgages sold to related parties.

(b) Expenses payable to related parties

	2023	2022
	Expenses incurred in year	Expenses incurred in year
	£m	£m
Parent	**8.6**	9.1
Fellow subsidiaries	**38.7**	43.3
	47.3	52.4

(c) Receivable at year end

	2023	2022
	£m	£m
Parent	**11.5**	12.4
Subsidiaries	**63.9**	71.9
	75.4	84.3

The related parties' receivables are not secured and no guarantees were received in respect thereof.

The parent balance includes the amount due from parent company and loan to parent. The fair value of the UKLAP money swaps is £13.8 million (note 24) *(2022: £16.6 million)*.

The subsidiary balance includes the M notes in ERF1, early repayment charge assets due from ERF5, and subordinated debt in ERF3 and ERF5. The M notes are due for repayment in 2031, and the early repayment charges and subordinated debt have no contractual maturity dates.

(d) Payable at year end

Related party payables are disclosed in notes 18.

The related parties' payables are not secured and no guarantees were issued in respect thereof.

(e) Key management compensation

The total compensation to those employees classified as key management, being those having authority and responsibility for planning, directing and controlling the activities of the Company, including the directors, is as follows:

	2023	2022
	£'000	£'000
Salary and other short-term benefits	**4,433**	4,052
Other long-term benefits	**300**	314
	4,733	4,366

There are no amounts receivable from, or payments due to, key management.

The directors are remunerated by AES. The emoluments of these directors are recharged to UKLS, and details of their emoluments are given in note 5

a. Parent entity

The immediate parent undertaking is Aviva Life and Pensions UK Limited, a company registered in England.

b. 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, St Helen's, 1 Undershaft, London EC3P 3DQ, and on the Aviva plc website at www.aviva.com.