Aviva ERFA 15 UK Limited

Registered in England and Wales No. 6518135

Annual Report and Financial Statements 2021

Contents

Directors and officer

Directors

E J Rayfield	Appointed on 18 January 2022
R J Priestley	
N M Rowley	Resigned 24 December 2021
J M J Curness	

Officer – Company Secretary

Aviva Company Secretarial Services Limited
St Helen's
Undershaft
London
EC3P 3DQ

Independent Auditors

PricewaterhouseCoopers LLP
7 More London Riverside
London
SE1 2RT

Registered office

Aviva
Wellington Row
York
YO90 1WR

Company number

Registered in England and Wales no. 6518135

Other information

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

Strategic report

The directors present their strategic report for Aviva ERFA 15 UK Limited (the "Company") for the year ended 31 December 2021.

Review of the Company's business

Principal activities

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

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

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

Significant events

A restructure of the Company's loan notes took place on 30th November 2021. The existing loan notes were settled and new mortgage backed fixed rate loan notes and variable loan notes were issued to UKLAP. A payment was made to UKLAP from cash holdings and new lifetime mortgages written by UKLAP between September 2020 and July 2021 were securitised as part of the restructure. Further details are outlined in Note 14.

Financial position and performance

The financial position of the Company at 31 December 2021 is shown in the statement of financial position on page 15, with the results shown in the income statement on page 14 and the statement of cash flows on page 17.

Income for the year, including unrealised gains and losses on financial instruments, is a loss of £9,111 thousand *(2020: £661 thousand loss)* and loss before tax is £9,675 thousand *(2020: £1,057 thousand loss before tax).*

The level of borrowings has decreased by £450.0 million to £8,947.4 million *(2020: £9,397.4 million)*, driven by the securitisation tranche made in the year.

Shareholders' equity has increased by £32 thousand *(2020: increase of £37 thousand)*, reflecting the profit after tax for the year.

Section 172 (1) statement

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

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

The Company's culture

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

Stakeholder Engagement

The table below sets out our approach to stakeholder engagement during 2021:

Stakeholders	Why are they important to Aviva?	What is our approach to engaging with them?
Employees	Our people's well-being and commitment to serving our customers is essential for our long-term success.	• 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 Company's engagement mechanisms align with those of the Aviva Group, such as employee forums, internal communication channels, and informal meetings with the Directors and employee engagement surveys. • We are committed to recruiting, training and retaining the best talent we can find. We are proud to have been a pioneer in some areas of employee benefits, including providing six months paid parental leave for all UK employees. • Our people share in the businesses' success as shareholders through membership of the Group's global share plans. • The Company supported the safety and well-being of staff through the provision of equipment to enable all employees to work from home through the COVID-19 pandemic as well as transitioning to a hybrid way of working in mid- 2021.

Strategic report (continued)

Stakeholders	Why are they important to Aviva?	What is our approach to engaging with them?
Customers	Understanding what's important to our customers is key to our long-term success.	• The Company's parent entity is Aviva Life and Pensions UK Ltd (UKLAP). On behalf of the Company, the UKLAP Board: • receives regular reporting on customer outcomes and strategic initiatives throughout the year. • closely monitors customer metrics and engages with the leadership team to understand the issues if performance does not meet customers' expectations. UKLAP is supported by a Conduct Committee to enable it to monitor customer metrics, the Company's Board can escalate any matter it feels necessary to the Conduct Committee for further scrutiny. • monitors and reviews developments concerning changes to IT platforms which will allow UKLAP to simplify and support service delivery to our customers.
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.	• On behalf of the Company, UKLAP maintains oversight of the management of its most important suppliers and reviews reports on their performance. • All supplier related activity is managed in line with the Group's Procurement & Outsourcing Business Standard. This ensures that supply risk is managed appropriately including in relation to customer outcomes, data security, corporate responsibility, financial, operational, contractual, and brand damage caused by inadequate oversight or supplier failure. • An important part of our culture is the promotion of high legal, ethical, environmental and employee related standards within our business and also among our suppliers. Before working with any new suppliers we provide them with the Aviva Supplier Code of Behaviour, and our interaction with them is guided by Aviva's Business Code of Ethics. • In the UK, Aviva is a signatory of the Prompt Payment Code which sets standards for high payment practices. We are a Living Wage employer in the UK, and our supplier contracts include a commitment to paying eligible employees not less than the Living Wage in respect of work provided at premises in the UK.
Communities	We recognise the importance of contributing to our communities through volunteering, community investment, and long-term partnerships. As a major insurance company we are fully engaged in building resilience against the global impact of climate change.	• Our Board supports the community activities of the Group including the wellbeing proposition for UK employees, the Aviva Communities to help drive greater diversity and inclusivity throughout the organisation and to support colleagues to volunteer in their communities. • Recognising climate change presents risk and opportunities for customers, communities and business, Aviva is signed up to the United Nations Net-Zero Asset Owner Alliance commitment. As part of the Aviva Group, the Company is committed to Aviva's long-term strategy to reach net zero by 2040.
Shareholders	Our retail and institutional shareholders are the ultimate owners of the Company.	• Our ultimate shareholder is Aviva plc and there is ongoing communication and engagement with the Aviva plc Board. Any matters requiring escalation are escalated by the Board through the Chair to its parent.

Future outlook

Strategies for the Group as a whole are determined by the Board of Aviva plc and these are shown in the Group 2021 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 Directors anticipate that the market will continue to grow in 2022. However, competitiveness in the market will continue to be strong, and some distribution firms continue to look to provide all stages of the value chain in-house, potentially reducing market choice for customers.

On 24 February 2022, on-going tensions between Russia and Ukraine developed into full-scale armed conflict between the two countries. The Company is monitoring and responding to this dynamic situation - note 18(e) gives more detail on this.

Principal risks and uncertainties

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

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

- Market risk is the risk of loss or adverse change in the financial situation (including the value of assets, liabilities and income) resulting, directly or indirectly, from fluctuations in the level or the volatility of market variables, such as interest rates and property prices.
- Credit risk is the risk of adverse financial impact resulting from fluctuations in credit quality of third parties including default, rating transition and credit spread movements.

Strategic report (continued)

- Liquidity risk is the risk that liabilities cannot be met in a timely and cost-effective manner as they fall due.
- Operational risk is the risk of loss arising from inadequate or failed internal processes, people or systems, or from external events.

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

Key performance indicators

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

Measure	2021 £'000	2020 £'000
Profit after tax for year	**32**	37
Shareholders equity	**178**	146

By order of the Board on 21 July 2022

Karina Bye

K J Bye
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 2021.

Directors

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

Company Secretary

The name of the company secretary of the Company is shown on page 3.

N M Rowley resigned as director of the Company on 24 December 2021 and E J Rayfield was appointed as director of the Company on 18 January 2022.

Dividends

The directors do not recommend the payment of a dividend for the year *(2020: £nil).*

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. In addition, the financial statements include notes on: the Company's borrowings (note 14); its capital structure (note 17); management of its risks including market, credit and liquidity risk (note 18).

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

Future outlook

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

Financial instruments

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

Employees

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

Disclosure of information to the auditors

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

Independent auditors

Under the Competition and Markets Authority Regulations, the Company's ultimate parent company, the group is required to tender for the provision of the external audit every 10 years. PricewaterhouseCoopers LLP was appointed for the first time for the 31 December 2012 financial year end and, therefore, a mandatory re-tender was required for the year ending 31 December 2022. Following a full and rigorous competitive tender process, which was overseen by the Group's Audit Committee, the selection of Ernst & Young LLP was approved by the Group Board. PricewaterhouseCoopers LLP will continue in its role and, subject to reappointment by the Company's shareholders at the 2022 and 2023 Annual General Meetings, will undertake the audit for the financial years ending 31 December 2022 and 2023.

Qualifying indemnity provisions

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

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

Corporate governance

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

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

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

Directors' report (continued)

Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the Annual 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 international accounting standards in conformity with the requirements of the Companies Act 2006.

Under company law, the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable international accounting standards in conformity with the requirements of the Companies Act 2006 have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Directors' confirmations

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

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

The financial statements on pages 11 to 29 were approved by order of the Board on 21 July 2022

Karina Bye

K J Bye
For and on behalf of Aviva Company Secretarial Services Limited
Company Secretary

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

Report on the audit of the financial statements

Opinion

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

- give a true and fair view of the state of the company's affairs as at 31 December 2021 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 2021; the income statement, the statement of changes in equity and the statement of cash flows for the year then ended; the 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 2021 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 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

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

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 the Companies Act 2006 and UK tax legislation, 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 claims;
- Reviewed minutes of those charged with governance;
- Enquired of management and those charged with governance to identify any instances of fraud or non-compliance with laws and regulations;
- tested accounting estimates, including consideration of the existence of management bias.
- Reviewed key correspondence 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 journal entries based on specific risk criteria and other adjustments for appropriateness and testing accounting estimates (because of the risk of management bias);
- Assessed matters reported on the Aviva Group's whistleblowing helpline and fraud register and the results of management's investigation of such matters; and
- Designed audit procedures to incorporate unpredictability around the nature, timing or extent of of testing.

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
- 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

21 July 2022

Accounting policies

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

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

(A) Basis of preparation

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

On 31 December 2020, IFRS as adopted by the EU at that date was brought into UK law and became UK-adopted International Accounting Standards, with future changes being subject to endorsement by the UK Endorsement Board. The Company transitioned to UK-adopted International Accounting Standards on 1 January 2021. This change constitutes a change in accounting framework. However, there is no impact on recognition, measurement or disclosure in the period as reported as a result of the change in framework.

The financial statements have been prepared under the historical cost convention, except for financial instruments at fair value through profit and loss.

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

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

New standards, amendments to published standards and interpretations 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 2021.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 IFRS 16 Leases: COVID-19 related rent concessions (published by the IASB in May 2020)

(ii) Interest Rate Benchmark Reform Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (published by the IASB in August 2020)

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

The following new standards and amendments to existing standards have been issued, are not yet effective for the Company and have not been adopted early by the Company:

(i) IFRS 17, Insurance Contracts

In May 2017, the IASB published IFRS 17 Insurance Contracts, a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 that was issued in 2005. IFRS 17 applies to all types of insurance contract as well as to certain financial instruments with discretionary participation features. In contrast to the requirements in IFRS 4, which are largely based on grandfathering of previous local accounting policies, IFRS 17 provides a comprehensive and consistent approach to insurance contracts. The core of IFRS 17 is the general model, supplemented by a specific adaption for contracts with direct participation features (the variable fee approach) and a simplified approach (the premium allocation approach) mainly for short-duration contracts. This has no impact on ERFA15 as amendments to IFRS 17 allow the Company to measure the equity release mortgages as financial instruments under IFRS 9.

On adoption IFRS 17 will significantly impact the measurement and presentation of insurance contracts. Following amendments to the standard published in June 2020, it is now expected that the standard will apply to annual reporting periods beginning on or after 1 January 2023. The final standard was endorsed in the UK by the UK Endorsement Board on 16 May 2022.

(ii) Amendments to IFRS 16 Leases: COVID-19 related rent concessions beyond 30 June 2021

Published by the IASB in March 2021. The amendments are effective for annual reporting beginning on or after 1 April 2021 and have yet to be endorsed by the UK.

(iii) Amendments to IFRS 3 Business Combinations: Reference to the Conceptual Framework

Published by the IASB in May 2020. The amendments are effective for annual reporting beginning on or after 1 January 2022 and have yet to be endorsed by the UK.

(iv) Amendments to IAS 16 Property, Plant and Equipment: Proceeds before Intended Use

Published by the IASB in May 2020. The amendments are effective for annual reporting beginning on or after 1 January 2022 and have yet to be endorsed by the UK.

(v) Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets: Onerous Contracts - Cost of Fulfilling a Contract

Published by the IASB in May 2020. The amendments are effective for annual reporting beginning on or after 1 January 2022 and have yet to be endorsed by the UK.

(vi) Annual Improvements to IFRSs 2018-2020 Cycle

Published by the IASB in May 2020, these improvements consist of amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IFRS 16 Leases and IAS 41 Agriculture. These amendments are effective for annual reporting beginning on or after 1 January 2022 and have yet to be endorsed by the UK.

(vii) Amendments to IAS 1 Presentation of Financial Statements: Disclosure of Accounting Policies

Published by the IASB in January 2020. The amendments are effective for annual reporting beginning on or after 1 January 2023 and have yet to be endorsed by the UK.

Accounting policies (continued)

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

Published by the IASB in February 2021. The amendments are effective for annual reporting beginning on or after 1 January 2023 and have yet to be endorsed by the UK.

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

Published by the IASB in May 2021. The amendments are effective for annual reporting beginning on or after 1 January 2023 and have yet to be endorsed by the UK.

(x) Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current

Published by the IASB in February 2021. The amendments are effective for annual reporting beginning on or after 1 January 2024 and have yet to be endorsed by the UK.

(B) Critical accounting policies and use of estimates

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

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

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

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

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

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

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

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

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

(C) Fair value measurement

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

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

(D) Interest and similar income

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

(E) Other operating income

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

(F) Financial instruments

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

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

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

(G) Loans

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

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

Accounting policies (continued)

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

(H) Collateral

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

(I) Receivables and payables

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

(J) Statement of cash flows

Cash and cash equivalents

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

(K) Deferred income reserve

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

(L) Income taxes

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

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

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

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

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

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

Current and deferred tax relating to items recognised in other comprehensive income and directly in equity are similarly recognised in other comprehensive income and directly in equity respectively, except for the tax consequences of distributions from certain equity instruments, to be recognised in the income statement. Deferred tax related to any fair value re-measurement of investments held at fair value through other comprehensive income, owner-occupied properties, pensions and other post-retirement obligations and other amounts charged or credited directly to other comprehensive income is recognised in the statement of financial position as a deferred tax asset or liability.

(M) Borrowings

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

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

All borrowing costs are expensed as they are incurred.

(N) Share capital

Equity instruments

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

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

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

Income statement

For the year ended 31 December 2021

	Notes	2021 £'000	2020 £'000 Restated
Income			
Interest and similar income	D & 1	**1,089**	1,887
Unrealised losses on financial instruments - net	F & 1	**(10,900)**	(2,984)
Amortisation of deferred income reserve[1]	K & 1	**700**	436
		(9,111)	(661)
Expenses			
Other operating expenses	2	**(564)**	(396)
		(564)	(396)
Loss before tax		**(9,675)**	(1,057)
Tax credit	L & 6	**9,707**	1,094
Profit for the year		**32**	37

1 Amortisation of deferred income reserve has been reclassified from expenses to income

The Company has no other comprehensive income (*2020: £nil*).

The accounting policies (identified alphabetically) on pages 11 to 13 and notes (identified numerically) on pages 18 to 29 are an integral part of the financial statements.

Statement of financial position

As at 31 December 2021

	Notes	2021	2020
		£'000	£'000
Assets			
Loans	G & 8	**8,714,344**	8,501,454
Deferred tax assets	L & 12	**32,785**	7,078
Receivables	I & 9	**39,896**	6,142
Cash and cash equivalents	J & 16	**307,773**	921,018
Total assets		**9,094,798**	9,435,692
Equity			
Ordinary share capital	N & 10	—	—
Retained earnings	11	**178**	146
Total equity		**178**	146
Liabilities			
Deferred income reserve	K & 13	**131,141**	37,255
Borrowings	M & 14	**8,947,427**	9,397,433
Current tax liabilities	L & 12	**16,000**	—
Payables and other financial liabilities	I & 15	**52**	858
Total liabilities		**9,094,620**	9,435,546
Total equity and liabilities		**9,094,798**	9,435,692

The accounting policies (identified alphabetically) on pages 11 to 13 and notes (identified numerically) on pages 18 to 29 are an integral part of the financial statements.

The financial statements were approved by the Board of Directors on 21 July 2022 and signed on its behalf by:

Richard Priestley

R J Priestley

Director

Statement of changes in equity

For the year ended 31 December 2021

				2021
	Notes	Ordinary share capital	Retained earnings	Total equity
		£'000	£'000	£'000
Balance at 1 January		**—**	**146**	**146**
Profit for the year and total comprehensive income	11	—	32	32
Balance at 31 December		**—**	**178**	**178**

				2020
	Notes	Ordinary share capital	Retained earnings	Total equity
		£'000	£'000	£'000
Balance at 1 January		—	109	109
Profit for the year and total comprehensive income	11	—	37	37
Balance at 31 December		—	146	146

The accounting policies (identified alphabetically) on pages 11 to 13 and notes (identified numerically) on pages 18 to 29 are an integral part of the financial statements.

Statement of cash flows

For the year ended 31 December 2021

	Note	2021 £'000	2020 £'000
Cash flows from operating activities			
Cash generated from operating activities	16	**642,355**	423,880
Tax paid		—	—
Net cash generated from operating activities		**642,355**	423,880
Cash flows from financing activities			
Repayment of borrowings	14	**(1,255,600)**	(11,900)
Net cash used in financing activities		**(1,255,600)**	(11,900)
Net (decrease) / increase in cash and cash equivalents		**(613,245)**	411,980
Cash and cash equivalents at 1 January		**921,018**	509,038
Cash and cash equivalents at 31 December	16	**307,773**	921,018

The accounting policies (identified alphabetically) on pages 11 to 13 and notes (identified numerically) on pages 18 to 29 are an integral part of the financial statements.

Notes to the financial statements

1. Income

	2021 £'000	2020 £'000 Restated
Interest and similar income		
Bank deposits	**1,089**	1,887
Financial instruments		
Unrealised gains on deemed loans	**290,234**	571,965
Unrealised losses on borrowings	**(301,134)**	(574,949)
	(10,900)	(2,984)
Other operating income		
Gains on securitisation of mortgages	**94,586**	2,490
Cost of establishing deferred income reserve	**(94,586)**	(2,490)
	—	—
Amortisation of deferred income reserve	**700**	436
Total income	**(9,111)**	(661)

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

For improved clarity, amortisation of deferred income reserve of £700 thousand (*2020: £436 thousand*) has been reclassified from Expenses to Income.

2. Other operating expenses

	2021 £'000	2020 Restated £'000
Audit fees	**(10)**	(10)
Intercompany expenses	**(554)**	(386)
	(564)	(396)

For improved clarity, amortisation of deferred income reserve of £700 thousand (*2020: £436 thousand*) has been reclassified from Expenses to Income.

3. Employee information

The Company has no employees *(2020: nil)*. All employees are employed by a fellow subsidiary undertaking of Aviva plc, Aviva Employment Services Limited. Disclosures relating to employee remuneration and the average number of persons employed are made in the financial statements of Aviva Employment Services Limited]. The Company is recharged with the costs of the staff provided by Aviva Employment Services Limited.

4. Directors' remuneration

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

Notes to the financial statements (continued)

5. Auditors' remuneration

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

	2021 £'000	2020 £'000
Fees payable to PwC for the statutory audit of the Company's financial statements	**10**	10

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

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

6. Tax

(a) Tax credited to the income statement

The total tax credit comprises:

	2021 £'000	2020 £'000
Current tax		
For this year	**16,000**	—
Total current tax	**16,000**	—
Deferred tax		
Origination and reversal of temporary differences	**(17,838)**	(390)
Changes in tax rates or tax laws	**(7,869)**	(704)
Total deferred tax	**(25,707)**	(1,094)
Total tax credited to the income statement	**(9,707)**	(1,094)

(b) Tax reconciliation

The tax on the Company's loss before tax differs from the theoretical amount that would arise using the tax rate of the United Kingdom as follows:

	2021 £'000	2020 £'000
Loss before tax	**(9,675)**	(1,057)
Tax calculated at standard UK corporation tax rate of 19% (2020: 19%)	**(1,838)**	(201)
Change in future statutory tax rate	**(7,869)**	(704)
Surrender of losses from group undertakings for no charge	—	(189)
Total tax credited to the income statement	**(9,707)**	(1,094)

During 2021, the UK Government enacted an increase in the UK corporation tax rate to 25% from 1 April 2023. This revised rate has been used in the calculation of the Company's deferred tax assets and liabilities as at 31 December 2021 and increased the Company's deferred tax asset by £7.9 million.

During 2020, the reduction in the UK corporation tax rate that was due to take effect was cancelled, and as a result, the rate remained at 19%. This rate was used in the calculation of the Company's deferred tax assets and liabilities as at 31 December 2020 and increased the Company's deferred tax asset by £704 thousand.

7. Fair value methodology

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

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

Notes to the financial statements (continued)

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

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

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

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

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

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

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

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

Changes to valuation techniques:

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

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

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

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

(b) Fair value hierarchy analysis

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

		2021		2020
	Level 3	Total fair value	Level 3	Total fair value
	£'000	£'000	£'000	£'000
Financial assets				
Loans	**8,714,344**	**8,714,344**	8,501,454	8,501,454
Financial liabilities				
Borrowings	**(8,947,427)**	**(8,947,427)**	(9,397,433)	(9,397,433)
Total	**(233,083)**	**(233,083)**	(895,979)	(895,979)

(c) Transfers between levels of the fair value hierarchy

There were no transfers during 2021 *(2020: £nil)*. For financial instruments that are recognised at fair value on a recurring basis, the Company determines whether transfers have occurred between levels of the fair value hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of the reporting year.

(d) Further information on Level 3 financial instruments

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

Notes to the financial statements (continued)

	2021 Loans £'000	2021 Borrowings £'000	2020 Loans £'000	2020 Borrowings £'000
Balance at 1 January	**8,501,454**	**(9,397,433)**	7,693,357	(8,177,529)
Additions	**599,046**	**(504,460)**	659,346	(656,855)
Cash (receipts) / repayments	**(676,390)**	**1,255,600**	(423,214)	11,900
Gains / (losses) recognised in the year	**290,234**	**(301,134)**	571,965	(574,949)
Balance at 31 December	**8,714,344**	**(8,947,427)**	8,501,454	(9,397,433)

The net result recognised in the income statement during the year for Level 3 assets and liabilities was a loss of £10,900 thousand *(2020: loss of £2,984 thousand)*.

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

- Deemed loans linked to Lifetime mortgages loans amounting to £8,714 million *(2020: £8,501 million)* valued using a discounted cash flow model. Cash flows are adjusted for credit risk and discounted using a yield curve and assumptions for the liquidity premium. The model derives a best estimate view on property growth and explicitly calculates the additional return that would be demanded by investors due to uncertainties in the asset cash flows. The assets and liabilities have been classified as Level 3 as assumptions used to derive the property growth rates, mortality and morbidity assumptions, cost of capital, liquidity premium and credit risk are not deemed to be market observable. The primary inputs to the model are:
  - A liquidity premium added to the risk-free discount rate to reflect the illiquidity of the equity release mortgage portfolio. The liquidity premium is 180bps *(2020: 190bps)*.
  - Property growth rates which are based on real world assumptions of the house price growth rate and which average RPI + 0.75% *(2020: RPI + 0.75%)*. These equate to a long-term growth rate of 4.4% pa *(2020: 4.0%)*. In addition, as the mortgages have a no negative equity guarantee ('NNEG') such that the cost of any potential shortfall between the value of the loan and the realised value of the property, at the end of the term, is recognised by a deduction to the value of the loan, the model also makes allowances for a cost of capital charge to reflect the variability in future cash flows and a dilapidation charge to reflect potential index under performance of properties backing equity release mortgages when compared to the wider property market. After inclusion of these allowances, the net long-term growth rate equates to 0.6% pa *(2020: 0.6% pa)*.
- Securitised mortgage loan notes amounting to £8,947 million *(2020: £9,397 million)*, valued using an 'equation of value' approach in which the total value of loan notes has been set equal to the total value of the non-restructured mortgage assets less frictional costs of restructuring plus any additional assets held in the Company.

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

	2021 Fair value £m	Most significant unobservable inputs	Change in fair value: Positive impact £m	Change in fair value: Negative impact £m
Deemed loans	**8,714**	Liquidity premium - 50bps	**488**	**(452)**
		House price valuation - 10%	**180**	**(225)**
		Base property growth rate - 10%	**144**	**(152)**
Securitised mortgage loan notes	**(8,947)**	Liquidity premium - 50bps	**444**	**(480)**

	2020 Fair value £m	Most significant unobservable inputs	Change in fair value: Positive impact £m	Change in fair value: Negative impact £m
Deemed loans	8,501	Liquidity premium - 50bps	520	(478)
		House price valuation - 10%	236	(283)
		Base property growth rate - 10%	136	(154)
Securitised mortgage loan notes	(9,397)	Liquidity premium - 50bps	473	(515)

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

Notes to the financial statements (continued)

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

8. Loans

(a) Carrying amounts

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

	2021 £'000	2020 £'000
Mandatorily held at FVTPL:		
Deemed loans - parent undertaking	**8,714,344**	8,501,454

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

Of the above total, £8,337 million *(2020: £8,150 million)* is expected to be recovered more than one year after the statement of financial position date. This is because the loan is linked to lifetime mortgages, which by their nature do not have any contractual maturity and significant levels of early redemption are not anticipated.

There was no change *(2020: £nil)* in fair value of underlying mortgage loans during the year attributable to a change in credit risk. The cumulative change attributable to changes in credit risk to 31 December 2021 was £nil *(2020: £nil)*. The amount has been determined as the amount that is not attributable to changes in market conditions that give rise to market risk. Further details of the fair value methodology are given in note 7.

(b) Collateral

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

9. Receivables

	2021 £'000	2020 £'000
Held at amortised cost:		
Amounts due from fellow group undertaking	**1,934**	1,448
Amounts due from immediate parent undertaking	**33,814**	4,595
Other receivables	**4,148**	99
Total as at 31 December	**39,896**	6,142
Expected to be recovered in less than one year	**39,896**	6,142
Expected to be recovered in more than one year	**—**	—
	39,896	6,142

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

10. Ordinary share capital

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

	2021 £	2020 £
Allotted, called up and fully paid		
1 (2020: 1) ordinary shares of £1 each	**1**	1

Notes to the financial statements (continued)

11. Retained earnings

	2021 £'000	2020 £'000
Balance at 1 January	**146**	109
Profit for the year	**32**	37
Balance at 31 December	**178**	146

12. Tax assets and liabilities

(a) Current tax

Current tax liabilities payable in more than one year are £16 million *(2020: £nil)*.

(b) Deferred tax

(i) The balance at 31 December comprises:

	2021 £'000	2020 £'000
Provisions and other temporary differences	**32,785**	7,078
Net deferred tax assets	**32,785**	7,078

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

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

	2021 £'000	2020 £'000
Net deferred tax assets 1 January	**7,078**	5,984
Amounts credited to income statement	**25,707**	1,094
Net deferred tax assets 31 December	**32,785**	7,078

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

13. Deferred income reserve

	2021 £'000	2020 £'000
Balance at 1 January	**37,255**	35,201
Increase in reserve	**94,586**	2,490
Amortisation	**(700)**	(436)
Balance at 31 December	**131,141**	37,255
Expected to be released in less than one year	**4,250**	450
Expected to be released in more than one year	**126,891**	36,805
	131,141	37,255

The increase in reserve in 2021 to £94,586 thousand represents an allowance for future expenses of the liquidity facility entered into in November 2021. For further details see note 18(d).

14. Borrowings

(a) Carrying amount

	2021 £'000	2020 £'000
Designated at FVTPL		
Securitised mortgage loan notes		
Fixed rate loan notes	**8,859,256**	9,350,029
Variable rate loan notes	**88,171**	47,404
	8,947,427	9,397,433
Expected to be settled in less than one year	**452,868**	185,230
Expected to be settled in more than one year	**8,494,559**	9,212,203
	8,947,427	9,397,433

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

There was no change *(2020: £nil)* in fair value of loan notes during the year attributable to a change in credit risk. The cumulative change attributable to changes in credit risk to 31 December 2021 was £nil *(2020: £nil)*. The amount has been determined as the amount that is not attributable to changes in market conditions that give rise to market risk. The above liabilities stated at fair value have been calculated in a consistent manner with the assets stated at fair value. Further details of the fair value methodology are included in note 7.

The contractual undiscounted cash flows in relation to the maturity of the fixed loan notes is shown in note 18. The variable loan notes mature between June 2036 and June 2066 but the amount is not guaranteed.

(b) Loan notes - description and features

On 1 January 2016, the Company issued £4,101 million of mortgage backed fixed rate loan notes and £53 million of variable rate loan notes to UKA. On 1 October 2016, a second tranche of £430 million of mortgage backed fixed rate loan notes and £3 million of variable rate loan notes were issued to UKA. On 30 September 2017, a third tranche of £728 million of mortgage backed fixed rate loan notes and £6 million of variable rate loan notes were issued to UKLAP. On 30 September 2018, a fourth tranche of £741 million of mortgage backed fixed rate loan notes and £6 million of variable rate loan notes were issued to UKLAP. On 30 September 2019, a fifth tranche of £828 million of mortgage backed fixed rate loan notes and £4 million of variable rate loan notes were issued to UKLAP. All loan notes were issued as part of securitisation arrangements involving the purchase of lifetime mortgages from the immediate parent undertaking. The fixed rate loan notes were issued at a discount to the eventual redemption proceeds, with a fixed return built into the redemption proceeds.

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

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

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

Following the restructure, the fixed rate loan notes will be redeemed in pre-defined amounts on an annual basis according to a redemption schedule, commencing on 30 June 2022 and ending on the final maturity date in 2066. The payments on the variable rate loan note are determined by reference to the distribution accounts of the relevant tranche. The prioritisation of payments is ranked by reference to a payment waterfall, with any payments due on the variable rate loan note ranking after the fixed rate loan notes. The variable rate loan notes will be redeemed after the fixed rate loan notes have been fully redeemed in 2066

All loan notes issued by the company are unrated.

Notes to the financial statements (continued)

15. Payables and other financial liabilities

	2021 £'000	2020 £'000
Held at amortised cost:		
Other financial liabilities	**52**	858
Total as at 31 December	**52**	858
Expected to be settled within one year	**52**	858
Expected to be settled in more than one year	—	—
	52	858

16. Statement of cash flows disclosures

(a) The reconciliation of Loss before tax to the net cash in flow from operating activities is:

	2021 £'000	2020 £'000
Loss before tax	**(9,675)**	(1,057)
Adjustments for:		
Amortisation of deferred income	**(700)**	(436)
Fair value (gains)/losses on:		
Mortgages	**(290,234)**	(571,965)
Loan notes	**301,134**	574,949
Changes in working capital:		
Increase in Receivables	**(33,754)**	(559)
Decrease in payable and other financial liabilities	**(806)**	(265)
Proceeds from redemption of mortgages	**676,390**	423,213
Total cash generated from operating activities	**642,355**	423,880

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

	2021 £'000	2020 £'000
Cash at bank	**(227)**	7,118
Cash investment fund	**308,000**	913,900
Cash at bank and in hand	**307,773**	921,018

Notes to the financial statements (continued)

17. Capital structure

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

(a) General

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

(b) Capital Management

In managing its capital, the Company seeks to:

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

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

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

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

(c) Different measures of capital

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

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

The Company manages shareholders' equity of £178 thousand *(2020: £146 thousand)* as capital.

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

18. Risk management

(a) Risk management framework

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

The RMF has been adopted by the boards of the legal entities within the business collectively referred to as "UK Life" (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 UK Life 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 UK Life Chief Risk Officer. Any material weaknesses in subsidiary companies are considered as part of this overall process.

The UK Life Risk Appetite Framework was refreshed during the year, with revised and new risk appetites, preferences and tolerances considered and approved by the Board Risk Committee. Climate Risk was integrated and defined within the risk appetite framework to be incorporated into 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 relevant risk committees.

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

(b) Market risk

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

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

Notes to the financial statements (continued)

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

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

(i) Property price risk

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

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

2021 - LTV

<70%	**70-80%**	**80-90%**	**90-95%**	**95-100%**	**>100%**	**Total**
£'m	**£'m**	**£'m**	**£'m**	**£'m**	**£'m**	**£'m**
8,586.2	89.7	28.5	3.0	2.5	4.4	**8,714.3**

2020 - LTV

<70%	70-80%	80-90%	90-95%	95-100%	>100%	Total
£'m	£'m	£'m	£'m	£'m	£'m	£'m
8,361.5	95.5	33.5	3.1	3.2	4.7	8,501.5

(ii) Interest rate risk

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

(iii) Prepayment risk

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

(c) Credit risk

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

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

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

Concentrations of credit risk

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

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

Notes to the financial statements (continued)

	Carry value in the statement of financial position	Collateral held	Net credit exposure
			2021
	£'000	£'000	£'000
Loans	8,714,344	8,713,546	798

	Carry value in the statement of financial position	Collateral held	Net credit exposure
			2020
	£'000	£'000	£'000
Loans	8,501,454	8,500,656	798

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

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

(d) Liquidity risk

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

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

In addition to this, following the loan restructure in November 2021, the Company had an undrawn liquidity facility of £491 million (2020: £Nil), which has been sized to cover potential shortfalls between mortgage cash flows and fixed rate loan coupon payments.

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

	Within 1 year	1-5 years	Over 5 years	No contractual maturity
				2021
	£'000	£'000	£'000	£'000
Liabilities				
Borrowings - fixed notes	**452,868**	**1,706,257**	**10,495,950**	—
Deferred income reserve	**4,250**	**22,605**	**104,286**	—
Payables and other financial liabilities	**52**	—	—	—

	Within 1 year	1-5 years	Over 5 years	No contractual maturity
				2020
	£'000	£'000	£'000	£'000
Liabilities				
Borrowings - fixed notes	185,230	1,267,700	12,779,235	—
Deferred income reserve	450	1,898	34,907	—
Payables and other financial liabilities	858	—	—	—

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

(e) Conflict in Ukraine

As a result of the escalation in the conflict on 24 February 2022, UK Life's crisis management framework was invoked with meetings of the Crisis Action Leadership Team in order to assess the business response, provide strategic direction and manage communications. The Company does not conduct operations in the affected region, and does not have material direct investment holdings there.

Notes to the financial statements (continued)

19. Related party transactions

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

All the loan notes issued by the Company are solely held by the immediate parent undertaking. Interest settled during the year in respect of these loan notes *amounted to £nil (2020: nil).*

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

(a) Expenses payable to related parties

	2021	2020
	Expenses incurred in year	Expenses incurred in year
	£'000	£'000
Cash handling and portfolio administration fee	**(554)**	(386)

(b) Payable at year end

	2021	2020
	£'000	£'000
Parent undertaking	**8,947,428**	9,397,433
	8,947,428	9,397,433

(c) Receivable at year end

	2021	2020
	£'000	£'000
Parent undertaking	**8,748,158**	8,506,049
Other related parties	**1,934**	1,448
	8,750,092	8,507,497

(d) Key management compensation

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

Details of directors' emoluments are given in note 4.

(e) Parent entity

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

(f) Ultimate controlling entity

The ultimate controlling entity, and parent of the largest and smallest groups which consolidate the results of the Company, is Aviva plc. Its Group Financial Statements are available on application to the Group Company Secretary, Aviva plc, St Helen's, 1 Undershaft, London EC3P 3DQ, and on the Aviva plc website at www.aviva.com.

20. Subsequent events

On 1 April 2022 a further tranche of lifetime mortgages written by UKLAP between July 2021 and December 2021 were securitised. The incremental impact on the mortgage backed loan notes was an increase of £325m. Further detail on the loan note structure and redemption is in note 14.