Company registration number 06654618 (England and Wales)

AVIVA INVESTORS GR SPV3 LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

AVIVA INVESTORS GR SPV3 LIMITED

CONTENTS

AVIVA INVESTORS GR SPV3 LIMITED

DIRECTORS, OFFICERS AND OTHER INFORMATION

Directors	Mr M Monkhouse Mr A M Coles Mr B Littman
Secretary	Innovus Company Secretaries Limited
Company number	06654618
Registered office	Queensway House 11 Queensway New Milton Hampshire United Kingdom BH25 5NR
Independent Auditors	PricewaterhouseCoopers LLP 7 More London Riverside London SE1 2RT
Bankers	Royal Bank of Scotland 8th Floor, 1 Hardman Boulevard Manchester EC3P 3DQ
Fund Manager	Aviva Investors UK Fund Services Limited 80 Fenchurch Street London EC3M 4AE

AVIVA INVESTORS GR SPV3 LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2022

The directors present their annual report and audited financial statements for the year ended 31 December 2022.

Principal activities and review of business
The principal activity of the Company is that of investment in ground rent properties. There have been no significant additions or disposals in the year.

Directors
The directors who held office during the year and up to the date of signature of the financial statements were as follows:

Mr M Monkhouse
Mr A M Coles
Mr M Borello (Resigned 6 March 2023)
Mr B Littman (Appointed 6 March 2023)

Qualifying third party indemnity provisions
The directors have the benefit of an 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 in section 234 of the Companies Act 2006.

Aviva plc 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 1st October 2007). The indemnity is a 'qualifying third party indemnity' for the purposes of sections 309A to 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.

Principal risks and uncertainties
The key risks arising in the Company are liquidity, interest rate, operational, credit, market and Ukraine Russia conflict risks which are discussed in more detail below.

Risk management policies

Approach to risk and capital management

The Company operates within the governance structure and priority framework of the Aviva Group ('Aviva plc').

Management of financial and non-financial risks

The Company's exposure to different types of risk is limited by the nature of its business as follows:

(i) Liquidity risk

Liquidity risk arises as a result of property assets being inherently illiquid. Liquidity risk is managed by ensuring that there is always sufficient headroom available to meet the working capital requirements of the business. A liquidity risk table has been set out below.

Liquidity risk

The maturity analysis of Aviva Investors GR SPV 3 Limited assets and liabilities as at 31 December 2022 was as follows:

	On demand	1-3 months	4-12 months	More than 12 months	Total
	£	£	£	£	£
Assets					
Trade debtors	178,552	-	-	-	178,552
Other debtors	6,586	-	-	-	6,586
	185,138	-	-	-	**185,138**
Liabilities					
Amounts due to fellow group undertakings	123,090				123,090
Other creditors	142,243	-	-	-	142,243
Accruals and deferred income	103,508	-	-	-	103,508
Amounts owed to parent undertaking	2,988,778	-	-	-	2,988,778
	3,357,619	-	-	-	**3,357,619**

Liquidity risk

The maturity analysis of Aviva Investors GR SPV 3 Limited assets and liabilities as at 31 December 2021 was as follows:

	On demand	1-3 months	4-12 months	More than 12 months	Total
	£	£	£	£	£
Assets					
Trade debtors	45,072	-	-	-	45,072
Other debtors	69,947	-	-	-	69,947
Prepayments and accrued income	4,687	-	-	-	4,687
	119,706	-	-	-	**119,706**
Liabilities					
Amounts due to fellow group undertakings	201,367				201,367
Other creditors	19,431	-	-	-	19,431
Accruals and deferred income	123,625	-	-	-	123,625
Amounts owed to parent undertaking	2,988,778	-	-	-	2,988,778
	3,333,201	-	-	-	**3,333,201**

(ii) Interest rate risk

Interest rate risk arises as a result of the Company borrowing from its parent undertaking. Interest rate risk is managed by the Company borrowing at a fixed rate of interest.

AVIVA INVESTORS GR SPV3 LIMITED

DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2022

(iii) Operational risk
Operational risk arises as a result of inadequate or failed internal processes, people or systems; or from external events. The Operational risk for the Company is managed by Aviva Investors UK Fund Services Limited (a subsidiary of Aviva plc), which manages and administers the Partnership's investments in the Company. Details of the Aviva Group approach to operational risk are set out in the financial statements of Aviva Investors UK Fund Services Limited.

(iv) Credit risk
The Company does not have a significant exposure to credit risk as receivables are mainly short-term trading items and related party receivables. The Company's investments are managed by agents who have responsibility for the prompt collection of amounts due.

(v) Market risk
The Company's exposure to market risk is reflected in property valuations, which in turn has a direct impact on the value of investments. Market risk is managed by ongoing proactive portfolio and asset management. The property valuations reflect the external valuer's assessment at the valuation date. Management have provided for certain judgements in considering any future uncertainty in the real estate market and as such a range of valuation sensitivities have been provided for under the Investment Properties Note 9.

Government policy reforms and associated legislation impacting the ground rent sector continue to evolve through the year. The Building Safety Act 2022 and its secondary legislation continues to be laid and come into legal force post the end of the financial year.

In February 2022 Parliament enacted the Leasehold Reform (Ground Rent) Act 2022, which introduced a number of key amendments to existing leasehold legislation. Towards the end of the year, the Department of Levelling Up, Housing and Communities provided further updates on its intention to push forward with new legislation within the current Parliament and post year end published a open consultation seeking views on its proposal to cap ground rents for existing residential leaseholds in England and Wales. Government's stated intention is to introduce a cap on ground rents in existing leases through the Leasehold and Freehold Reform Bill.

This continued uncertainty has resulted in a number of sector investors adopting a "wait and see" approach until such time as this matter has been clarified. Ground rent sector valuers have also introduced a risk adjusted valuation to freehold investment values where passing ground rents are in excess of the proposed guidelines outlined.

(vi) Covid-19, Ukraine/Russia and inflationary pressures
Whilst the Covid-19 pandemic continued to impact on certain parts of the global economy during 2022, restrictions are now lifted in all major economies. There was no material Covid-19 related impact on the company during 2022 or 2023.

The ongoing conflict between Ukraine and Russia, which commenced in February 2022, together with the economic sanctions placed on Russia has had a material impact to many economies with elevated level of inflation leading to central banks swiftly increasing interest rates. Whilst this is expected to moderate in 2024, there is some uncertainty around this, due to the continued high levels of core inflation within western economies. The directors continue to closely monitor the associated geo-political risks in relation to inflation, rising interest rates, volatile markets and any potential adverse impact on the company and its investment. However, as at the date of approval of these financial statements, based on its assessment of the current situation and information available, the directors do not envisage that this will have a material impact on the company.

Employees
The Company has no employees (2021: none).

AVIVA INVESTORS GR SPV3 LIMITED

DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2022

Future developments
The directors have reviewed the activities of the business for the year and the position as at 31 December 2022.

Regulatory Updates

Building Safety Act secondary legislation and regulations continue to be laid in 2023. The Company continues to assess the impact on its portfolio and implement these as they are laid and passed into law.

Building Safety Act 2022

The Building Safety Act 2022 and its secondary legislation that continues to be laid and come into legal force post the end of the financial year ("the Act") imposes new legal obligations on building owners, including the Company to protect leaseholders from paying for all, or some of, the costs of remediating relevant historical building safety defects.

The Company now has an obligation to pay the costs associated with the remediation of building safety defects, under a range of circumstances, where remediation funding is not available from building developers or related parties, where government funding is not available, or where leaseholders don't qualify for remediation costs protection. On 25 March 2022, as a consequence of these legal obligations, the independent third party appointed to provide valuation advice in respect of the assets owned by the Company, declared a material valuation uncertainty over certain residential ground rent buildings in the Company's portfolio impacted or potentially impacted by building safety issues that require remediation, whilst the Company's liabilities for remediation costs under the Act are quantified.

The valuation of these buildings is reported as being subject to 'Material Valuation Uncertainty', as set out in VPS 3 and VPGA 10 of the RICS Valuation – Global Standards. Consequently, less certainty – and a higher degree of caution is attached to the valuation of these buildings than would normally be the case. This material valuation uncertainty status will remain in force until such time as any remediation liabilities that fall on the Company to pay across these buildings with safety defects are quantified. In order to protect the interests of the Company and all its investors, the Company's ultimate parent implemented a suspension of redemptions in Q2 2022 and remains suspended to current date.

Determining and quantifying the Company's remediation liabilities under the Building Safety Act remains complex with incomplete information on the final scope and cost of required remediation work for most impacted buildings at the period end. The Company is progressing PAS 9980 assessments (appraisal of external wall construction and cladding in existing multi-occupied-residential buildings) and remediation works requirements alongside developers of the buildings identified as having safety issues that it directly controls.

Once the scope of any remediation work for impacted buildings has been confirmed by fire engineers, the Company will need to assess and agree the extent of available remediation funding from a range of different stakeholders including building developers (under Government's developer remediation contract), Government Building Safety funding schemes, building insurance schemes and leaseholders (that don't qualify for remediation costs protections under the Building Safety Act). Funding from these sources needs agreeing for the Company to determine and calculate any residual liability for remediation that will fall on it to pay (see note 15).

Leasehold Reform (Ground Rent) Act 2022

In February 2022 Parliament enacted the Leasehold Reform (Ground Rent) Act 2022, which introduced a number of key amendments to existing leasehold legislation. The leading amendments included the abolition of new leasehold houses (other than for exceptional circumstances) alongside all remaining new leases having ground rents set at a peppercorn.

Governments next stage of reform is to focus on the enfranchisement process alongside the introduction of a revised Commonhold structure, providing a new ownership solution to multi-unit developments which share common services and facilities. However, despite a proactive start to the year, progress on this next stage slowed, in part as both the Ukraine conflict and Building Safety took more of the Department for Levelling Up, Housing and Communities ("DLUHC") time and resource.

Towards the end of the year, DLUHC provided further updates on its intention to push forward with new legislation within the current Parliament, however, no detail was provided on its proposals for calculating enfranchisement premiums. Importantly, whilst they intend to create an "on line" calculator to provide leaseholders with instant quotes, they have provided no further information as to how the capitalisation rate will be derived. This continued uncertainty has resulted in a number of sector investors adopting a "wait and see" approach until such time as this matter has been clarified. Ground rent sector valuers have also introduced a risk adjusted valuation to freehold investment values where passing ground rents are in excess of the proposed guidelines outlined (see note 9).

Investment Property Valuation

The Building Safety Act 2022 and its secondary legislation that continues to be laid and come into legal force post the end of the financial year ("the Act") imposes new legal obligations on building owners, including the Company to protect leaseholders from paying for all, or some of, the costs of remediating relevant historical building safety defects.

The Company now has an obligation to pay the costs associated with the remediation of building safety defects, under a range of circumstances, where remediation funding is not available from building developers and associated parties, Government funding or leaseholders that don't qualify for remediation costs protection. On 25 March 2022, as a consequence of these legal obligations, the independent third party appointed to provide valuation advice in respect of the assets owned by the Company, declared material valuation uncertainty over certain residential ground rent buildings in the Company's portfolio impacted or potentially impacted by building safety issues that require remediation whilst the Company's liabilities for remediation costs under the Act are quantified.

The valuation of these buildings is reported as being subject to 'Material Valuation Uncertainty', as set out in VPS 3 and VPGA 10 of the RICS Valuation – Global Standards. Consequently, less certainty – and a higher degree of caution is attached to the valuation of these buildings than would normally be the case. This material valuation uncertainty status will remain in force until such time as any remediation liabilities that fall on the Company to pay across these buildings with safety defects are quantified. In order to protect the interests of the Company and all its investors, the Company's ultimate parent implemented a suspension of redemptions in Q2 2022 and remains suspended to current date.

Post balance sheet events

Government leasehold reform consultation – "modern leasehold: restricting ground rent for existing leases"

On 9 November 2023, the Department for Levelling Up, Housing & Communities ("DLUHC") published a public consultation seeking views on its proposal to cap ground rents for existing residential leaseholds in England and Wales. The Government's stated intention is, subject to this consultation, to introduce a cap on ground rents in existing leases through the Leasehold and Freehold Reform Bill that was announced in the King's Speech on 7 November 2023. The Company submitted its response to the consultation in advance of the 17 January 2024 deadline and awaits the Government's response. The Company has commenced work to assess the impact of these options.

Implications of consultation on residential ground rent asset valuations

Following guidance from the Royal Institution of Chartered Surveyors (RICS), the independent valuer of the Company's portfolio has confirmed it intends to apply a Material Valuation Uncertainty clause to the Company's residential ground rent assets at the time of its next valuation as at 31 December 2023. Consequently, less certainty – and a higher degree of caution is attached to the valuation of these buildings than would normally be the case.

Events after the reporting period have been evaluated up to the date the audited financial statements were approved and authorised for issue by the General Partner and there are no events to be disclosed or adjusted for in these audited financial statements, except those noted above.

Going concern

At the balance sheet date the company had net current liabilities of £3,172,481 (2021: £3,213,495). This is driven by the intercompany borrowings with the parent of £2,988,778 (2021: £2,988,778), accrued interest of £123,090 (2021: £201,367) and other creditor balances. The directors have received confirmation via a letter of support that Aviva Investors REaLM Ground Rent Limited Partnership intends to support the company to enable it to meet its obligations as they fall due and Aviva Investors Ground Rent Holdco Limited will not seek repayment of part or all of the amount loaned to this company, where to do so would place this company in an insolvent position.

The Directors have reviewed the current and projected financial position of the Company, making reasonable assumptions about future trading performance. After making enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future and on this basis the Directors have adopted the going concern in preparing the financial statements.

Independent Auditors

PricewaterhouseCoopers LLP ("PwC") have indicated their willingness to continue in office and a resolution to consider their appointment will be proposed at the board meeting of the General Partner.

Statement as to disclosure of information to auditors

Each person who was a director of the Company on the date that this report was approved, confirms that:

(a). so far as the director is aware, there is no relevant audit information, being information needed by the auditors in connection with preparing their report, of this the auditors unaware; and
(b). each director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

AVIVA INVESTORS GR SPV3 LIMITED

DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2022

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 United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law).

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 United Kingdom Accounting Standards, comprising FRS102, 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.

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.

This report has been prepared in accordance with the provisions applicable to companies entitled to the small companies exemption in section 415A of the Companies Act 2006. A strategic report has not been included in these audited financial statements as the Company qualifies for exemption as a small entity under Section 414B of the Companies Act 2006 relating to small entities.

On behalf of the board

DocuSigned by:
Ben Littman
85515AD1965E440
Mr B Littman
Director

Date: 10 April 2024

Independent auditors' report to the members of Aviva Investors GR SPV3 Limited

Report on the audit of the financial statements

Disclaimer of opinion

Because of the significance of the matter described in the Basis for disclaimer of opinion paragraph below, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly we do not express an opinion on Aviva Investors GR SPV3 Limited's financial statements (the "financial statements").

We were engaged to audit 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 2022; the Statement of Comprehensive Income and the Statement of Changes in Equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies. The financial reporting framework that has been applied in their preparation is United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law).

Basis for disclaimer of opinion

During the course of our audit, we identified a pervasive limitation of scope in relation to the valuation of investment properties. As disclosed in note 9 to the financial statements, a material proportion of the investment property portfolio (£4,261,338) is subject to a material valuation uncertainty clause from the valuer who has independently valued the Company's property portfolio. The valuer has applied fire safety discounts of £1,232,885 to this proportion of the residential portfolio. We have been unable to obtain sufficient appropriate audit evidence to support these discounts. The valuer has relied upon a risk matrix prepared by the managing agents in forming their judgement of the discount required for each property. In addition, given the commencement of the secondary legislation associated with the Building Safety Act 2022 ("BSA") into law and the new requirement to obtain fire safety assessments in line with Publicly Available Specification ("PAS") 9980 guidelines in the current year, management has been unable to quantify the building safety remediation liabilities associated with these properties and have not been able to conclude which party will be responsible to bear any associated liabilities. These are the two key assumptions within the risk matrix provided to the valuer that has been used when applying fire safety discounts to the portfolio. Consequently, we were unable to determine whether any adjustments were necessary to the Company's financial statements.

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 the Directors' Report

Notwithstanding our disclaimer of an opinion on the financial statements, based on the work undertaken in the course of the audit, the information given in the Directors' Report for the year ended 31 December 2022 is consistent with the financial statements.

Because of the significance of the matter described in the Basis for disclaimer of opinion paragraph above we have been unable to form an opinion whether, based on the work undertaken in the course of the audit, the information given in the Directors' Report for the year has been prepared in accordance with applicable legal requirements.

Notwithstanding our disclaimer of an opinion on the financial statements, in light of the knowledge and understanding of the company and its environment obtained in the course of the audit and performed subject to the pervasive limitation described above, we did not identify any material misstatements in the 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 responsibility is to conduct an audit of the financial statements in accordance with ISAs (UK) and to issue an auditors' report. However, because of the matters described in the Basis for disclaimer of opinion section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

Capability of the audit in detecting irregularities, including fraud

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 we considered the extent to which non-compliance might have a material effect on the financial statements. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to manipulation of financial data to present more favourable financial results and management bias in

London

11 April 2024

accounting estimates and judgemental areas of the financial statements such as valuation of investment property. Audit procedures performed by the engagement team included:

- Discussion with management, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Reviewing relevant Board meeting minutes;
- Identifying and testing journal entries, in particular any journal entries with unusual account combinations, entries posted containing unusual account descriptions, large entries and entries posted with unusual amounts;
- Designing audit procedures to incorporate unpredictability around the nature, timing or extent of our testing; and
- Challenging assumptions and judgements made by management in their significant accounting estimates, in particular in relation to the fair value of investment properties, and involving our valuations experts in the audit of this area.

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.

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

Arising from the limitation of our work referred to in the Basis for disclaimer of opinion paragraph above:

- we have not obtained all the information and explanations that we considered necessary for the purpose of our audit; and
- we were unable to determine whether adequate accounting records have been kept by the company.

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

- 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.

Entitlement to exemptions

Under the Companies Act 2006 we are required to report to you if, in our opinion, the directors were not entitled to: take advantage of the small companies exemption in preparing the Directors' Report; and take advantage of the small companies exemption from preparing a strategic report. We have no exceptions to report arising from this responsibility.

S. L. Cosgrove

Sally Cosgrove (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors

London

11 April 2024

AVIVA INVESTORS GR SPV3 LIMITED

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2022

	Note	2022 £	2021 £
Turnover		253,268	229,930
Administrative expenses		(32,926)	(129,780)
Changes in fair value of investment properties	5	(1,048,000)	(226,102)
Operating loss	6	(827,658)	(125,952)
Interest payable and similar expenses	7	(179,327)	(179,327)
Loss before taxation		(1,006,985)	(305,279)
Tax on loss	8	268,025	(88,376)
Loss for the financial year		(738,960)	(393,655)
Other comprehensive income		-	-
Total comprehensive expense for the year		(738,960)	(393,655)

Continuing Operations
All amounts reported in the Statement of Comprehensive Income for the year ended 31 December 2022 and 31 December 2021 relate to continuing operations.

The notes on pages 15 to 30 form part of these financial statements

AVIVA INVESTORS GR SPV3 LIMITED

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2022

	Note	2022 £	2022 £	2021 £	2021 £
Fixed assets					
Investment properties	9		5,125,000		6,173,000
Current assets					
Debtors	10	185,138		119,706	
Creditors: amounts falling due within one year					
Amounts owed to group undertaking	11	(2,988,778)		(2,988,778)	
Other creditors	12	(368,841)		(344,423)	
		(3,357,619)		(3,333,201)	
Net current liabilities			(3,172,481)		(3,213,495)
Total assets less current liabilities			1,952,519		2,959,505
Provisions for liabilities					
Taxation, including deferred taxation	13	(260,124)		(528,150)	
			(260,124)		(528,150)
Net assets			1,692,395		2,431,355
Capital and reserves					
Called up share capital	14		996,259		996,259
Retained earnings			696,136		1,435,096
Total shareholders' funds			1,692,395		2,431,355

The financial statements on pages 12 to 30 were approved by the Board of Directors on 10 April 2024 and signed on its behalf by:

DocuSigned by:
Ben Littman
85515AD1869E440...
Mr B Littman
Director

Company Registration No. 06654618

The notes on pages 15 to 30 form part of these financial statements

AVIVA INVESTORS GR SPV3 LIMITED

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2022

	Called up share capital	Retained earnings	Total shareholders' funds
	£	£	£
Balance as at 1 January 2021	996,259	1,828,751	2,825,010
Total loss and comprehensive expense for the financial year	-	(393,655)	(393,655)
Balance as at 31 December 2021	996,259	1,435,096	2,431,355
Balance as at 1 January 2022	996,259	1,435,096	2,431,355
Total loss and comprehensive expense for the financial year	-	(738,960)	(738,960)
Balance as at 31 December 2022	996,259	696,136	1,692,395

The notes on pages 15 to 30 form part of these financial statements

AVIVA INVESTORS GR SPV3 LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

1 Company information

Aviva Investors GR SPV3 Limited ("The Company") maintains a portfolio of investment in ground rent properties in the UK.

The company is a private company limited by shares and is incorporated and domiciled in England. The address of its registered office is Queensway House, 11 Queensway, New Milton, Hampshire, BH25 5NR.

2 Statement of compliance

The financial statements of the Company have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, The Financial Reporting Standards applicable in the United Kingdom and the Republic of Ireland ("FRS 102") and the Companies Act 2006.

3 Accounting policies

The principal accounting policies are summarised below. They have all been applied consistently throughout the year and the preceding year.

3.1 Basis of preparation

The financial statements have been prepared under the historical cost convention as modified by the revaluation of investment properties measured at fair value through profit and loss, in compliance with UK accounting standards including Financial Reporting Standard 102 ("FRS 102"), the Financial Reporting Standards applicable in the United Kingdom and Republic of Ireland, and the Companies Act 2006.

The financial statements are prepared in GBP sterling, which is the functional currency of the company. Monetary amounts in these financial statements are rounded to the nearest pound.

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. Changes in assumptions may have a significant impact on the financial statements in the period the assumptions changed. Management believes the underlying assumptions are appropriate. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 4.

3.2 Going concern basis

At the balance sheet date the company had net current liabilities of £3,172,481 (2021: £3,213,495). This is driven by the intercompany borrowings with the parent of £2,988,778 (2021: £2,988,778), accrued interest of £123,090 (2021: £201,367) and other creditor balances. The directors have received confirmation via a letter of support that Aviva Investors REaLM Ground Rent Limited Partnership intends to support the company to enable it to meet its obligations as they fall due and Aviva Investors Ground Rent Holdco Limited will not seek repayment of part or all of the amount loaned to this company, where to do so would place this company in an insolvent position.

The Directors have reviewed the current and projected financial position of the Company, making reasonable assumptions about future trading performance. After making enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future and on this basis the Directors have adopted the going concern in preparing the financial statements.

3 Accounting policies **(Continued)**

3.3 Turnover

Leases, where the lessor retains substantially all of the risks and rewards of ownership, are classified as operating leases. Receipts as lessors under operating leases (net of any incentives given to the lessee) are credited to the Statement of Comprehensive Income. If the impact of straight-lining is material the income is amortised over the lease term. Turnover represents amounts receivable from ground rents and other services, in all cases excluding value added tax, and all in the UK. Ground rent and other receivables are recognised on an accruals basis in the Statement of Comprehensive Income, over the period to which the income relates.

Income received in advance of the period is recognised as deferred income and is included in accruals and deferred income.

3.4 Investment properties

Properties that are held for long-term rental yields or for capital appreciation or both, and that are not occupied by the Group are classified as investment properties. Investment properties comprise freehold land and buildings, and long leasehold land and buildings.

Investment properties are initially recorded at cost, including related transaction costs. Transaction costs include property transfer taxes, professional fees and initial leasing commissions to bring the property to the condition necessary for it to operate in the manner intended by the Group. Subsequent expenditure on major renovation and development of investment properties is capitalised at cost. The cost of maintenance, repairs and minor improvement are expensed when incurred.

After initial recognition, investment properties are carried at fair value. Gains or losses arising from changes in the fair values are included in the Statement of Comprehensive Income in the year in which they arise under "Net change in fair value of investment properties".

Investment properties are derecognised when they have been disposed of or permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of investment properties are recognised in the Statement of Comprehensive Income in the year of retirement or disposal.

Gains or losses on the disposal of investment properties are determined as the difference between net disposal proceeds and the carrying value of the asset in the previous full period financial statements.

3.5 Loans and borrowings

Borrowings are recognised at the fair value of the consideration received net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised as a finance expense in the Statement of Comprehensive Income.

Borrowings are classified as current liabilities in the financial statements unless the Company has an unconditional right to defer the settlement of the liability for at least twelve months after the reporting date.

3 Accounting policies **(Continued)**

3.6 Financial instruments

The Company has chosen to adopt Sections 11 and 12 of FRS 102 in respect of financial instruments.

i. Financial assets

Financial assets are recognised when the Company becomes a party to the contractual provisions of the instrument.

Basic financial assets, including debtors, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest.

At the end of each reporting period financial assets measured at amortised cost are assessed for objective evidence of impairment. If an asset is impaired the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognised in the statement of comprehensive income.

If there is decrease in the impairment loss arising from an event occurring after the impairment was recognised, the impairment is reversed. The reversal is such that the current carrying amount does not exceed what the carrying amount have been had the impairment not previously been recognised. The impairment reversal is recognised in the statement of comprehensive income.

Other financial assets are initially measured at fair value, which is normally the transaction price. Such assets are subsequently carried at fair value and the changes in fair value are recognised in the statement of comprehensive income.

Financial assets that are classified as receivable within one year are measured at the undiscounted amount of the cash or other consideration expected to be received, net of impairment.

Financial assets are derecognised when (a) the contractual rights to the cash flows from the asset expire or are settled, or (b) substantially all the risks and rewards of the ownership of the asset are transferred to another party or (c) despite having retained some significant risks and rewards of ownership, control of the asset has been transferred to another party who has the practical ability to unilaterally sell the asset to an unrelated third party without imposing additional restrictions.

AVIVA INVESTORS GR SPV3 LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2022

3 Accounting policies **(Continued)**

3.6 Financial instruments (continued)

ii. Financial liabilities
Financial liabilities are recognised when the Company becomes a party to the contractual provisions of the instrument.

Basic financial liabilities are initially measured at transaction price (including transaction costs).

Debt instruments are subsequently carried at amortised cost, using the effective interest rate method.Debt instruments that are classified as payable within one year and which meet the above conditions are measured at the undiscounted amount of the cash or other consideration expected to be paid, net of impairment.

Other debt instruments not meeting these conditions are measured at amortised cost, using the effective interest rate method.

Financial liabilities are derecognised only when the obligation specified in the contract is discharged, is cancelled or expires.

iii. Offsetting
Financial assets and liabilities are offset and the net amounts presented in the financial statements when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

Financial instruments disclosure exemption
The Company has taken advantage of the exemption, under FRS 102, from disclosure of its financial instruments, on the basis that it is a qualifying entity and the Company's financial instruments are disclosed within the consolidated financial statements of its parent entity, Aviva Investors REaLM Ground Rent Limited Partnership.

3.7 Share capital
Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new ordinary shares or options are shown in equity as a deduction, net of tax, from the proceeds.

3 Accounting policies **(Continued)**

3.8 Taxation

Current tax

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date. Management periodically evaluates positions taken in tax returns with respect to situations in which the applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred tax

Deferred tax is provided in full, using the liability method on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax assets are recognised only to the extent that it is probable that taxable profit will be available against which deductible temporary differences, carried forward tax credits or tax losses can be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the balance sheet date.

Deferred tax relating to items recognised directly in changes in equity is recognised in the Statement of Changes in Equity and not in the Statement of Comprehensive Income.

3.9 Related party transactions

The Company discloses transactions with related parties which are not wholly owned within the same Group. Where appropriate, transactions of a similar nature are aggregated unless, in the opinion of the directors, separate disclosure is necessary to understand the effect of the transactions on the Company financial statements.

The Company has taken advantage of the exemption, under FRS 102, from disclosure of transactions with related parties who are wholly owned within the same Group. The Group includes the Company, its parent undertakings and its fellow subsidiary undertakings.

3.10 Cash flow statement

The Company has taken advantage of the exemption, under FRS 102 1.12(b), from preparing a statement of cash flows, on the basis that it is a qualifying entity and the Company's cash flows are included within the consolidated statement of cash flows of its parent entity, Aviva Investors REaLM Ground Rent Limited Partnership.

3.11 Strategic report and Directors' report

A strategic report has not been included in these audited financial statements as the Company qualifies for exemption as a small entity under Section 414B of the Companies Act 2006 relating to small entities. The Directors' report has been prepared with reduced disclosures in accordance with the provisions applicable to companies entitled to the small companies exemption in section 415A of the Companies Act 2006.

3.12 Administrative expenses

Administrative expenses include all costs not directly incurred in the operation of the Company's portfolio. This includes administration, finance and management expenses which are recognised on an accruals basis.

3 Accounting policies **(Continued)**

3.13 Interest payable and similar expenses

Interest payable on loans is charged to the Statement of Comprehensive Income using the effective interest rate (EIR) method.

3.14 Provisions for liabilities

Provisions are made where an event has taken place that gives the Company a legal or constructive obligation where it is probable that the Company will be required to transfer economic benefits in settlement, and a reliable estimate can be made of the amounts of the obligation.

Where no reliable estimate can be made but there is a potential for a material liability the facts and circumstances are disclosed in the financial statements.

Provisions are charged as an expense to the profit and loss account in the year that the Company becomes aware of the obligation, and are measured at the best estimates at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When the payments are eventually made, they are charged to the provision carried in the balance sheet.

3.15 Trade debtors

During the current year, the company has amended its accounting policy, from recognising Trade Debtors at due date to recognising Trade Debtors at the date the invoices were raised. The new accounting policy provides a more accurate and reliable view of the outstanding debtors as at 31/12/2022. This change does not have a material impact on the prior year financial statements.

4 Critical accounting estimates and judgements

The preparation of the Company's financial statements requires the directors to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities and the disclosure of contingent liabilities, at the reporting date. The estimates and associated assumptions are based on historical experience, expectations of future events and other factors that are considered to be relevant. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the assets or liabilities affected.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

4.1 *Critical accounting estimates and assumptions*

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are outlined below.

a. Investment properties

The fair value of investment properties is determined by using valuation techniques. For further details of the judgments and assumptions made, see note 9.

b. Building safety remediation liabilities

The Company now has an obligation to pay the costs associated with the remediation of building safety defects, under a range of circumstances under the Building Safety Act legislation. Determining and quantifying these remediation liabilities is complex with incomplete information on the final scope, cost and funding sources for required remediation work at impacted buildings at the period end. Once the scope of any safety remediation work has been confirmed by fire engineers, the Company will need to assess and agree the extent of available remediation funding from the range of different stakeholders obligated to contribute under the Building Safety Act and Government funding system. These funding sources include building developers (under Government's developer remediation contract), Government Building Safety funding schemes, building insurance schemes and leaseholders (that don't qualify for remediation costs protections under the Building Safety Act). Funding from each of these sources needs agreeing for the Company to determine and calculate the liability that will fall on it to pay and it is not possible to reliably estimate liabilities at the period end (see note 15).

AVIVA INVESTORS GR SPV3 LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2022

5 Changes in fair value of investment properties

	2022 £	2021 £
Changes in fair value of investment properties	(1,048,000)	(226,102)

The change in fair value of investment properties is also reflected in note 9.

6 Operating loss

	2022	2021
Operating loss for the financial year is stated after charging:	£	£
Fees payable to the company's auditors for the audit of the company's financial statements	16,785	16,888

During the year no non-audit fees were paid to statutory auditors (2021: £Nil).

The Company did not have any employees during the current year or previous year.
The directors received no emoluments for services to the Company for the year (2021: £Nil).

7 Interest payable and similar expenses

	2022 £	2021 £
Loan interest payable to parent undertaking	179,327	179,327

AVIVA INVESTORS GR SPV3 LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2022

8 Tax on loss

	2022 £	2021 £
UK corporation tax on loss for the current year	-	-
Total UK current tax	-	-
Deferred tax		
Origination and reversal of timing differences	(199,120)	(50,499)
Effect of tax rate change on opening balance	(62,880)	138,875
Other adjustments	(6,025)	-
Total deferred tax	(268,025)	88,376
Total tax (credit)/charge	(268,025)	88,376

Reconciliation of total tax (credit)/charge included in statement of comprehensive income.

The tax assessed for the year is higher (2021: higher) than the standard rate of corporation tax in the UK. The difference is explained below:

	2022 £	2021 £
Loss before taxation	(1,006,985)	(305,279)
Expected tax credit based on the standard rate of corporation tax in the UK of 19.00% (2021: 19.00%)	(191,327)	(58,003)
Tax effect of expenses that are not deductible in determining taxable profit	-	4,580
Adjustments in respect of prior years	(6,025)	-
Remeasurement of deferred tax - change in UK tax rate	(62,880)	125,756
Group relief	(7,793)	15,043
Movement in deferred tax unrecognised	-	1,000
Taxation (credit)/charge for the year	(268,025)	88,376

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 liabilities as at 31 December 2021 and increased the Company's deferred tax liabilities by £126,756.

The Company also has unrecognised temporary differences of £16,655 (2021: £16,655) to carry forward indefinitely against future taxable income.

9 Investment properties

	2022 £	2021 £
Fair value		
At 1 January	6,173,000	6,375,000
Revaluations	(1,048,000)	(226,102)
Other changes	-	24,102
At 31 December	5,125,000	6,173,000
Carrying value		
At 31 December	5,125,000	6,173,000

The historical cost of the investment properties as at 31 December 2022 was £4,084,508 (2021: £4,084,508). The investment properties were valued at fair value, in accordance with the Appraisal and Valuation Manual of The Royal Institution of Chartered Surveyors, as at 31 December 2022 by CB Richard Ellis Limited, professionally qualified chartered surveyors. The valuer has significant experience in the location and class of the investment properties being valued.

Valuation at 31 December is represented by:

	2022 £	2021 £
Valuation of freehold properties	5,125,000	6,173,000

Significant assumptions used in valuation:

The valuations performed by the independent valuer for financial reporting processes have been reviewed by the Fund Manager. Discussions of valuation processes and results are held between the Fund Manager and the independent valuers at least once every quarter. At each year end, the Fund Manager:

- verifies all major inputs to the independent valuation report
- assesses property valuation movements when compared to the prior year valuation report
- holds discussions with the independent valuer

Investment properties are valued by using the investment method which involves applying capitalisation yields to current and estimated future ground rent income streams. The capitalisation yields applied are based on comparable market transactions, reflecting the length of lease terms and the review method and frequency, using the valuers' professional judgement and market observation. Other factors taken into account in the valuations include whether the freeholder is responsible for property management or the insurance of the property. The tenure of the property, tenancy details, trading information (commercial ground rents) and any other known factors, including building safety matters that require remedial works (following the Governments new PAS9980 guidance issued in June 2022), alongside vacant possession valuation information obtained on the residential portfolio, are also taken into consideration by the valuers, together with any other information provided by the General Partner which is derived from the Company's financial and property management systems and is subject to the Company's overall control environment.

9 Investment properties (Continued)

A number of major legislative changes were enacted by Parliament during the course of this financial year, with further primary and secondary legislation anticipated during the remainder of this session. A number of these legislative changes have resulted in the introduction of substantive new responsibilities being applied to building owners relating to building safety, with the ultimate cost required to make right any building defects sitting with the superior landlord rather than leaseholder. The substantive change has led to a material slowdown in residential ground rent trading activity, particularly with those buildings with both known defects or those who have yet to have fire safety assessments undertaken. Whilst the principal routes to cost recovery remain with both Government funding and developer action, until buildings are fully remediated, investors' appetite for impacted assets remain constrained.

During 2022 and at the year end, the Fund's third party valuer has continued to apply an illiquidity discount* to buildings that require fire safety remediation works.

The Fund's valuer has applied a discount to those assets with ground rents materially in excess of Government's guidance of 0.1% of vacant possession value and therefore considered at a higher-than average risk of being enfranchised. The discount has been tiered and applied to the investment value of asset where average rents exceed 0.15% of unit vacant possession value. This is to reflect the risk that freeholders may not receive full market value for ground rent investments were the enfranchisement calculation to be based on a notional rent relative to its vacant possession value rather than at the passing rent assumption adopted in existing valuation methodology. These subjective discounts have been applied on the following basis:

Mainstream residential portfolio		Retirement residential portfolio	
% of unit vacant possession value	Discount applied (%)	% of unit vacant possession value	Discount applied (%)
0.15% - 0.25%	10%	0.20% - 0.30%	10%
0.25% - 0.35%	20%	0.30% - 0.40%	20%
0.35%+	30%	0.40%+	30%

The Company invests in real estate long income and whilst not immune from the challenges likely to be presented to the wider market, should be well positioned compared to traditional real estate because of its focus on long-term contractual cashflows to strong tenant counterparties.

* The valuations do not reflect remediation costs where the Fund will have to pay, (which they should, if the costs were known), but do apply an illiquidity discount to properties that could be affected, reflecting the fact that the marketability of these assets will be negatively impacted.

The table below shows the results of Management's evaluation of the sensitivity of the Level 3 fair value of investment properties at 31 December to changes in unobservable inputs to a reasonable alternative.

	2022 Fair value	Unobservable input	Change in fair value +25bps	Change in fair value +50bps
Investment property	£5,125,000	Equivalent yield	(£273,718)	(£519,680)

These amounts are not an estimate or a forecast of the Company property value. The analysis is designed solely to provide an indication of the impact of certain changes to the Company property value. The directors have considered the impact as at 31 December 2022 and conclude the fair value of investment properties in the financial statements is appropriate.

9 Investment properties **(Continued)**

Building Safety Act 2022

The Building Safety Act 2022 and its secondary legislation that continues to be laid and come into legal force post the end of the financial year ("the Act") imposes new legal obligations on building owners, including the Company to protect leaseholders from paying for all, or some of, the costs of remediating relevant historical building safety defects.

The Company now has an obligation to pay the costs associated with the remediation of building safety defects, under a range of circumstances, where remediation funding is not available from building developers or related parties, where government funding is not available, or where leaseholders don't qualify for remediation costs protection. On 25 March 2022, as a consequence of these legal obligations, the independent third party appointed to provide valuation advice in respect of the assets owned by the Company, declared a material valuation uncertainty over certain residential ground rent buildings in the Company's portfolio impacted or potentially impacted by building safety issues that require remediation, whilst the Company's liabilities for remediation costs under the Act are quantified.

The valuation of these buildings is reported as being subject to 'Material Valuation Uncertainty', as set out in VPS 3 and VPGA 10 of the RICS Valuation – Global Standards. Consequently, less certainty – and a higher degree of caution is attached to the valuation of these buildings than would normally be the case. This material valuation uncertainty status will remain in force until such time as any remediation liabilities that fall on the Company to pay across these buildings with safety defects are quantified. In order to protect the interests of the Company and all its investors, the Company's ultimate parent implemented a suspension of redemptions in Q2 2022 and remains suspended to current date.

Determining and quantifying the Company's remediation liabilities under the Building Safety Act remains complex with incomplete information on the final scope and cost of required remediation work for most impacted buildings at the period end. The Company is progressing PAS 9980 assessments (appraisal of external wall construction and cladding in existing multi-occupied residential buildings) and remediation works requirements alongside developers of the buildings identified as having safety issues that it directly controls.

Once the scope of any remediation work for impacted buildings has been confirmed by fire engineers, the Company will need to assess and agree the extent of available remediation funding from a range of different stakeholders including building developers (under Government's developer remediation contract), Government Building Safety funding schemes, building insurance schemes and leaseholders (that don't qualify for remediation costs protections under the Building Safety Act). Funding from these sources needs agreeing for the Company to determine and calculate any residual liability for remediation that will fall on it to pay (see note 15).

AVIVA INVESTORS GR SPV3 LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2022

9 Investment properties **(Continued)**

Leasehold Reform (Ground Rent) Act 2022

In February 2022 Parliament enacted the Leasehold Reform (Ground Rent) Act 2022, which introduced a number of key amendments to existing leasehold legislation. The leading amendments included the abolition of new leasehold houses (other than for exceptional circumstances) alongside all remaining new leases having ground rents set at a peppercorn.

Governments next stage of reform is to focus on the enfranchisement process alongside the introduction of a revised Commonhold structure, providing a new ownership solution to multi-unit developments which share common services and facilities. However, despite a proactive start to the year, progress on this next stage slowed, in part as both the Ukraine conflict and Building Safety took more of the Department for Levelling Up, Housing and Communities ("DLUHC") time and resource.

Towards the end of the year, DLUHC provided further updates on its intention to push forward with new legislation within the current Parliament, however, no detail was provided on its proposals for calculating enfranchisement premiums. Importantly, whilst they intend to create an "on line" calculator to provide leaseholders with instant quotes, they have provided no further information as to how the capitalisation rate will be derived. This continued uncertainty has resulted in a number of sector investors adopting a "wait and see" approach until such time as this matter has been clarified. Ground rent sector valuers have also introduced a risk adjusted valuation to freehold investment values where passing ground rents are in excess of the proposed guidelines outlined.

As at 31st December 2022, £4,261,338 of the Company's investment portfolio is subject to the material valuation uncertainty clause applied by the independent valuer. The valuer has applied building safety discounts to assets subject to the clause of £1,232,885 across the Company.

10 Debtors

	2022	2021
Amounts falling due within one year:	**£**	**£**
Trade debtors	178,552	45,072
Other debtors	6,586	69,947
Prepayments and accrued income	-	4,687
	185,138	119,706

AVIVA INVESTORS GR SPV3 LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2022

11 Amounts owed to group undertaking

	2022 £	2021 £
Loan from parent undertaking	2,988,778	2,988,778

In 2011 the Company entered into a loan facility with Aviva investors Ground rent Holdco Limited. The loan facility of £2,988,778 is unsecured, bears interest at 6% per annum and is repayable on demand.

12 Other creditors

	2022 £	2021 £
Amounts owed to parent undertaking	123,090	201,367
Other creditors	142,243	19,431
Accruals and deferred income	103,508	123,625
	368,841	344,423

Amounts owed to parent undertaking are unsecured, interest free, have no fixed date of repayment and are repayable on demand.

13 Taxation, including deferred taxation

The following are the major deferred tax liabilities recognised by the company and movements thereon:

Balances:	Liabilities 2022 £	Liabilities 2021 £
Revaluation of investment properties	260,124	528,150

Movements in the year:	2022 £	2021 £
Liability at 1 January	528,150	439,774
Charge to profit or loss	(268,026)	88,376
Liability at 31 December	260,124	528,150

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.

AVIVA INVESTORS GR SPV3 LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2022

14 Called up share capital

	2022	2021
	£	£
Authorised ordinary share capital		
Issued and fully paid		
9,962,593 (2021: 9,962,593) Ordinary shares of 10p each	996,259	996,259
	996,259	996,259

15 Contingent Liability

The Company now has an obligation to pay the costs associated with the remediation of building safety defects in buildings in its residential portfolio, in a range of circumstances, under the Building Safety Act and its secondary legislation. This includes buildings where remediation funding is neither available or recoverable from building developers and associated parties, Government funding schemes, warranty providers or from leaseholders in buildings with building safety issues requiring remediation that don't qualify for remediation costs protection.

However, whilst this legal liability exists, it is not yet possible to calculate an estimate of its financial effect, the amount or timing of any financial outflows or the possibility of alternative sources of remediation cost recovery that may be available to the Company. Work to assess, mitigate and quantify potential liabilities continues.

There were no capital commitments at the balance sheet date (2021: £nil).

16 Operating lease commitments

The company had the following minimum lease receivables under non-cancellable operating leases:

	2022	2021
	£	£
Within one year	227,067	227,067
Between two and five years	908,268	908,268
In over five years	56,802,504	57,029,571
	57,937,839	58,164,906

17 Events after the reporting financial year

Government leasehold reform consultation – "modern leasehold: restricting ground rent for existing leases"

On 9 November 2023, the Department for Levelling Up, Housing & Communities ("DLUHC") published a public consultation seeking views on its proposal to cap ground rents for existing residential leaseholds in England and Wales. The Government's stated intention is, subject to this consultation, to introduce a cap on ground rents in existing leases through the Leasehold and Freehold Reform Bill that was announced in the King's Speech on 7 November 2023. The Company submitted its response to the consultation in advance of the 17 January 2024 deadline and awaits the Government's response. The Company has commenced work to assess the impact of these options.

Implications of consultation on residential ground rent asset valuations

Following guidance from the Royal Institution of Chartered Surveyors (RICS), the independent valuer of the Company's portfolio has confirmed it intends to apply a Material Valuation Uncertainty clause to the Company's residential ground rent assets at the time of its next valuation as at 31 December 2023. Consequently, less certainty – and a higher degree of caution is attached to the valuation of these buildings than would normally be the case.

Events after the reporting period have been evaluated up to the date the audited financial statements were approved and authorised for issue by the Directors and there are no events to be disclosed or adjusted for in these audited financial statements, except those noted above.

18 Ultimate parent company

The General Partner of the Aviva Investors REaLM Ground Rent Limited Partnership is the Aviva Investors Ground Rent GP Limited, a company incorporated in Great Britain and registered in England and Wales.

The Company's immediate parent undertaking is the Aviva Investors Ground Rent Holdco Limited and its ultimate parent undertaking is Aviva Investors REaLM Ground Rent Unit Trust, which is registered in Jersey.

The Aviva Investors REaLM Ground Rent Limited Partnership, which indirectly has 100% interest of the Company, is both the largest and the smallest group of undertakings to consolidate these financial statements at 31 December 2022. The consolidated financial statements of Aviva Investors REaLM Ground Rent Limited Partnership are available on application to:

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

AVIVA INVESTORS GR SPV3 LIMITED

DETAILED TRADING AND PROFIT AND LOSS ACCOUNT (UNAUDITED)

FOR THE YEAR ENDED 31 DECEMBER 2022

		2022		2021
	£	£	£	£
Turnover				
Gross rental and ancillary income		253,268		229,930
Administrative expenses				
Professional fees	343		408	
Management agent costs	8,901		20,556	
Auditors' remuneration	16,785		16,888	
Irrecoverable VAT	6,203		8,499	
Sundry expenses	-		83,833	
Tax advice	694		(404)	
		(32,926)		(129,780)
Exceptional items				
Changes in fair value of investment properties	(1,048,000)		(226,102)	
Operating loss		(827,658)		(125,952)
Interest payable and similar expenses				
Loan interest payable to parent undertaking		(179,327)		(179,327)
Net loss before tax		(1,006,985)		(305,279)

This page does not form part of the statutory financial statements