Equity Release Funding (No.4) Plc

Registered in England and Wales No. 4986587

Annual Report and Financial Statements 2020

Contents

Directors and officer

Directors

D Wynne
I Kyriakopoulos
Wilmington Trust SP Services (London) Limited

Officer – Company Secretary

Wilmington Trust SP Services (London) Limited
Third Floor
1 King's Arms Yard
London
EC2R 7AF

Independent Auditors

PricewaterhouseCoopers LLP
7 More London Riverside
London
SE1 2RT

Registered office

Third Floor
1 King's Arms Yard
London
EC2R 7AF

Company number

Registered in England and Wales no. 4986587

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 the Company for the year ended 31 December 2020.

Review of the Company's business

Principal activities

The principal strategy and objective for the Company is investment in lifetime mortgage loans secured by first charges over properties within the United Kingdom using external funding, and to grant security over its assets. The directors consider that this strategy will continue unchanged into the foreseeable future.

The main assets of the Company consist of a closed book of lifetime mortgage loans. In order to fund the purchase of these mortgage assets, the Company issued a series of mortgage backed loan notes. Cash flows received from these mortgages upon redemption are utilised to pay expenses and to repay the borrowings of the Company.

During the term of these transactions, any amounts realised from the mortgage portfolio in excess of that due to the providers of the funding, less any related administrative costs and the Company's entitlement to 0.01% of interest accruing on the mortgages, will be payable to the originator, Aviva Equity Release UK Limited (UKER), a wholly owned subsidiary of Aviva Life & Pensions UK Limited (ultimate controlling entity Aviva plc), in the form of deferred consideration. Any cash shortfalls will be met in the first instance out of this deferred consideration and ultimately, should shortfalls continue, will be borne by the noteholders.

Significant events

There were no significant events in the year.

Financial position and performance

The financial position of the Company at 31 December 2020 is shown in the statement of financial position on page 18, with the trading results shown in the income statement on page 17 and the statement of cash flows on page 20.

Income for the year is £23.4 million *(2019: £43.0 million)* and profit before tax is £3,000 *(2019: £4,000).*

Shareholders' equity has increased by £2,000 *(2019: increase of £3,000)*, reflecting the profit for the year.

Section 172 (1) statement

As a special purpose vehicle the governance structure of the Company is such that the key policies have been predetermined at the time of issuance. The directors have had regards to the matters set out in section 172(1) of the Companies Act 2006 as follows:

With reference to subsection (a) concerning the likely consequences of any decision in the long term: the Transaction Documents have been formulated to achieve the Company's purpose and business objectives, safeguard the assets and promote the success of the Company with a long term view and in accordance with relevant securitisation legislation.

The Company is only permitted to retain minimal profit.

The matters set out in subsections (b)-(f) have limited or no relevance to the Company and therefore they are not strategically important.

Future outlook

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.

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, 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, equity prices and property prices. Market risk arises within the Company due to fluctuations in the value of lifetime mortgage assets relative to the value of the property on which they are secured.

- Credit risk, the risk of adverse financial impact resulting from fluctuations in credit quality of third parties including default, rating transition and credit spread movements.

- Liquidity risk, the risk that cash flows from mortgages differ from expected cash flows, due to changes in mortality and prepayment rates, 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.

On 11 March 2020, the World Health Organization declared the outbreak of a strain of novel coronavirus disease, COVID-19, a global pandemic. The prolonged spread of COVID-19 has resulted in an economic downturn in jurisdictions in which the Company operates and the global economy more widely, as well as causing increased volatility and declines in financial markets.

Strategic report (continued)

The company continues to maintain healthy liquidity including the availability of liquidity facilities and expects to meet its cash requirements in the foreseeable future. Since the onset of the pandemic the Company has remained operational, with key activities provided by UKER such as cash payments and transaction processing being maintained and IT systems operational. The valuation of the Company's financial assets and liabilities are affected by (or maybe dependent on) changes in property prices and mortality rates and the impact of COVID-19 is unclear on both of these estimates. However any movements in assets valuation are offset by correlated movements in the liabilities and limit the overall financial impact.

Key performance indicators

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

Measure	2020 £'000	2019 £'000
Income for the year	**23,360**	42,983
Expense in the year	**(23,357)**	(42,979)
Profit after tax for the year	**2**	3
Movement in deferred consideration for the year	**(10,377)**	9,072

By order of the Board on 29th June 2021

Ioannis Kyriakopoulos
For and on behalf of Wilmington Trust SP Services (London) 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 2020.

Company registration

The Company is registered in England and Wales, number 4986587.

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.

Dividends

The directors do not recommend the payment of a dividend for the year *(2019: £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) and derivative financial instruments (note 19).

The directors believe that the Company is well placed to manage its business risks successfully.

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 4.

Financial instruments

The Company uses financial instruments to manage certain types of risks, including to those relating to credit, cash flow, liquidity, and interest rates. Details of the objectives and management of these instruments 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 a subsidiary undertaking of Aviva plc, Aviva Employment Services Limited. Disclosures relating to employees may be found in the annual report and financial statements of Aviva Employment Services Limited. The Company is recharged with the costs of the staff provided by this company.

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

It is the intention of the directors to reappoint the auditors, PricewaterhouseCoopers LLP, under the deemed appointment rules of section 487 of the Companies Act 2006.

Directors' indemnity provisions

At no time during the year did any director hold a material interest in any contract of significance with the Company other than a third-party indemnity provision between each director and the Company.

Corporate governance

The Company's ultimate controlling party is Aviva Plc. The directors of Aviva Group companies are committed to high standards of Corporate Governance and support, but do not fully implement, The UK Corporate Governance Code (September 2012) ('the Corporate Governance Code'). The Group's Corporate Governance manual is available on the Group website at www.aviva.com. Due to the nature of the securities which have been issued on the London Stock Exchange, the Directors are satisfied that there is no requirement to publish a corporate governance statement and that the Company is largely exempt from the disclosure requirements of the UK Corporate Governance Code.

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)

Given the nature of the operations the board of directors has been designated as the appropriate body to meet the requirements as set out in the Disclosure Guidance and Transparency Rules (DTR 7.1.3) and has fulfilled its responsibilities during the year in all aspects.

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

Each of the directors, whose names and functions are listed in the Directors and Officer report confirm that, to the best of their knowledge:

- the Company financial statements, which have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006, give a true and fair view of the assets, liabilities, financial position and profit of the Company; and
- the Strategic report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that it faces.

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.

By order of the Board on 29th June 2021

Ioannis Kyriakopoulos
Director

Independent auditors' report to the members of Equity Release Funding (no. 4) plc

Report on the audit of the financial statements

Opinion

In our opinion, Equity Release Funding (No.4) Plc's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2020 and of its result and cash flows for the year then ended;
- have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006; 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 2020; the income statement, the statement of changes in equity and the statement of cash flows for the year then ended; the accounting policies; and the notes to the financial statements.

Our opinion is consistent with our reporting to the directors.

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, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided.

We have provided no non-audit services to the company in the period under audit.

Our audit approach

Overview

Audit scope

- Overall materiality: £7,777,000 (2019: £7,739,000) based on 1% of total assets
- The Company is a special purpose vehicle that forms part of a securitisation structure, established primarily as a means of raising wholesale funding for Aviva plc ("Aviva") the ultimate controlling party. Aviva Equity Release UK Limited ("UKER") manages the securitisation transaction in its role as administrator, servicer of the underlying mortgage loans and cash manager (the "Servicer").
- The activities of the Company are conducted primarily by reference to a series of transaction documents. We tailored the scope of our audit to ensure that we performed sufficient work to enable us to opine on the financial statements, ensuring audit procedures were performed in respect of every material financial statements line item.
- In establishing the overall approach to the audit, we determined the type of work that needed to be performed by us taking into account the accounting processes and controls in place at UKER as administrator, servicer and cash manager.

Key audit matters

- Valuation of lifetime mortgage loans and associated borrowings backing these mortgage loans
- Incentive for UKER who both services and originates the lifetime mortgage loans to misrepresent performance of the underlying asset pool of the Company in order to hide the breach of triggers
- Impact of COVID-19

Materiality

- Overall materiality: £7,776,940 (2019: £7,671,000) based on 1% of total assets.
- Performance materiality: £5,832,705.

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

Independent auditors' report to the members of Equity Release Funding (no. 4) plc (continued)

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

The key audit matters below are consistent with last year.

Key audit matter	*How our audit addressed the key audit matter*
Valuation of lifetime mortgage loans and associated borrowings backing these mortgage loans The valuation of lifetime mortgage loans (£625.8m) and associated borrowings (£178.8m) funding these mortgages loans continues to be an area of significant risk, as set out in notes 7, 8 and 14. Valuing these assets and liabilities requires a high level of judgement and they have unobservable inputs to the pricing models, given they are not actively traded. The valuation is performed through complex, bespoke models.	We assessed management's approach to valuing these lifetime mortgage loans and associated borrowings by performing the following procedures: • Reviewed the design and operating effectiveness of management's controls over the valuation of lifetime mortgage loans and borrowings; • Assessed the appropriateness of the methodology and assumptions used in the valuation models; • Tested waterfall payments to ensure they are correctly reflected in fair valuation models of loan notes; • We validated significant assumptions used by management by ensuring consistency with the assumptions used for the valuation of the assets against market observable data (to the extent available and relevant) and our experience of market practices; • Agreed data inputs in models to underlying documentation on a sample basis; • Tested the operation of data integrity and change management controls for the models that were previously baselined; and • Reconciled the model output to the financial statements and assessed the adequacy of disclosure. The results and conclusions of the testing were sufficient to confirm the appropriateness of the valuation of the lifetime mortgage loans, associated borrowings backing these mortgage loans and associated disclosures.

Independent auditors' report to the members of Equity Release Funding (no. 4) plc (continued)

Incentive for UKER who both services and originates the lifetime mortgage loans to misrepresent performance of the underlying asset pool of the Company in order to hide the breach of triggers

As set out in note 14, the waterfall is key to ensuring that expenses, interest and principal repayments on the notes in issue are paid in the appropriate order on each payment date. The revenue and waterfall are outlined in the transaction documents. If the waterfall is incorrectly processed, there is a significant risk that interest expense and principal balances payable to investors are not appropriately calculated and settled.

The work to address the risk included the following procedures:

- Inspected the transaction documents to identify key triggers for breaches;
- Confirmed that the waterfall payments are correctly reflected in the loan notes fair valuation models and that the assumptions used are reasonable;
- Performed substantive testing over a sample of payments to ensure they were made in accordance with the waterfall, including agreeing cash balances and transactions to cash accounting records;
- Inspected investor reports to identify any breaches or issues; and
- Inspected minutes of the Board meetings of the Company.

Based on the work performed and the evidence obtained, we did not identify any triggers of breaches being met.

Impact of COVID-19

The impacts of the global pandemic due to the Coronavirus COVID-19 continue to cause significant social and economic disruption up to the date of reporting. In our audit we have identified the following key impacts of COVID-19:

Ability of the entity to continue as a going concern in the Directors' report

There are a number of potential matters in relation to COVID-19 which could impact on the going concern status of the Company. The directors have considered the ability of the Company to remain solvent with sufficient liquidity to meet future obligations. The directors' have concluded that the Company is a going concern.

Impact on estimation uncertainty in the financial statements

The pandemic has increased the level of estimation uncertainty in the financial statements. The directors have therefore considered how COVID-19 has impacted the key estimates that determine the valuation of material balances, particularly the lifetime mortgage loans.

Qualitative disclosures in the Annual Report and Financial Statements

In addition, the directors have considered the qualitative disclosures included in the Annual Report and Financial Statements in respect of COVID-19 and the impact that the pandemic has had, and continues to have, on the Company.

In assessing management's consideration of the impact of COVID-19 on the Company we have performed the following procedures:

- Obtained management's updated going concern assessment and challenged material assumptions made using our knowledge of the Company's business performance and obtaining further corroborating evidence;
- Considered information obtained during the course of the audit and publicly available market information to identify any evidence that would contradict management's assessment of the impact of COVID-19; and
- Inquired and understood the actions taken by management to mitigate the impacts of COVID-19, including review of Board minutes..

We agree with the Director's conclusions in respect of going concern.

- Considered whether there have been any impacts from remote working on the design and operating effectiveness of key controls impacting the preparation of financial statement information and;
- Challenged the judgements applied by directors to determine the lifetime mortgage loans valuation, including mortality and house price inflation assumptions, in light of the emerging COVID-19 experience and by comparing these relative to the Company's industry peers.

We have audited the balances impacted by estimation uncertainty and believe the values presented in the Financial Statements to be reasonable.

We have tested the appropriateness of disclosures within the Annual Report and Financial Statements with respect to COVID-19 and, where relevant, considered the material consistency of this other information to the audited financial statements and the information obtained in the audit.

Based on the procedures performed and evidence obtained, we consider the disclosure of COVID-19 in the financial statements to be appropriate.

Independent auditors' report to the members of Equity Release Funding (no. 4) plc (continued)

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the company, the accounting processes and controls, and the industry in which it operates.

The Company is a UK domiciled equity release mortgage funder and is a public interest entity as the entity has listed debt. In determining the scope of the audit, we performed risk assessment procedures which included understanding the business operations, internal control environment and process for the preparation of the financial information.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall company materiality	£7,776,940 (2019: £7,671,000).
How we determined it	1% of total assets
Rationale for benchmark applied	Total assets is considered an appropriate benchmark as the Company is a not for profit, special purpose securitisation vehicle and the performance of the Company is dependent on the performance of the lifetime mortgage loans held by the Company. Cashflows received from these mortgages are utilised to pay expenses and to repay borrowings of the Company.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% of overall materiality, amounting to £5,832,705 for the company financial statements.

In determining the performance materiality, we considered a number of factors - the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls - and concluded that an amount at the upper end of our normal range was appropriate.

We agreed with the directors that we would report to them misstatements identified during our audit above £388,847 (2019: £383,550) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

Our evaluation of the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting included:

- Obtained management's updated going concern assessment and challenged material assumptions made using our knowledge of the Company's business performance and obtaining further corroborating evidence;
- Considered information obtained during the course of the audit and publicly available market information to identify any evidence that would contradict management's assessment of going concern; and
- Reviewed board minutes.

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.

Independent auditors' report to the members of Equity Release Funding (no. 4) plc (continued)

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 2020 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, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view.

The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to 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 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;
- Enquired of management and those charged with governance to identify any instances of non-compliance with laws and regulations;
- Reviewed minutes of those charged with governance;
- Reading 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; and
- Performed testing over the risk of management override of controls, including through testing journal entries and other adjustments for appropriateness and testing accounting estimates (because of the risk of management bias).

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.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for

Independent auditors' report to the members of Equity Release Funding (no. 4) plc (continued)

testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

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.

Appointment

Following the recommendation of the directors, we were appointed by the directors on 3 May 2012 to audit the financial statements for the year ended 31 December 2012 and subsequent financial periods. The period of total uninterrupted engagement is 9 years, covering the years ended 31 December 2012 to 31 December 2020.

Joanne Leeson (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
30 June 2021

Accounting policies

The Company, a public 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 international accounting standards in conformity with the requirements of the Companies Act 2006 (IFRS) and the legal requirements of the Companies Act 2006. The financial statements have been prepared under the historical cost convention, except for mortgage loans and those financial instruments and financial liabilities (including derivative investments) 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 6.

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 following amendments to existing standards and International Financial Reporting Interpretations Committee ("IFRIC") interpretations have been issued and endorsed by the EU, are effective from 1 January 2020 or earlier, and do not have a significant impact on the Company's financial statements:

(i) Amendments to References to the Conceptual Framework in IFRS Standards (published by the IASB in March 2018)

(ii) Amendment to IFRS 3 Business Combinations (Published by the IASB in October 2018)

(iii) Amendments to IAS 1 and IAS 8: Definition of material (published by the IASB in October 2018)

(iv) Interest Rate Benchmark Reform: Amendments to IFRS 9, IAS 39 and IFRS 7 (published by the IASB in October 2019)

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 are not expected to have a significant impact on the Company's financial statements

(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 which was issued in 2005 and applies to all types of insurance contracts as well as to certain guarantees and financial instruments with discretionary participation features. 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 the Company as the proposed 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 the contracts in scope of the standard. 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 remains subject to endorsement. Following departure from the EU and the end of the transition period in December 2020 the Company will be subject to IFRS as endorsed by the UK. The UK endorsement process has commenced and we expect it to complete in time for the 1 January 2023 effective date.

(ii) Amendments to IFRS 16 Leases: COVID-19 related rent concessions
Published by the IASB in May 2020. The amendments are effective for annual reporting beginning on or after 30 June 2020 and have been endorsed by the EU.

(iii) Interest Rate Benchmark Reform Phase 2: Amendments to IFRS 9, IAS 39, IFRS 4 and IFRS 16
Published by the IASB in August 2020. The amendments are effective for annual reporting beginning on or after 1 January 2021 and have not yet been endorsed by the EU..

(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 lifetime mortgages in the books of the Company. Major areas of estimation on policy application are summarised below:

(i) Fair value of loan assets (set out in policy H and note 7)

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

(iii) Fair value of derivative financial instruments (set out in policy G and note 19)

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) Loans (set out in policy H and note 7)

(ii) Derivative financial instruments (set out in policy G and note 7)

Accounting policies (continued)

(iii) Deferred consideration (set out in policy L and note 13)

(iv) Borrowings (set out in policy N and note 14)

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

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

(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. Interest on lifetime mortgages is accrued and payment of interest is not received until the mortgage is redeemed.

(E) Fee and commission expense

Fee and commission expense consists primarily of fees payable to the originator, UKER, for administration of the mortgage and loan note portfolios, which are recognised on an accruals basis.

(F) Financial instruments

The Company classifies the lifetime mortgages, the associated liabilities and derivative financial instruments at fair value, 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.

Under IFRS 9, financial assets within this portfolio are classified as mandatorily held at fair value through profit or loss (FVTPL), based on a business model assessment. Derivative financial instruments and borrowings backed by mortgages are also classified as mandatorily held at FVTPL. Changes in the fair value of these instruments are included in the income statement in the period in which they arise. To avoid an accounting mismatch all gains or losses on financial liabilities designated at FVTPL are presented in profit or loss, including the amount of the change in fair value that is attributable to changes in the credit risk of that liability.

Instruments carried at fair value are measured using a fair value hierarchy, described in note 7.

(G) Derivative financial instruments

Derivative financial instruments include interest rate swaps, interest rate options and an inflation rate swap. All derivatives are initially recognised in the statement of financial position at their fair value, which usually represents their cost. They are subsequently remeasured at their fair value. The fair values are obtained from quoted market prices or, if these are not available, by using valuation techniques such as discounted cash flow models or option pricing models. All derivatives are carried as assets when the fair values are positive and as liabilities when the fair values are negative. Premiums paid for derivatives are recorded as an asset in the statement of financial position at the date of purchase, representing their fair value at that date.

All of the Company's derivative contracts are over-the-counter (OTC). OTC derivative contracts are individually negotiated between contracting parties and include options, swaps, caps and floors. Derivatives are subject to various risks including market, liquidity and credit risk, similar to those related to the underlying financial instruments.

Many OTC transactions are contracted and documented under International Swaps and Derivatives Association (ISDA) master agreements or their equivalent, which are designed to provide legally enforceable set-off in the event of default, reducing the Company's exposure to credit risk.

The notional or contractual amounts associated with derivative financial instruments are not recorded as assets or liabilities in the statement of financial position as they do not represent the fair value of these transactions. These amounts are disclosed in note 19.

Swaps

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

Options

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

Accounting policies (continued)

(H) Loans

Under IFRS 9, where a seller transfers substantially all the risks and rewards of ownership of the financial assets, the transaction is accounted for as a sale transaction with the assets recognised in the books of the Company. The Directors of the Company concluded that UKER transferred substantially all risks and rewards of the equity release mortgages at the point of sale and the Company recognised the equity release mortgages on its balance sheet.

Lifetime mortgages are designated at fair value through profit and loss, since they are managed as a portfolio on a fair value basis. Presentation at fair value provides more relevant information and ensures that any accounting mismatch is eliminated. The fair values are estimated using discounted cash flow models, as described in note 7. They are revalued at each period end, with movements in their fair values being taken to the income statement.

(I) Collateral

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

Collateral received in the form of cash, which is not legally segregated from the Company, is recognised as an asset in the statement of financial position with a corresponding liability for the repayment.

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.

(J) Receivables, payables and other financial liabilities

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

Payables mainly comprise derivatives, for which the accounting policy is described in policy G.

(K) 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.

(L) Deferred consideration

During the term of the securitisation transaction, any amounts realised from the mortgage portfolio in excess of that due to the providers of the funding, less any related administrative costs and the Company's entitlement to 0.01% of interest accruing on the mortgages, will be payable on the maturity of the fund to the originator, UKER in the form of deferred consideration. Any cash shortfalls will be met in the first instance out of this deferred consideration and ultimately, should shortfalls continue, will be borne by the noteholders.

Where the cumulative income of the Company exceeds the expenditure, the gains are recorded in the statement of financial position within liabilities as deferred consideration.

(M) Income taxes

Taxation comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that they relate to items recognised directly in equity or other comprehensive income.

(N) Borrowings

Borrowings backed by mortgages are designated at fair value through profit and 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.

(O) 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 asset.

(P) Fee and commission income

Fee and commission income consists primarily of administration fees and early redemption fees. These fees are recognised as revenue in the period in which they are earned.

Income statement

For the year ended 31 December 2020

	Notes	2020 £'000	2019 £'000
Income			
Interest and similar income	D & 1	**35,201**	38,956
Unrealised losses on financial instruments	F & 1	**(13,282)**	2,691
Fee and commission income	P & 1	**1,441**	1,336
		23,360	42,983
Expenses			
Fee and commission expense	E & 2	**(1,705)**	(1,522)
Other operating expenses	2	**9,283**	(9,527)
Finance costs	2	**(30,935)**	(31,930)
		(23,357)	(42,979)
Profit before tax		**3**	4
Tax charge	M & 6	**(1)**	(1)
Profit for the year		**2**	3

The Company has no other comprehensive income.

The accounting policies (identified alphabetically) and notes (identified numerically) are an integral part of these financial statements.

Statement of financial position

As at 31 December 2020

	Notes	2020 £'000	2019 £'000
Assets			
Loans	F, H & 8	**625,788**	630,747
Receivables	J & 9	**12,662**	6,815
Prepayments and accrued income		**1**	60
Cash and cash equivalents	K & 16	**139,243**	136,318
Total assets		**777,694**	773,940
Equity			
Ordinary share capital	O & 10	**13**	13
Retained earnings	11	**49**	47
Total equity		**62**	60
Liabilities			
Deferred consideration	L & 13	**10,298**	20,675
Borrowings	N & 14	**419,516**	434,482
Payables and other financial liabilities	F, G, J & 15	**347,817**	318,722
Current Tax liabilities	M & 12	**1**	1
Total liabilities		**777,632**	773,880
Total equity and liabilities		**777,694**	773,940

The accounting policies (identified alphabetically) and notes (identified numerically) are an integral part of these financial statements.

The financial statements were approved by the Board of Directors on 29th June 2021 and signed on its behalf by

Ioannis Kyriakopoulos

Director

Statement of changes in equity

For the year ended 31 December 2020

				2020
	Notes	Ordinary share capital	Retained earnings	Total equity
		£'000	£'000	£'000
Balance at 1 January 2020		**13**	**47**	**60**
Profit for the year	11	**—**	**2**	**2**
Balance at 31 December 2020		**13**	**49**	**62**

				2019
	Notes	Ordinary share capital	Retained earnings	Total equity
		£'000	£'000	£'000
Balance at 1 January 2019		13	44	57
Profit for the year	11	—	3	3
Balance at 31 December 2019		13	47	60

The accounting policies (identified alphabetically) and notes (identified numerically) are an integral part of these financial statements.

Statement of cash flows

For the year ended 31 December 2020

	Note	2020	2019
		£'000	£'000
Cash flows from operating activities			
Cash generated from operating activities	16	**21,777**	22,244
Tax paid		**(1)**	(1)
Total net cash generated from operating activities		**21,776**	22,243
Cash flows from financing activities			
Repayment of borrowings	14	**(18,309)**	(14,905)
Total net cash used in financing activities		**(18,309)**	(14,905)
Total net increase in cash and cash equivalents		**3,467**	7,338
Cash and cash equivalents at 1 January		**105,759**	98,421
Cash and cash equivalents at 31 December	16	**109,226**	105,759

The accounting policies (identified alphabetically) and notes (identified numerically) are an integral part of these financial statements.

Notes to the financial statements

1. Details of income

	2020 £'000	2019 £'000
Interest and similar income	**35,201**	38,956
Financial instruments		
Unrealised losses on derivative contracts	**(29,092)**	(13,488)
Unrealised gains on mortgage loans	**6,894**	10,168
Unrealised gains on borrowings	**8,916**	6,011
	(13,282)	2,691
Fee and commission income	**1,441**	1,336
Total income	**23,360**	42,983

All revenue from external customers is derived from interest income received on mortgage loans. All revenue and non-current assets are attributable to the United Kingdom and are attributable to one segment only. The Company has no reliance on major customers as all mortgages are granted on individual personal property.

2. Details of expenses

	2020 £'000	2019 £'000
Fee and commission expense	**1,705**	1,522
Net other operating expenses		
(Decrease) / increase in deferred consideration	**(10,377)**	9,072
Losses due to negative equity	**1,029**	398
Audit fees	**58**	57
Other Expenses	**7**	—
	(9,283)	9,527
Finance Costs		
Interest expense		
Securitised mortgage loan notes	**4,507**	5,732
Credit facility	**10,850**	11,223
Liquidity facility	**255**	458
Interest rate swap	**13,139**	12,244
Inflation rate swap	**1,999**	1,935
Other finance Costs	**185**	338
	30,935	31,930
Total expenses	**23,357**	42,979

Notes to the financial statements (continued)

3. Employee information

The Company has no employees *(2019: 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.

4. Directors' remuneration

Wilmington Trust SP Services (London) Limited received fees of £13,365 *(2019: £13,407)* including VAT during the year to 31 December 2020, in respect of structuring and management services. The other named Directors are employed by Wilmington Trust SP Services (London) Limited; no fees were paid to them directly.

5. Auditors' remuneration

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

	2020 £'000	2019 £'000
Fees payable to PwC LLP for the statutory audit of the Company's financial statements	**58**	57

Fees paid to PricewaterhouseCoopers LLP and its associates.

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. No non-audit services were provided during the year by PricewaterhouseCoopers LLP.

6. Tax

(a) Tax charged to the income statement

The total tax charge comprises:

	2020 £'000	2019 £'000
Current tax		
For this year	**1**	1
Total tax charged to the income statement	**1**	1

(b) Tax reconciliation

The tax on the Company's profit before tax is the same as the theoretical amount that would arise using the tax rate of the United Kingdom as follows:

	2020 £'000	2019 £'000
Profit before tax	**3**	4
Tax calculated at standard UK corporation tax rate of 19% (2019: 19%)	**1**	1
Total tax charged to the income statement	**1**	1

During 2020, the reduction in the UK corporation tax rate that was due to take effect from 1 April 2020 was cancelled and as a result, the rate has remained at 19%.

In the Budget of 3 March 2021, the UK Government announced that the UK corporation tax rate will increase to 25% from 1 April 2023. As of 31 December 2020, this measure had not been substantively enacted.

As the Company has no deferred tax assets or liabilities at the year end, there is no impact on the Company's net assets as a consequence of the amendments in the tax rates.

Notes to the financial statements (continued)

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:

Level 1

Inputs to Level 1 fair values are quoted prices (unadjusted) in active markets for identical assets and liabilities that the Company can access at the measurement date.

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 market;
- 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); and
- Market-corroborated inputs.

Where counterparty quotes are used and no information as to the observability of inputs is provided by the counterparty, the investments are classified as follows:

- where the counterparty price is validated by using internal models with market observable inputs and the values are similar, the investment is classified as Level 2; and
- in circumstances where internal models are not used to validate counterparty prices, or the observability of inputs used by counterparty is unavailable, the investment is classified as Level 3.

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.

(b) 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 (excluding derivative liabilities)
- Current tax liabilities

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

(c) Fair value hierarchy

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

			2020
	Level 2	Level 3	Total fair value
	£'000	£'000	£'000
Financial assets			
Loans	–	625,788	625,788
Financial liabilities			
Borrowings	–	(178,832)	(178,832)
Derivative liabilities	(98,492)	(217,478)	(315,970)
Total	(98,492)	(396,310)	(494,802)

Notes to the financial statements (continued)

			2019
	Level 2	Level 3	Total fair value
	£'000	£'000	£'000
Financial assets			
Loans	–	630,747	630,747
Financial liabilities			
Borrowings	–	(186,341)	(186,341)
Derivative liabilities	(102,072)	(184,806)	(286,878)
Total	(102,072)	(371,147)	(473,219)

(d) Transfers between levels of the fair value hierarchy

There were no transfers during 2020 *(2019: 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.

(e) Further information on Level 3 financial instruments

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

			2020			2019
	Loans	Derivative liabilities	Borrowings	Loans	Derivative liabilities	Borrowings
	£'000	£'000	£'000	£'000	£'000	£'000
Opening balance at 1 January	**630,747**	**(184,806)**	**(186,341)**	620,638	(164,421)	(190,559)
Accrued interest	**34,756**	–	**(4,507)**	38,048	–	(1,793)
(Redemptions) / repayments	**(46,609)**	–	**3,100**	(38,107)	–	–
Total net gains / (losses) recognised in the income statement	**6,894**	**(32,672)**	**8,916**	10,168	(20,385)	6,011
Balance at 31 December	**625,788**	**(217,478)**	**(178,832)**	630,747	(184,806)	(186,341)

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

The net result recognised in the income statement during the year for Level 3 assets and liabilities was a loss of £16.9 million *(2019: loss of £4.2 million)*.

Lifetime mortgage loans amounting to £625.8 million *(2019: £630.7 million)*, derivative liabilities of £217.5 million *(2019: derivative liabilities of £184.8 million)* and securitised mortgage loan notes amounting to £178.8 million *(2019: £186.3 million)* are classified as Level 3 and valued using a discounted cash flow model.

Cash flows are adjusted for credit risk and discounted using a yield curve and global 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 has ranged between 170bps to 195bps *(2019: 160bps to 210bps)*.
- Property growth rates which are based on real world assumptions of the house price growth rate and which average RPI + 0.75% *(2019: RPI + 0.75%)*. These equate to a long-term growth rate of 4.0% pa *(2019: 4.2%)*. 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 *(2019 : 0.6% pa)*.

Notes to the financial statements (continued)

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:

	2020 Fair value	Most significant unobservable inputs	Change in fair value Positive impact	Negative impact
	£m		£m	£m
Loans				
Lifetime mortgage loans	**625.8**	Credit spread - 50bps	**28.3**	**(26.4)**
		Current property market values - 10%	**23.6**	**(27.4)**
		Base property growth rate - 10%	**9.7**	**(10.8)**
Securitised mortgage loan notes	**178.8**	Credit spreads - 50bps	**21.4**	**(23.1)**

	2019 Fair value	Most significant unobservable inputs	Change in fair value Positive impact	Negative impact
	£m		£m	£m
Loans				
Lifetime mortgage loans	630.7	Credit spread - 50bps	30.3	(28.2)
		Current property market values - 10%	24.3	(28.0)
		Base property growth rate - 10%	9.3	(10.3)
Securitised mortgage loan notes	186.3	Credit spreads - 50bps	27.9	(30.0)

An increase in credit spreads used in the discounted cash flow model for lifetime mortgage loans will decrease the fair value of the assets. An increase in credit spreads used in the discounted cash flow model for securitised mortgage loan notes will decrease the fair value of the liabilities. Fair value movements in assets and liabilities arising from change in credit spread will largely offset.

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

8. Loans

(a) Carrying amounts

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

	At fair value through profit or loss other than trading 2020	2019
	£'000	£'000
Lifetime mortgage loans	**625,788**	630,747
Expected to be recovered in less than one year	**28,763**	40,949
Expected to be recovered in more than one year	**597,025**	589,798
	625,788	630,747

The majority of the loans are lifetime mortgages which by their nature do not have any contractual maturity and significant levels of early redemption are not anticipated.

Loans at fair value

On 30 July 2004, the Company purchased £405.0 million of mortgage assets at market value from Aviva Equity Release UK Limited (UKER). These assets are a portfolio of UK lifetime fixed rate and index linked residential mortgages, wholly secured on properties in the UK. In order to fund the purchase of these mortgage assets, the Company issued a series of mortgage backed notes. Under the terms of this arrangement, the rights of the providers of the finance for this transaction are limited to the mortgage assets purchased and any related income generated by the portfolio, and are without recourse to UKER. The mortgage assets are held by a mortgage trustee - ERF Trustee (No.4) Limited, a group company, for administrative purposes and the benefit of the Company.

UKER is not obliged to support any losses which may arise in respect of the mortgage assets. During the term of this transaction, any amounts realised from the mortgage portfolio in excess of that due to the providers of the funding, less any related administrative costs, will be payable to UKER in the form of deferred consideration. UKER administers the mortgage portfolio.

Notes to the financial statements (continued)

The change in fair value of mortgage loans during the year attributable to a change in credit risk was a profit of £13.9 million *(2019: loss of £6.7 million)*. The cumulative change attributable to changes in credit risk to 31 December 2020 was a loss of £94.2 million *(2019: loss of £108.1 million)*. 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

	2020 £'000	2019 £'000
Amounts due from ERF Trustee (No.4) Limited	**12,662**	6,815
Total as at 31 December	**12,662**	6,815
Expected to be recovered in less than one year	**12,662**	6,815
Expected to be recovered in more than one year	**—**	—
	12,662	6,815

10. Ordinary share capital

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

	2020 £	2019 £
Allotted, called up and fully paid		
2 (2019: 2) ordinary shares of £1 each	**2**	2
Allotted, called up and partly paid		
49,998 (2019: 49,998) ordinary shares of £1 each (25p paid per share)	**12,500**	12,500
	12,502	12,502

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

11. Retained earnings

	2020 £'000	2019 £'000
Balance at 1 January	**47**	44
Profit for the year	**2**	3
Balance at 31 December	**49**	47

12. Current tax

The current tax liability is £1,000 *(2019: £1,000)*.

Current tax liabilities payable in more than one year are £nil *(2019: £nil)*.

13. Deferred consideration

Notes to the financial statements (continued)

	2020 £'000	2019 £'000
Balance at 1 January	**20,675**	11,603
Movement in the year	**(10,377)**	9,072
Balance at 31 December	**10,298**	20,675

The Company has a contractual obligation to pay any surplus on the maturity of the fund to UKER. The deferred consideration balance represents management's best estimate at the year end of the amount that will be payable (accounting policy L).

The estimated value of deferred consideration will be impacted by the underlying credit quality of the mortgage book, model inputs into the various fair value models, and the inter-relationship between both the fair value accounting adjustments of the assets and liabilities held at fair value and those at amortised cost.

Further details of the accounting estimates are included in note 7.

14. Borrowings

(a) Carrying amount

	2020 £'000	2019 £'000
Securitised mortgage loan notes	**178,832**	186,341
Amounts owed to credit institutions	**240,684**	248,141
Total at 31 December	**419,516**	434,482
Expected to be settled in less than one year	**24,786**	23,307
Expected to be settled in more than one year	**394,730**	411,175
	419,516	434,482

The carrying amount of the above borrowings that are stated at amortised cost is £240.7 million *(2019: £248.1 million)*. Amounts due to credit institutions have fair value of £278.7m as at 31 December 2020, compared to a carrying value of £240.7m.

The change in fair value of mortgage loan notes during the year attributable to a change in credit risk was a loss of £8.0 million *(2019: loss of £9.8 million)*. The cumulative change attributable to changes in credit risk to 31 December 2020 was a gain of £49.4 million *(2019: gain of £57.4 million)*. 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 Company is required to make principal and interest payments to loan note holders in accordance with the waterfall prescribed in the transaction documents. Further, the transaction documents include triggers and trigger events, the breach or occurrence of which may affect the waterfall and therefore the financial statements. There were no triggers or breaches of triggers during the year.

(b) Loan notes and other borrowings

(i) Loan notes

On 30 July 2004, the Company issued £418.5 million of mortgage backed loan notes in order to fund the purchase of a mortgage portfolio from UKER (class A1, A2, B, C and D). All of the £125 million of the A1 notes were fully redeemed during 2015 The balance of these notes at 31 December 2020 is shown at fair value.

The loan notes are secured over a portfolio of mortgage loans secured by first charges over residential properties in the UK. The mortgages were purchased from UKER. All classes of loan note were issued at par.

Interest on the notes is payable quarterly in arrears. Interest payable on the notes, which are listed on the London Stock Exchange, is as follows:

Loan notes	Capital balance outstanding at end of year (£'000) Total £293.5m	Credit rating (S&P, Moody's)	Interest rate to July 2011	Interest rate from July 2011
Class A2 (£215.0 m)	215,000	A, Aa2	LIBOR + 0.35%	LIBOR + 0.7%
Class B (£61.0 m)	61,000	A, Aa3	LIBOR + 0.75%	LIBOR + 1.5%
Class C (£16.5 m)	16,500	A, A2	LIBOR + 1.65%	LIBOR + 3.3%
Class D (£1.0 m)	1,000	A, A3	LIBOR + 1.95%	LIBOR + 3.9%

In a rating notice issued on 26 August 2016, Fitch withdrew their ratings on the loan notes of the Company following a review of the assumptions in their model.

Notes to the financial statements (continued)

The A2 notes rank in priority to the B notes in point of payment and security. The B notes rank in priority to the C notes in point of payment and security, and the C notes rank in priority to the D notes in point of payment and security. The loan notes are to be redeemed as funds become available from mortgage redemptions.

Unless previously redeemed in full, each class of notes will mature on the interest payment date falling in:

A2 notes	July 2039	B notes	July 2043	C notes	July 2047	D notes	July 2048

The Company may, at its option, redeem all (but not some only) of the notes at their principal amounts outstanding in the event of certain tax changes affecting the notes.

(ii) Other borrowings

During 2004, the Company entered into a credit facility agreement with HSBC Bank plc (HSBC), the purpose of which is to provide the Company with cash in the first 13 years. On 10 March 2018, the credit facility was sold by the counterparty, HSBC, to Aviva Life & Pensions UK Limited, a company within the Aviva Group. The gross amount outstanding as at 31 December 2020 was £189.1 million *(2019: £196.5 million)*, which has been netted down by £1.3 million *(2019: £1.5 million)* for an unamortised premium which was paid on inception of the loan. The Company has a committed facility of £188.6 million *(2019: £196.2 million)* which was fully drawn on in 2018, cash is being retained by the Company until it can be repaid. Interest is payable at a rate of 5.52168%.

On 30 July 2004, the Company entered into an agreement with The Royal Bank of Scotland plc to provide a 364 day borrowing facility of £55.8 million. The borrowing facility is renewed annually and is available to draw upon when mortgage redemptions are insufficient to cover the expenses of the Company and the interest payable on the loan notes.

During 2012, £4.2 million of the overall facility expired in line with the original agreement leaving a borrowing facility of £51.6 million available to the Company. Due to a fall in the credit rating of Royal Bank of Scotland during 2012, £51.6 million has been drawn from the borrowing facility and placed into a standby drawing facility. At 31 December 2020, the undrawn balance was £nil *(2019: £nil million)*.

15. Payables and other financial liabilities

	Note	2020 £'000	2019 £'000
Derivative financial liabilities	7(c) and 19	**315,970**	286,878
Amounts due to UKER		**1,423**	1,149
Obligations for repayment of cash collateral received		**30,017**	30,559
Other financial liabilities		**407**	136
Total as at 31 December		**347,817**	318,722
Expected to be settled within one year		**15,923**	17,276
Expected to be settled in more than one year		**331,894**	301,446
		347,817	318,722

Notes to the financial statements (continued)

16. Statement of cash flows disclosures

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

	2020 £'000	2019 £'000
Profit before tax	**3**	4
Adjustments for:		
Fair value (gains)/losses on:		
Mortgage loans	**(6,894)**	(10,168)
Borrowings	**(8,916)**	(6,011)
Derivatives	**29,092**	13,488
Interest expense	**30,750**	31,592
Interest receivable on mortgage loans	**(34,756)**	(38,048)
Amortisation of credit facility premium	**208**	290
	9,484	(8,857)
Changes in working capital:		
(Increase) / decrease in receivables	**(5,847)**	2,455
Increase / (decrease) in prepayments and accrued income	**59**	(7)
(Decrease) / increase in deferred consideration	**(10,377)**	9,072
Increase / (decrease) in payable and other financial liabilities	**3**	(1,097)
	(16,162)	10,423
Proceeds from redemption of mortgages	**46,609**	38,107
Movement in cash held as collateral	**542**	1,452
Interest paid	**(18,699)**	(18,885)
Total cash generated from operating activities	**21,777**	22,244

Redemptions of mortgages are included within operating cash flows as they represent the operating activities of the Company.

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

	2020 £'000	2019 £'000
Cash at bank and in hand	**139,243**	136,318
Less: Cash held as collateral on derivative contracts	**(30,017)**	(30,559)
Cash and cash equivalent	**109,226**	105,759

There are certain restrictions in place on received collateral limiting its use pending default to repaying any excess amounts over required collateral to the derivative counterparty.

17. Capital structure

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. retain financial flexibility by maintaining strong liquidity; and

The Company is not subject to any externally imposed capital requirements. The Company manages shareholders' equity of £62,000 *(2019: £60,000)* as capital.

Notes to the financial statements (continued)

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 Aviva Group risk management framework. The key elements of the risk management framework comprise risk appetite; risk governance; including risk policies and business standards, risk oversight committees and roles and responsibilities; and the processes the Company uses to identify, measure, manage, monitor and report ("IMMMR") risks, including the use of risk models and stress and scenario testing.

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.

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, foreign exchange rates, equity, property and commodity 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 review how these risks are being managed.

Profit for the Company for the year is calculated as 0.01% of interest accruing on the mortgages with any excess or shortfall of income over expenditure reported in the statement of financial position. Accordingly, the impact on the Company of changes in economic factors and assumptions would be reflected in a change in the value of deferred consideration rather than profit. 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 noteholders 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. For the Company to make significant losses on negative equity there would need to be a decrease in property values leading to house price deflation, alongside an unexpected rise in short term mortality and morbidity rates.

Exposure to property price risk is borne by the note holders and other creditors of the company.

The Company has granted a deed of charge to its creditors such that, in event of default by the Company, the mortgages are sold by the Trustee and the proceeds, together with any other cash available, is paid to the secured creditors according to a prescribed waterfall.

The house price inflation adjusted Loan to Value (LTV) percentage of the mortgage asset interest bearing balances are as follows:

The LTVs in the table below are as at 31 December 2020.

LTV	Under 75	75-79	80-84	85-89	90-94	95-99	100+	Total
£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m
Up to 40%	5.9	22.7	22.3	10.7	6.8	0.9	0.2	**69.5**
Up to 50%	16.2	37.8	69.4	30.5	7.4	0.3	—	**161.6**
Up to 60%	3.4	45.4	54.4	60.8	14.8	3.0	—	**181.8**
Up to 70%	0.9	9.2	49.7	39.5	15.7	1.7	1.3	**118.0**
Up to 80%	—	1.1	14.3	31.0	12.9	2.6	—	**61.9**
Up to 90%	—	0.1	4.2	10.1	8.7	1.0	0.3	**24.4**
Up to 100%	—	—	—	2.1	3.4	1.1	—	**6.6**
Over 100%	—	—	—	0.4	0.3	1.3	—	**2.0**
Total	**26.4**	**116.3**	**214.3**	**185.1**	**70.0**	**11.9**	**1.8**	**625.8**

Notes to the financial statements (continued)

The LTVs in the table below are as at 31 December 2019.

LTV	Under 75	75-79	80-84	85-89	90-94	95-99	100+	Total
£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m
Up to 40%	9.8	25.2	22.3	10.4	6.2	1.0	—	74.9
Up to 50%	23.0	38.1	65.6	27.8	5.7	0.4	—	160.6
Up to 60%	7.1	50.8	53.1	54.3	11.4	2.8	0.2	179.7
Up to 70%	2.0	12.4	49.4	34.2	14.1	1.1	0.6	113.8
Up to 80%	—	2.1	18.9	27.7	12.4	1.5	0.2	62.8
Up to 90%	—	0.1	4.6	14.5	8.4	1.7	—	29.3
Up to 100%	—	—	0.6	2.4	3.6	1.1	—	7.7
Over 100%	—	—	—	—	0.9	1.0	—	1.9
Total	41.9	128.7	214.5	171.3	62.7	10.6	1.0	630.7

LTVs are published quarterly, (January, April, July and October) in the Investor Report. Investor Reports are available at www.erfunding.co.uk, which are unaudited.

(ii) Interest rate risk

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

(iii) Derivatives risk

Derivatives are used within policy guidelines agreed by the Board of Directors of Aviva plc. Derivatives are used for risk hedging purposes and speculative activity is prohibited. OTC derivative contracts are entered into only with approved counterparties, thereby reducing the risk of credit loss.

(iv) 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. In the event that equity release mortgages are repaid sooner, the repayment proceeds are distributed in accordance with the transaction documents.

(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 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 on 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. The impact of change in fair value of financial instruments attributable to a change in credit risk is disclosed in note 8(a) and 14(a).

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.

			2020
	Carry value in the statement of financial position	Collateral held	Net credit exposure
	£'000	£'000	£'000
Loans	625,788	624,164	1,624

			2019
	Carry value in the statement of financial position	Collateral held	Net credit exposure
	£'000	£'000	£'000
Loans	630,747	629,819	928

Notes to the financial statements (continued)

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

An assessment is carried out over all categories of financial asset to determine to what extent assets held can be considered to have low credit risk as at the reporting date. A low credit risk is demonstrated where the borrower has a strong capacity to meet its contractual cash flow obligations in the near term. In making this assessment, the Company makes use of both internal and external credit risk ratings, along with other qualitative and quantitative factors where external ratings are not available. Where a financial asset is deemed to have low credit risk, it is assumed that the credit risk on the respective assets has not increased significantly since initial recognition.

Where external credit ratings are available for financial assets, a significant increase in the credit risk of a financial asset is identified where there has been a significant deterioration in the respective credit rating. In all circumstances, where contractual payments are more than 30 days past due, there is deemed to be a significant increase in the credit risk of the related financial asset.

A financial asset is considered to be in default where contractual payments are past due, and there is objective evidence that the counterparty will be unable to subsequently meet their payment obligations. A financial asset is written off only when all other available measures have been taken to recover amounts due. During the year, none of the cash flows associated with any of the Company's financial assets have been modified or renegotiated.

Calculation of expected credit losses

Expected credit losses on material trade receivables and other assets held at amortised cost are calculated with reference to the Company's historical experience of losses, along with an analysis of payment terms. Short term financial assets (where all amounts are receivable within 12 months from the reporting date) do not generally attract an expected credit loss charge, unless there is objective evidence that losses are likely to arise.

The Company has not recognised a loss allowance at an amount equal to lifetime expected credit losses.

The Company does not hold any financial assets which are deemed to be credit-impaired at the reporting date.

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

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

Modification of contractual cash flows that have not resulted in derecognition

There have been no significant modifications of contractual cash flows on any of the Company's financial assets during the year.

Derivative credit exposures

The Company is exposed to counterparty credit risk through derivative trades, although the Company does not currently have an exposed net asset position with either of its external derivative counterparties. The Company operates strict standards around collateral management and controls including the requirement that all "over the counter" derivatives are supported by credit support annexes and ISDAs. There are no derivatives that are either past due or impaired.

(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 Company has a committed liquidity facility of £51.6 million *(2019: £51.6 million)* and a committed credit facility of £188.6 million *(2019: £196.2 million)* which has been sized to cover significant stresses on mortgage cash flows.

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

				2020
	Within 1 year	1-5 years	Over 5 years	No contractual maturity
	£'m	£'m	£'m	£'m
Liabilities				
Borrowings	**1.8**	**11.4**	**329.1**	**240.7**
Deferred consideration	**—**	**—**	**—**	**10.3**
Derivative financial liabilities	**12.9**	**69.0**	**232.7**	**—**
Payables and other financial liabilities	**1.8**	**—**	**—**	**30.0**

Notes to the financial statements (continued)

	Within 1 year	1-5 years	Over 5 years	2019 No contractual maturity
	£'m	£'m	£'m	£'m
Liabilities				
Borrowings	3.8	18.2	323.7	248.1
Deferred consideration	—	—	—	20.7
Derivative financial liabilities	14.5	60.5	234.7	—
Payables and other financial liabilities	1.3	—	—	30.6

The carrying value of the borrowings is £163.5 million lower *(2019: £159.4 million lower)* than the anticipated payment at maturity. The borrowings payment profit mirrors the repayment of the equity release mortgages and based on current modelling assumptions.

19. Derivative financial instruments

During 2004, the Company entered into an interest rate swap agreement, the purpose of which is to protect the Company from interest rate risk in respect of the floating rate loan notes. The notional amount outstanding as at 31 December 2020 was £293.5 million *(2019: £293.5 million)* and the swap had an expiry date of July 2048. Under the terms of the swap, the Company receives interest at three month LIBOR and pays interest at 5% of the notional amount, payable quarterly.

During 2004, the Company entered into an inflation rate swap agreement, the purpose of which is to protect the Company from interest rate risk in respect of the index-linked mortgages. The notional amount outstanding as at 31 December 2020 was £75.6 million *(2019: £81.4 million)* and the swap had an expiry date of July 2045. Under the terms of the swap, the Company receives interest at 7.28% compounding and pays interest at 4.89% + Limited Price Index compounding, on the reduction of the notional amount annually, payable quarterly.

The Company also has an obligation to pay £28,000 a quarter until 2024 in respect of an interest rate option, the purpose of which is to protect the Company from high interest rates on the liquidity facility. The notional amount outstanding as at 31 December 2020 was £55.0 million *(2019: £55.0 million)* and the option has an expiry date of July 2024.

During 2012, the Company obtained £36.9 million in the form of cash by receiving collateral held as security on derivative contracts. There are certain restrictions in place on received collateral limiting its use pending default to repaying excess amounts over required collateral to the derivative counterparty. During 2020 the company made payments of £nil *(2019: £nil)* due to movements in the fair value of the derivative contracts. The balance of cash received as collateral held as at 31 December 2020 was £30.0 million *(2019: £30.6 million)*.

The fair value liability is disclosed under "Derivative financial liabilities" in note 15.

In the narrative and tables below, figures are given for both the notional amounts and fair values of these instruments. The notional amounts reflect the aggregate of individual derivative positions on a gross basis and so give an indication of the overall scale of the derivative transaction. They do not reflect current market values of the open positions. The fair values represent the gross carrying values at the year end for each class of derivative contract held (or issued) by the Company.

The Company has not adopted hedge accounting for its derivative instruments at 31 December 2020 and 2019.

(i) *The Company's derivatives at 31 December 2020 and 2019 were as follows:*

	2020 Contract notional amount	2020 Fair value liability	2019 Contract notional amount	2019 Fair value liability
	£'000	£'000	£'000	£'000
Interest rate contracts				
Interest rate swap	**293,500**	**(217,478)**	293,500	(184,806)
Option	**55,000**	**(420)**	55,000	(521)
Inflation rate swap	**75,565**	**(98,072)**	81,391	(101,551)
Total	**424,065**	**(315,970)**	429,891	(286,878)

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

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

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

Notes to the financial statements (continued)

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

Further information in relation to lifetime mortgage collateral is set out in note 18(c).

The effects of offsetting on the balance sheet are as follows:

					2020
	Effects of offsetting on the balance sheet			Related amounts not offset	
	Gross amounts	Gross amounts offset in the balance sheet	Net amounts presented in the balance sheet	Cash collateral	Net amounts
Financial Liabilities	£'000	£'000	£'000	£'000	£'000
Derivative liabilities	**(315,970)**	**—**	**(315,970)**	**30,017**	**(285,953)**

					2019
	Gross amounts	Gross amounts offset in the balance sheet	Net amounts presented in the balance sheet	Cash collateral	Net amounts
Financial Liabilities	£'000	£'000	£'000	£'000	£'000
Derivative liabilities	(286,878)	—	(286,878)	30,559	(256,319)

21. Related party transactions

The Company has the following transactions with related parties which include the parent company and fellow subsidiaries in the normal course of business.

(a) Loan notes due to related parties

Included within the loan notes issued by the Company are £35.4 million *(2019: £36.8 million)* of loan notes which are held by related parties within the Group. Interest settled during the year in respect of these loan notes amounted to £0.6 million *(2019: £0.7 million)*.

(b) Expenses payable to related parties

	2020	2019
	Expenses incurred in year	Expenses incurred in year
	£'000	£'000
ERF Trustee (No. 4) Limited	**1,528**	1,527
UKER – portfolio administration and cash handling fees	**1,526**	1,525
	3,054	3,052

(c) Income receivable from related parties

	2020	2019
	Income received in year	Income received in year
	£'000	£'000
Portfolio administration and cash handling fees	**1,526**	1,525
Bank interest	**9**	20
Directors' emoluments	**2**	2
	1,537	1,547

Notes to the financial statements (continued)

(d) Payable at year end

	2020 £'000	2019 £'000
UKER - deferred consideration	**10,298**	20,675
UKER - other	**1,423**	1,149
	11,721	21,824

(e) Receivable at year end

	2020 £'000	2019 £'000
ERF Trustee (No. 4) Limited	**12,662**	6,815
	12,662	6,815

(f) Key management compensation

Wilmington Trust SP Services (London) Limited received fees of £13,365 (2019: £13,407) including VAT during the year to 31 December 2020, in respect of structuring and management services.

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

Details of directors' emoluments are given in note 4.

(g) Parent entity

The immediate parent undertaking is Equity Release Holdings (Jersey) Limited, a company incorporated in Jersey. The shares in Equity Release Holdings (Jersey) Limited are held by Ocorian Trustees (Jersey) Limited, a company incorporated in Jersey, under a declaration of trust for charitable purposes. Ocorian Trustees (Jersey) Limited has no beneficial interest in the shares and therefore considers Equity Release Holdings (Jersey) Limited to be the ultimate parent undertaking.

(h) 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.