Equity Release Funding (No.3) plc

Directors and Officers

Directors

M McDermott
Wilmington Trust SP Services (London) Limited

Company Secretary

Wilmington Trust SP Services (London) Limited

Independent Auditors

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Benson House
33 Wellington Street
Leeds
LS1 4JP

Registered Office

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

Company Number

Registered in England No 4701147

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Equity Release Funding (No.3) plc
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The directors present their annual report and audited financial statements for Equity Release Funding (No 3) plc (the Company) for the year ended 31 December 2012

Directors

The names of the present directors of the Company appear on page 1

Business review, principal activities and future outlook

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 largely closed book of lifetime mortgage loans 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 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 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

Changes in market conditions have led to revisions in credit risk assumptions and changes in the discount rate This has resulted in large fair value movements in the mortgage and loan note balances over their lives, which do not off-set

The entity bears the risk of sustained underperformance in the House Price Index (HPI), with the resultant increase in the likelihood that the mortgage debt will exceed the proceeds of the property sale at the date of redemption A reinsurance contract is in place that has transferred the property risk onto a third party for 39% of the mortgages held by the company

Principal risks and uncertainties

A description of the principal risks and uncertainties facing the Company and its risk management policies are set out in note 19 to the financial statements

Key performance indicators (KPIs)

Income for the year is £32 7 million *(2011 restated £67 8 million)*

Finance costs and fee and commission expenses for the year are £25 5 million *(2011 £70 4 million)*

Profit after tax for the year is £3,000 *(2011 £3,000)*

Deferred consideration increased in the year by £7 2 million *(2011 restated £2 6 million decrease)*

Financial position and performance

The financial position of the Company at 31 December 2012 is shown in the statement of financial position on page 12, with the results shown in the income statement on page 11 and the statement of cash flows on page 14

Financial instruments

The business of the Company includes the use of financial instruments Details of the Company's risk management objectives and policies and exposures to risk relating to financial instruments are set out in note 19 to the financial statements

Dividend

The directors do not recommend the payment of a dividend for the year *(2011 £nil)*

Directors' indemnity arrangements

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

Independent auditors

Following a competitive tender process by the Company's ultimate controlling entity, Aviva plc, PricewaterhouseCoopers LLP were appointed as auditors to the Company for the year ended 31 December 2012 in accordance with the provisions of the Companies Act 2006

It is the intention of the directors to reappoint the auditor under the deemed appointment rules of Section 487 of the Companies Act 2006

Disclosure of information to the auditors

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

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

Corporate governance

The Company's ultimate controlling party is Aviva Plc As part of the Group, the directors are committed to high standards of Corporate Governance and support The UK Corporate Governance Code (2010) ('the Corporate Governance Code') The Group's Corporate Governance manual is available on the Group website at www aviva com

A Group Reporting Manual, including International Financial Reporting Standards (IFRS), has been defined and rolled out across the Group A Financial Reporting Control Framework (FRCF) is in place across the Group FRCF relates to the preparation of reliable financial reporting and preparation of local financial statements in accordance with IFRS FRCF also allows compliance with the requirements of the Sarbanes-Oxley Act 2002

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

Statement of directors' responsibilities

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations

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 Financial Reporting Standards (IFRSs) as adopted by the European Union 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,
- make judgements and accounting estimates that are reasonable and prudent,
- state whether applicable International Financial Reporting Standards (IFRSs) as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements,
- 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 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 They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

By order of the Board

Mignon Clarke for and on behalf of

Wilmington Trust SP Services (London) Limited

Company Secretary

27 June 2013

Independent auditors' report to the members of Equity Release Funding (No.3) plc

We have audited the financial statements of Equity Release Funding (No 3) plc for the year ended 31 December 2012 which comprise the Accounting Policies, the Income Statement, the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash Flows and the related notes The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union

Respective responsibilities of directors and auditors

As explained more fully in the Statement of Directors' Responsibilities (set out on page 5), the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of, whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2012 and of its profit and cashflows for the year then ended,
- have been properly prepared in accordance with IFRSs as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

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

Lindsay Gardiner (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Leeds

27 June 2013

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 presentation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and as endorsed by the European Union (EU) In addition to fulfilling their legal obligation to comply with IFRS as adopted by the EU, the Company has also complied with IFRS as issued by the IASB and applicable at 31 December 2012 The financial statements have been prepared under the historical cost convention, except for mortgage loans and those financial instruments and financial liabilities (including derivative instruments) that have been measured at fair value through profit and loss

The financial statements are prepared on the going concern basis and in accordance with the Companies Act 2006

The Company has adopted the following new amendments to standards which became effective for financial years beginning on or after 1 January 2012 Neither of these amendments has a material impact on these financial statements

(i) Amendment to IFRS 7, Financial Instruments – Disclosures, relating to the transfer of financial assets

(ii) Amendment to IAS 12, Income Taxes, relating to deferred tax

The IASB has issued a number of standards and amendments which are applicable for accounting periods beginning on or after 1 January 2013 and are therefore not applicable for the current accounting period, namely IFRS 10, Consolidated Financial Statements, IFRS 11, Joint Arrangements, IFRS 12 Disclosure Of Interest In Other Entities, IFRS 13, Fair Value Measurement, reissues of IAS 27, Separate Financial Statements and IAS 28, Investments in Associates and Joint Ventures and amendments to IFRS 7, Financial Instruments - Disclosures These have all been endorsed by the EU IFRS 10 is expected to have a significant impact on the recognition and measurements of interest in other entities The full impact of the changes has yet to be assessed

IFRS 9, Financial Instruments, will replace IAS 39, Financial Instruments – Recognition and Measurement IFRS 9 is applicable prospectively for accounting periods beginning on or after 1 January 2015 and is therefore not applicable for the current accounting period IFRS 9 has not yet been endorsed by the EU but, on adoption, will require us to review the classification of certain financial instruments while allowing us to retain fair value measurement as we deem necessary We have not yet completed our assessment of its impact which is, to a large extent, dependent on the finalisation of the IASB's insurance contracts accounting project

Unless otherwise noted, the amounts shown in these financial statements are in thousands of pounds sterling (£000)

(B) Use of estimates

The preparation of financial statements requires the Company to select accounting policies and make estimates and assumptions that affect items reported in the income statement, statement of financial position, other primary statements and notes to the financial statements This is particularly so in the estimation of loan assets, for which further details are given in policy I and note 8 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 can always differ from those estimates, possibly significantly

The table below sets out those items that are considered particularly susceptible to changes in estimates and assumptions, and the relevant accounting policy

Item	Accounting policy
Financial instruments	G
Derivative financial instruments	H
Loans	I
Deferred consideration	L
Borrowings	N
Payables and other financial liabilities	P

(C) 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 collected

(D) Interest and similar income

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

(E) Other operating income

Other operating income consists of reinsurance rebates recognised

(F) Fee and commission expense

Fee and commission expense consists primarily of fees payable to the originator, Aviva Equity Release UK Limited (UKER), for administration of the mortgage and loan note portfolios

(G) Financial instruments

The Company classifies the lifetime mortgages and the associated liabilities, derivative financial instruments and early repayment charges (ERCs) 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 minimised

The fair value category has two sub-categories – those that meet the definition as being held for trading and those the Company chooses to designate as fair value (referred to in this accounting policy as 'other than trading') Derivative financial instruments are classified as trading All other financial instruments in the fair value category are classified as other than trading

Changes in the fair value of trading and other than trading instruments are included in the income statement in the period in which they arise

Instruments carried at fair value are measured using a fair value hierarchy, described in note 7, with values based on amounts derived from cash flow models which include a risk adjusted discount rate to reflect the risks associated with these products

(H) Derivative financial instruments

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

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 Group's exposure to credit risk

The notional or contractual amounts associated with derivative financial instruments are not recorded as assets or liabilities on the statement of financial position as they do not represent the fair value of these transactions These amounts are disclosed in note 20

Interest rate swaps

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

(I) Loans

Lifetime mortgages are designated at fair value through profit and loss, since they are managed as a portfolio on a fair value basis, and presentation at fair value provides more relevant information and ensures that any accounting mismatch with the associated liabilities is minimised The fair values are estimated using discounted cash flow models These include a risk adjusted discount rate to reflect the risks associated with these products

(J) Collateral

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

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

(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

Operating cash flows

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

(L) Deferred consideration

During the term of this 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 to the originator, Aviva Equity Release UK Limited (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

The current tax expense is based on the taxable profits for the year, after any adjustments in respect of prior years Taxable profits are computed in accordance with the provisions of current UK tax legislation Tax,

including tax relief for losses if applicable, is allocated over profits before taxation and amounts charged or credited to reserves as appropriate

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

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

(N) Borrowings

Loan notes 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

Borrowings that provide liquidity only are valued at amortised cost

The fair values are estimated using discounted cash flow models These include a risk adjusted discount rate to reflect the risks associated with these products

The effective interest rate method is used for loans held at amortised cost, which consist of amounts owed to credit institutions and a subordinated loan

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 assets

(P) Payables and other financial liabilities

Payables mainly comprise derivatives, for which the accounting policy is described in policy H above

Equity Release Funding (No.3) plc
Income statement
For the year ended 31 December 2012

	Note	2012 £'000	2011 Restated £'000
Income			
Interest and similar income	D & 2	**38,063**	39,936
(Losses)/gains on financial instruments	G, 1 & 2	**(7,040)**	26,805
Fee and commission income	C & 2	**1,685**	1,105
Other operating income	E & 2	**6**	6
		32,714	67,852
Expenses			
Fee and commission expense	3	**(1,728)**	(1,852)
Other operating expenses	1 & 3	**(7,210)**	2,599
Finance costs	3	**(23,772)**	(68,595)
		(32,710)	(67,848)
Profit before tax		**4**	4
Tax charge	M & 6	**(1)**	(1)
Profit for the year		**3**	3

The Company has no other comprehensive income

The accounting policies (identified alphabetically) on pages 7 to 10 and notes (identified numerically) on pages 15 to 30 are an integral part of these financial statements

Equity Release Funding (No.3) plc
Statement of financial position
For the year ended 31 December 2012

	Note	2012 £'000	2011 Restated £'000
Assets			
Loans	I & 8	**585,377**	553,443
Derivative assets	G, I & 9	**14,586**	12,166
Receivables	10	**585**	254
Prepayments and accrued income		**66**	50
Cash and cash equivalents	K & 17	**72,913**	28,644
Total assets		**673,527**	594,557
Equity			
Ordinary share capital	O & 11	**13**	13
Retained earnings	12	**25**	22
Total equity		**38**	35
Liabilities			
Current tax liabilities	M & 13	**1**	1
Deferred consideration	L, I & 14	**33,032**	25,865
Borrowings	N & 15	**563,946**	501,731
Payables and other financial liabilities	G, P & 16	**76,510**	66,925
Total liabilities		**673,489**	594,522
Total equity and liabilities		**673,527**	594,557

Approved by the Board on 27 June 2013

Mignon Clarke for and on behalf of
Wilmington Trust SP Services (London) Limited
Director

The accounting policies (identified alphabetically) on pages 7 to 10 and notes (identified numerically) on pages 15 to 30 are an integral part of these financial statements

Equity Release Funding (No.3) plc
Statement of changes in equity
For the year ended 31 December 2012

	Note	Ordinary share capital £'000	Retained earnings £'000	Total equity £'000
Balance at 1 January 2011	11 & 12	13	19	32
Profit for the year		-	3	3
Balance at 31 December 2011		**13**	**22**	**35**
Profit for the year	11 & 12	-	**3**	**3**
Balance at 31 December 2012		**13**	**25**	**38**

The accounting policies (identified alphabetically) on pages 7 to 10 and notes (identified numerically) on pages 15 to 30 are an integral part of these financial statements

Equity Release Funding (No.3) plc
Statement of cash flows
For the year ended 31 December 2012

The cash flows presented in this statement cover all the Company's activities

	Note	2012 £'000	2011 £'000
Cash flows from operating activities			
Cash used in operations	17(a)	**(1,920)**	(5,457)
Tax paid		**(1)**	(1)
Net cash used in operating activities		**(1,921)**	(5,458)
Cash flows from financing activities			
Drawdown of borrowings		**46,190**	3,490
Net cash from financing activities		**46,190**	3,490
Net increase/(decrease) in cash and cash equivalents		**44,269**	(1,968)
Cash and cash equivalents at 1 January		**28,644**	30,612
Cash and cash equivalents at 31 December	17(b)	**72,913**	28,644

The accounting policies (identified alphabetically) on pages 7 to 10 and notes (identified numerically) on pages 15 to 30 are an integral part of these financial statements

1. Prior Period Restatement

In 2011, the Company had not recognized the value of a termination swap used to hedge the market value of early termination on an interest rate swap and, in the view of the management under *IAS 39 Financial Instruments Recognition and Measurement,* the financial instruments had been undervalued The numbers are being restated in accordance with *IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors*

Accordingly the prior year income statement and statement of financial position have been restated to reflect the inclusion of the derivative asset In the income statement, gains on financial instruments of £14,639k have been restated to a gain of £26,805k, whilst other operating expenses have decreased from £14,765k to £2,599k On the statement of financial position, financial instruments have increased from £nil to £12,166k whilst deferred consideration has increased from £13,699k to £25,865k

Changes in the fair value of financial instruments have been offset by corresponding movements in the fair value of deferred consideration The restatement has had no impact on either profit before tax in the income statement or total equity on the statement of financial position

2. Income

	2012	2011 Restated
	£'000	£'000
Interest and similar income	**38,063**	39,936
Financial instruments		
Unrealised losses on derivative contracts	**(5,508)**	3,418
Unrealised gains on mortgages	**22,359**	51,170
Unrealised losses on loan notes	**(23,891)**	(27,783)
	(7,040)	26,805
Fee and commission income	**1,685**	1,105
Other operating income		
Reinsurance rebates	**6**	6
Total income	**32,714**	67,852

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

3. Expenses

	2012	2011 Restated
	£'000	£'000
Fee and commission expense	**1,728**	1,852
Other operating expenses		
Audit fees	**43**	21
Increase/(decrease) in deferred consideration	**7,167**	(2,620)
	7,210	(2,599)
Finance cost		
Interest expense on		
Securitised mortgage loan notes	**18,640**	19,948
Financial liabilities held at amortised cost	**584**	561
Swap interest	**3,917**	47,624
Liquidity facility	**196**	-
Other	**435**	462
	23,772	68,595
Total expenses	**32,710**	67,848

4. Directors' emoluments

Wilmington Trust SP Services (London) Limited received fees of £14,705 *(2011 £14,736)* including VAT during the year to 31 December 2012, in respect of structuring and management services

5. Auditor's remuneration

	2012	2011
	£'000	£'000
Fees for the statutory audit of the Company's financial statements for the year	**43**	21

A proportion of audit fees in respect of audit and other services for a fellow group undertaking are borne by the Company

Fees paid to PricewaterhouseCoopers LLP and its associates for services other than the statutory audit of the Company are not disclosed in these financial statements since the consolidated financial statements of the Company's ultimate controlling entity, Aviva plc (see note 12), are required to disclose other (non-audit) services on a consolidated basis

6. Tax

(a) Tax charged to the income statement

The total tax charged to the income statement is as follows

	2012 £'000	2011 £'000
Current tax		
For the year	1	1
Total tax charge in the income statement (note 6 (b))	1	1

(b) Tax reconciliation

The tax on the Company's profit before tax is at the standard UK corporation tax rate as follows

	2012 £'000	2011 £'000
Profit before tax	4	4
Tax calculated at standard UK corporation tax rate of 20% *(2011 20 25%)*	1	1
Total tax charge for the year (note 6 (a))	1	1

Finance Act 2011 reduced the small profits rate of corporation tax from 21% to 20% with effect from 1 April 2011 Accordingly, the Company's profits for the year have been taxed an effective rate of 20% *(2011 20 25%)*

7. Fair value methodology

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

Quoted market prices in active markets – ('Level 1')

Inputs to Level 1 fair values are quoted prices (unadjusted) in active markets for identical assets and liabilities An active market is one in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis Examples are listed equities in active markets, listed debt securities in active markets and quoted unit trusts in active markets

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

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

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

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

Inputs to Level 3 fair values are unobservable inputs for the asset 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 (or market information for the inputs to any valuation models) As such, unobservable inputs reflect the assumptions the business unit considers that market participants would use in pricing the asset

The Company's instruments that are fair valued are categorised at level 2

(b) Fair value hierarchy analysis

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

	Fair Value Hierarchy				**2012**
	Level 2	**Level 3**	**Sub-total Fair Value**	**Amortised cost**	**Statement of financial position total**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Loans	**585,377**	-	**585,377**	-	**585,377**
Derivative assets	**14,586**		**14,586**		**14,586**
Financial liabilities					
Borrowings	**(474,489)**	-	**(474,489)**	**(89,457)**	**(563,946)**
Derivative liabilities	**(18,857)**	-	**(18,857)**	-	**(18,857)**
Total	**106,617**	-	**106,617**	**(89,457)**	**17,160**

	Fair Value Hierarchy				2011
	Level 2	Level 3	Sub-total Fair Value	Amortised cost	Restated Statement of financial position total
	£'000	£'000	£'000	£'000	£'000
Loans	553,443	-	553,443	-	553,443
Derivative assets	12,166		12,166		12,166
Financial liabilities					
Borrowings	(459,048)	-	(459,048)	(42,683)	(501,731)
Derivative liabilities	(19,946)	-	(19,946)	-	(19,946)
Total	86,615	-	86,615	(42,683)	43,932

There have been no transfers between levels during the year

8. Loans

(a) Carrying amounts

On 27 June 2003, the Company purchased £404 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

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

The carrying amounts of loans at 31 December were as follows

	2012	2011
	£'000	£'000
Lifetime mortgage loans	**585,377**	553,443

Of the above total, £551 0 million *(2011 £522 8 million)* is expected to be recovered more than one year after the statement of financial position date This is because the loans are lifetime mortgages which by their nature do not have any contractual maturity and significant levels of early redemption are not anticipated

The change in fair value of mortgage loans during the year attributable to a change in credit risk was a gain of £16 1 million *(2011 loss of £14 1 million)* The cumulative change attributable to changes in credit risk to 31 December 2012 was a loss of £135 2 million *(2011 £151 3 million)* 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. Financial instruments

Financial instruments comprise:

	2012	2011 Restated
	£'000	£'000
At fair value through profit and loss: trading		
Derivative financial instruments (note 20)	14,586	12,166

Of the above total, £nil million *(2011 £12 2 million)* is expected to be recovered more than one year after the statement of financial position date

10. Receivables

	2012	2011
	£'000	£'000
Amounts due from UKER	**-**	170
Amounts due from other related parties	**328**	-
Other receivables	**257**	84
	585	254

None of the above total *(2011 £nil)* is expected to be recovered more than one year after the statement of financial position date

11. Ordinary share capital

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

	2012 £	2011 £
The authorised share capital of the Company was 50,000 ordinary shares of £1 each	**50,000**	50,000
The allotted, called up and fully paid share capital of the Company was 2 ordinary shares of £1 each	**2**	2
The allotted, called up and partly paid share capital of the Company was 49,998 ordinary shares of £1 each (25p paid per share)	**12,500**	12,500
	12,502	12,502

All shares are of the same class and rank pari passu

12. Retained earnings

	2012 £'000	2011 £'000
Balance at 1 January	**22**	19
Profit for the year	**3**	3
At 31 December	**25**	22

13. Tax liabilities

(a) General

Tax liabilities payable in more than one year are £nil *(2011 £nil)*

(b) Deferred tax

The Company had no recognised or unrecognised deferred tax balances at the year end *(2011 £nil)*

14. Deferred consideration

	2012 £'000	2011 Restated £'000
Balance at 1 January	**25,865**	28,485
Increase/(decrease) in deferred consideration	**7,167**	(2,620)
Balance at 31 December	**33,032**	25,865

All of the above consideration *(2011 all)* is expected to be paid more than one year after the statement of financial position date

ERF3 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 this point in time of the amount that will be payable (accounting policy L)

15. Borrowings

(a) Carrying amount

	2012 £'000	2011 £'000
Securitised mortgage loan notes	**474,489**	459,048
Subordinated debt	**22,616**	22,032
Amounts owed to credit institutions	**66,841**	20,651
	563,946	501,731

The carrying amount of the above borrowings that are stated at amortised cost, being the subordinated debt and amounts owed to credit institutions, is £89 5 million *(2011 £42 7 million)* The corresponding fair value of these borrowings is £80 3m (2011 £26 9m)

The change in fair value of mortgage loan notes during the year attributable to a change in credit risk was a loss of £8 3 million *(2011 gain of £27 3 million)* The cumulative change attributable to changes in credit risk to 31 December 2012 was a gain of £128 1 million *(2011 £136 4 million)* 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 6

Of the above total £513 1 million *(2011 £471 9 million)* is expected to be paid more than one year after the statement of financial position date

(b) Loan notes and other borrowings

(i) Loan notes

On 27 June 2003, the Company issued £462 0 million of mortgage backed loan notes (class A1, A2, A3 and B) in order to fund the purchase of a mortgage portfolio from UKER The balance of these notes at 31 December 2012 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 A1 and B notes were issued at par, the A2 and A3 notes were issued at 97 862% and 98 274% respectively

Interest on the notes is payable quarterly (excluding the A3 notes, which are payable semi annually) in arrears Interest payable on the notes, which are listed on the London Stock Exchange, is as follows

£462 million mortgage backed loan notes	Capital balance outstanding at end of year (Total £419.5m)	Credit rating (S&P, Moody's)	Interest rate
Class A1 (£60 0 m)	£17,550,000	A , Aaa	LIBOR + 0 52% (LIBOR + 1 5% from April 2013)
Class A2 (£310 0 m)	£310,000,000	A , Aaa	5 05%
Class A3 (£50 0 m)	£50,000,000	A , Aaa	2 45% (adjusted for LPI)
Class B (£42 0 m)	£42,000,000	A , Aa3	LIBOR + 1 4% (LIBOR + 3 5% from April 2010)

The A1, A2 and A3 notes rank pari passu in point of payment and security without preference or priority amongst themselves The A1, A2 and A3 notes rank in priority to the B notes in point of payment and security

The A1 notes are to be redeemed as funds become available and were redeemed in full in April 2013 Liquidity has been provided through the swap agreement (note 20) and borrowing facility with the intention that the A1 notes would be redeemed in full in April 2013, unless redeemed prior to this date A2, A3 and B notes are to be redeemed according to a redemption schedule commencing in July 2020, October 2013 and July 2033 respectively, although the Company will be obliged to redeem (in full or in part) if certain early redemption conditions are satisfied

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

A2 Notes	April 2033
A3 Notes	April 2023
B Notes	April 2038

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 or the swap agreement

(ii) Other borrowings

On 27 June 2003, the Company also entered into a subordinated loan agreement with UKER for £14 0 million at an interest rate of LIBOR + 1 75% The subordinated loan (subordinated in point of payment and security to notes) is to be redeemed after the notes have been redeemed in full The capital balance outstanding on the subordinated loan includes £8 6 million *(2011 £8 0 million)*, of accumulated interest

The Company has entered into a contract, the purpose of which is both to protect the Company from interest rate risk on the floating rate notes, and to provide liquidity to the Company This contract is a non-derivative host contract (a fixed rate loan) with an embedded derivative (an interest rate swap) As the loan element of this contract is not directly funding the mortgages, it is shown as a liability under borrowings and valued at amortised cost

The Company is committed to making a series of scheduled payments under the swap arrangement commencing in April 2029, which are required to be prepaid if cash is available, upon repayment of the A1 notes

On 27 June 2003, the Company entered into an agreement with Barclays Bank plc to provide a 364 day borrowing facility of £140 0m, and with Citibank to provide a 364 day borrowing facility of £45 0m The borrowing facilities are renewed annually and are available to draw upon when mortgage redemptions are insufficient to cover the expenses of the Company and the interest payable on the loan notes

Due to a fall in the credit rating of Citibank during the year, £45 0m has been drawn from the borrowing facility and placed into a standby drawing facility At 31 December 2012, the undrawn balance was £140 0 million *(2011 £185 0 million)*

16. Payables and other financial liabilities

	2012	2011
	£'000	£'000
Derivative financial liabilities (notes 7(b) and 20)	**18,857**	19,946
Interest payable	**56,884**	46,513
Amounts due to UKER	**582**	-
Other financial liabilities	**187**	466
	76,510	66,925

Of the above total, £42 6 million *(2011 £65 2 million)* is expected to be paid more than one year after the statement of financial position date

17. Statement of cash flows

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

	2012	2011 Restated
	£'000	£'000
Profit before tax	**4**	4
Adjustments for		
Fair value gains on mortgages	**(22,359)**	(51,170)
Fair value losses on loan notes	**23,891**	27,783
Fair value losses on derivatives	**5,508**	(3,418)
Interest receivable on mortgage loans	**(37,825)**	(39,762)
Changes in working capital		
Increase in receivables	**(331)**	(90)
(Increase)/decrease in prepayments and accrued income	**(16)**	12
Increase/(decrease) in deferred consideration	**7,167**	(2,620)
Increase in payables and other financial liabilities	**1,657**	42,754
Increase in interest on subordinated loan	**584**	561
Net capital movement on borrowings	**(8,450)**	(4,290)
Proceeds from redemption of mortgages	**28,250**	24,779
Cash used in operations	**(1,920)**	(5,457)

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 comprised:

	2012	2011
	£'000	£'000
Cash at bank and in hand	**72,913**	28,644

18. Capital

In managing its capital, the Company seeks to retain financial flexibility by maintaining strong liquidity The Company is not subject to any externally imposed capital requirements

The Company manages IFRS shareholders' equity of £38,000 *(2011 £35,000)* as capital

19. Risk management

(a) Risk management framework

The ultimate controlling entity, Aviva plc, and its subsidiaries, joint ventures and associates, (collectively known as "the Group"), operate a risk management framework ("RMF"), which forms an integral part of the management and Board processes and decision-making framework across the Group The key elements of our risk management framework comprise risk appetite, risk modelling, roles and responsibilities, risk policies and procedures and risk governance and oversight Additional information on the key elements of the RMF is included in the risk and capital management section of the performance review The Group's approach to risk management ensures that significant existing or emerging risks are actively identified, measured, managed, monitored and reported on a continuous basis The RMF has been adopted in the businesses collectively referred to as "UK Life" (including this Company)

For the purposes of risk identification and measurement, risks are usually grouped by risk type market, credit, life insurance, liquidity, operational risk and asset management Risk falling within these types may affect a number of key metrics including those relating to balance sheet strength, liquidity and profit They may also affect the performance of the products that the Company delivers to customers and the service to customers and distributors, which can be categorised as risks to the Company's franchise value

Risk models are an important tool in the Company's measurement of risk and are used to support the monitoring and reporting of the risk profile and in the consideration of the risk management actions available The Company carries out a range of stress (where one risk factor, such as longevity, is assumed to vary) and scenario (where combinations of risk factors are assumed to vary) tests to evaluate their impact on the business and the management actions available to respond to the conditions envisaged Board oversight of risk and risk management across the Group is maintained on a regular basis through its Risk Committee The Board has overall responsibility for determining risk appetite, which is an expression of the risk it is willing to take The Group's position against risk appetite is monitored and reported to the Board on a regular basis A similar arrangement prevails at the UK Life business level

UK Life sets limits to manage material risks to ensure the risks stay within risk appetite (the amount of risk UK Life is willing to accept) UK Life assesses the size and scale of a risk by considering how likely it is that the risk will materialise and the potential impact the risk could have on its business and its stakeholders Where risks are outside of appetite, actions are agreed to mitigate the exposure Impact assessments are considered against financial, operational and reputational criteria and take into account underlying factors such as economic conditions, for example, UK economic growth and inflation

The UK Life business has an established governance framework, which has the following key elements

- defined terms of reference for the legal entity Boards and the associated executive management and other committees across the UK Life business including the UK & Ireland Board, Risk Committee and Audit Committee,
- a clear organisational structure with documented delegated authorities and responsibilities from the legal entity Boards to CEOs and senior management, and
- adoption of the Group policy framework that defines risk appetite measures and sets out risk management and control standards for the Group's worldwide operations The policies also set out the roles and responsibilities of businesses, policy owners, and risk oversight committees

UK Life operates a three lines of defence risk management model that encourages close working relationships between line management and the risk function whilst facilitating independent assurance by internal audit Primary responsibility for risk identification and management lies with business management (the first line of defence) Support for and challenge on the completeness and accuracy of risk assessment, risk reporting and adequacy of mitigation plans are performed by specialist risk functions (the second line of defence) Independent and objective assurance on the robustness of the risk management framework and the appropriateness and effectiveness of internal control is provided by internal audit (the third line of defence)

The FSA also requires UK Life to assess its economic capital requirements to ensure that it adequately reflects the risks facing the business UK Life has accordingly developed economic capital models that support the measurement, comparison and further understanding of its risks The results of the modelling are incorporated into key strategic planning and decision-making processes These models show the relative impact to economic capital from the risks faced In turn this supports the assessment of appropriate and effective mitigating strategies where risks are outside of appetite

(b) Market risk

Market risk is the risk of adverse financial impact due to changes in fair values or future cash flows of financial instruments from fluctuations in interest rates and property prices Market risk arises within the Company due to fluctuations in the value of lifetime mortgage assets relative to their funding and to the value of the property on which they are secured

For each of the major components of market risk, described in more detail below, UK Life 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 UK Life 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 as described in accounting policy L 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 the HPI, with the resultant increase in the likelihood that the mortgage debt will exceed the proceeds of the property sale at the date of redemption A reinsurance contract is in place that has transferred the property risk onto a third party, that covers 39% of the mortgages and accordingly, no sensitivity tests have been performed for changes in property prices

The level of HPI is monitored and the impact of exposure to adverse movements in the HPI 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

There would need to be a decrease in house price values which is significantly lower than worst case market forecasts for house price deflation, coupled with an unexpected rise in short term mortality and morbidity rates, for the Company to make significant losses on negative equity Exposure to property price risk is borne by the noteholders and other creditors of the company

The HPI adjusted Loan to Value (LTV) percentage of the mortgage asset interest bearing balances are as follows

Age	Under 75	75-79	80-84	85-89	90-94	95-99	100+	Total
LTV	£m	£m	£m	£m	£m	£m	£m	£m
Up to 40%	117 3	140 6	80 8	24 0	6 1	1 2	-	370 0
Up to 50%	16 9	42 1	45 8	26 8	5 0	1 3	-	137 9
Up to 60%	0 7	7 1	25 6	16 1	8 4	0 7	0 1	58 7
Up to 70%	-	0 2	2 8	6 5	6 0	1 0	0 1	16 6
Up to 80%	-	-	-	0 3	0 9	0 5	-	1 7
Up to 90%	-	-	-	0 1	0 4	-	-	0 5
Total	134 9	190 0	155 0	73 8	26 8	4 7	0 2	585 4

The LTVs in the table above are as at 31 December 2012 LTVs are published quarterly, (January, April, July and October), in the Investor Report

(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 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 to a limited extent, within policy guidelines agreed by the Board of Directors and overseen by Group Financial Risk which monitors implementation of the policy, exposure levels and supports large or complex transactions Derivatives are used for risk hedging purposes 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 loans will be repaid prior to their expected maturity This risk is mitigated by repayment charges applied to early redemptions Prepayment would result in early termination payments on the swap with embedded loan Under the terms of this liquidity arrangement the Company is committed to make a series of scheduled payments commencing in May 2028, which are required to be prepaid if cash is available The present value of such prepayments, which represents the fair value, is partially dependent on long term swap rates At year end it is estimated that such amounts will be £44 5 million *(2011 £42 6 million)* in excess of the amortised cost of the loan

(c) Credit risk

Credit risk is the risk of loss in the value of financial assets due to counterparties failing to meet all or part of their obligations, or changes to the market value of assets caused by changed perceptions of the credit worthiness of such counterparties 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

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

	Carrying value in the statement of financial position £'000	Collateral held £'000	2012 Net credit exposure £'000
Loans	**585,377**	**585,377**	-

	Carrying value in the statement of financial position £'000	Collateral held £'000	2011 Net credit exposure £'000
Loans	553,443	553,443	-

Additional information in respect to collateral is provided in notes 8(b)

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

(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

Liquidity is also provided to the Company through the swap agreement (see note 20) and the Company has a committed but undrawn 364 day borrowing facility of £140 0 million *(2011 £185 0 million)*, which has been sized to cover significant stresses on mortgage cash flows (see note 17)

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

	Within 1 year £m	1-5 years £m	Over 5 years £m	2012 No contractual maturity £m
Liabilities				
Borrowings	**37.8**	**91.2**	**685.5**	**66.8**
Deferred consideration	**-**	**-**	**-**	**18.4**
Derivative financial liabilities	**1.7**	**5.6**	**143.4**	**-**
Payables and other financial liabilities	**0.9**	**-**	**-**	**-**

	Within 1 year £m	1-5 years £m	Over 5 years £m	2011 No contractual maturity £m
Liabilities				
Borrowings	29 8	103 4	701 5	20 7
Deferred consideration	-	-	-	13 7
Derivative financial liabilities	1 2	3 9	143 7	-
Payables and other financial liabilities	0 5	-	-	-

The carrying value of the loan notes is £55 0 million higher *(2011 £31 0 million higher)* than the anticipated payment at maturity

20. Derivative financial instruments

In June 2003, the Company entered into an interest rate swap agreement consisting of an interest rate swap and embedded loan, the purpose of which is to protect the Company both from interest rate risk in respect of the A1 floating rate notes and to provide liquidity to the Company The notional amount outstanding as at 31 December 2012 was £60 0 million *(2011 £60 0 million)* and the swap had an expiry date of April 2028 Under the terms of the swap the Company receives interest of three month LIBOR and pays interest of 0 55% of the notional amount, payable quarterly The Company is also committed to making a series of scheduled payments totalling £150 6 million commencing in April 2029

The Company may terminate the swap prior to expiry at which point future interest receipts would be accelerated and received in the form of an early termination payment The market value of this early termination payment has been hedged by the Company through a second termination swap The notional amount outstanding is £42 2 million (*2011 £42 2 million*) the swap has an expiry date of April 2028 If cash is available, future scheduled payments would also be accelerated and repaid The disclosures, detailed above, relate to the synthetic interest rate hedge achieved through these contracts

In June 2003, the Company entered into a further interest rate swap agreement, the purpose of which is to protect the Company from interest rate risk in respect of the B floating rate notes The notional amount outstanding as at 31 December 2012 was £42 0 million *(2011 £42 0 million)* and the swap had an expiry date of April 2038 Under the terms of the swap, the Company receives interest of three month LIBOR and pays interest of 4 78% of the notional amount quarterly

The fair value liability has been disclosed under "Derivative financial liabilities" in note 16

	Contract/ notional amount	**Fair value asset**	**2012 Fair value liability**	Contract/ notional amount	2011 Restated Fair value asset	Fair value liability
	£'000	**£'000**	**£'000**	£'000	£'000	£'000
Interest rate contracts						
Interest rate swaps	**144,200**	**14,586**	**(18,857)**	144,200	12,166	(19,946)

21. Related party transactions

(a) The members of the Board of Directors are listed on page 1 of these financial statements

(b) Expenses payable to related parties

	2012 Expense incurred in year	2011 Expense incurred in year
UKER	**£'000**	£'000
Portfolio administration and cash handling fees	**1,881**	1,881
Interest	**584**	561
Deferred consideration	**7,167**	-
	9,632	2,442

(c) Income receivable from related parties

	2012 Income receivable in year	2011 Restated Income receivable in year
	£'000	£'000
UKER - Deferred consideration	-	2,620

(d) Payable at year end

	2012	2011 Restated
UKER	**£'000**	£'000
Deferred consideration	**33,032**	25,865
Subordinated debt	**22,616**	22,032
Other	**582**	-
	56,230	47,897

(e) Receivable at year end

	2012	2011
	£'000	£'000
UKER	-	170
Other related parties	**328**	-

(f) Key management compensation

Wilmington Trust SP Services (London) Limited received fees of £14,705 *(2011 £14,736)* including VAT during the year to 31 December 2012, in respect of structuring and management services

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

(g) Ultimate parent undertaking and controlling party

The immediate parent undertaking is Equity Release Holdings Limited, a company incorporated in England The ultimate parent undertaking is Wilmington Trust SP Services (London) Limited, a company incorporated in England

The ultimate controlling party is Aviva plc, a company incorporated in England

Aviva plc is the parent undertaking of the smallest and largest group of undertakings to consolidate these financial statements at 31 December 2012 The consolidated financial statements of Aviva plc are available on www.aviva.com or by application to the Group Company Secretary, Aviva plc, St Helen's, 1 Undershaft, London EC3P 3DQ