

Equity Release Funding (No.4) plc

Directors and Officers

Directors

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

Company Secretary

Wilmington Trust SP Services (London) Limited

Independent Auditors

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
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Leeds
LS1 4DL

Registered Office

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Third Floor
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London
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Company Number

Registered in England No. 4986587



Equity Release Funding (No.4) plc

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Equity Release Funding (No.4) plc

Registered in England No. 4986587

Strategic report

The directors present their strategic report for Equity Release Funding (No.4) plc (the Company) for the year ended 31 December 2018.

Review of the company's business

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. 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 (see note 8 to the financial statements).

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 ultimately 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 offset.

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. However, due to the relatively low loan to values of the mortgages, where property price risk remains, house price values would have to be 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.

Financial position and performance

Income for the year is £32.1 million (2017: £32.1 million) and profit before tax is £5,000 (2017: £5,000 profit).

Shareholders' equity has increased by £4,000 (2017: increase of £4,000), reflecting the profit for the year.

Future outlook

The directors consider that the Company will continue to operate in a manner consistent with 2018 into the foreseeable future.

There remains economic uncertainty due to the impact of withdrawing from the European Union, a stagnant property market and/or rising risk-free yields could have the potential to slow the equity release market.

It is recognised that LIBOR will be removed as a benchmark from 2021 and plans are in place to update the valuation models and to renegotiate the various derivatives which currently reference LIBOR.

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.

Equity Release Funding (No.4) plc

Strategic report (continued)

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

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, 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

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

Liquidity Risk

Liquidity risk is the risk that cashflows 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

Operational risk is the risk of loss arising from inadequate or failed internal processes, personnel or systems, or from external events.

The company uses a number of metrics to measure, monitor and control risks and a fuller explanation of these may be found in note 18 to the financial statements.

Key performance indicators (KPIs)


Income for the year is £32.1 million (2017: £32.1 million).

Finance costs and fee and commission expenses for the year are £33.2 million (2017: £33.0 million).

Profit after tax for the year is £4,000 (2017: £4,000 profit).

The decrease in deferred consideration for the year is £1.6 million (2017: £1.0 million decrease).

By order of the Board



Daniel Wynne
Director

24th May 2019

Equity Release Funding (No.4) plc

Directors' report

The directors present their annual report and audited financial statements for Equity Release Funding (No. 4) plc (the Company) for the year ended 31 December 2018.

Directors

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

Mignon Clarke-Whelan resigned as a director of the Company on 12 September 2018.

Robert Sutton was appointed and resigned as a director of the Company on 12 September 2018 and 26 March 2019, respectively

Ioannis Kyriakopoulos was appointed as a director of the Company on 26 March 2019.

Dividend

The directors do not recommend the payment of a dividend for the year (2017: *£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) and management of its risks including market, credit and liquidity risk (note 18).

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.

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 18 to the financial statements.

Future developments

Expected future developments of the Company are included within the 'Future outlook' section of the strategic report.

Disclosure of information to the independent 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, of which the independent auditors are unaware;

and

- each director has 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 independent auditors are aware of that information.

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

Equity Release Funding (No.4) plc

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

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.

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.

Statement of directors' responsibilities

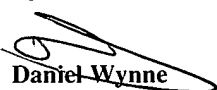
The directors are responsible for preparing the strategic report, directors' report and the financial statements in accordance with applicable law and regulations.

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 IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements; 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 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


Daniel Wynne

Director

24th May 2019

Equity Release Funding (No.4) plc

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 2018 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; 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 Audited Financial Statements (the "Annual Report"), which comprise: the statement of financial position as at 31 December 2018; the income statement, the statement of changes in equity, 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 those charged with governance.

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 to the Company.

We have provided no non-audit services to the Company in the period from 1 January 2018 to 31 December 2018.

Our audit approach

Overview

Materiality	<ul style="list-style-type: none">• Overall materiality: £7,603,930 (2017: £7,367,010), based on 1% of total assets.
Audit scope	<ul style="list-style-type: none">• 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 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 annual report and 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 Aviva as administrator and servicer, and the industry in which the Company operates.• We obtained an understanding of the control environment in place at the administrator and adopted a controls and substantive testing approach.

Equity Release Funding (No.4) plc

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

Key audit matters

- Valuation of equity release mortgages.
 - Risk of error in the priority of payments.
-

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. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

Capability of the audit in detecting irregularities, including fraud

Based on our understanding of the Company and industry, we identified that the principal risks of non-compliance with laws and regulations related to the Companies Act 2006 and UK tax legislation, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the preparation of the financial statements such as the Companies Act 2006 and UK tax legislation. 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 management bias in accounting estimates and judgmental areas of the financial statements as shown in our "Key Audit Matters". Audit procedures performed by the engagement team included:

- Discussions with the Board, management, internal audit, senior management involved in the Risk and Compliance functions and the Company's legal function, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Evaluation and testing of the operating effectiveness of management's controls designed to prevent and detect irregularities;
- Reviewing relevant meeting minutes including those of the Risk Committee and Audit Committee;
- Reviewing the Company's register of litigation and claims, internal audit reports and, compliance reports in so far as they related to non-compliance with laws and regulations and fraud;
- Identifying and testing journal entries, in particular any journal entries posted with unusual account combinations or posted by senior management;
- Designing audit procedures to incorporate unpredictability around the nature, timing or extent of our testing of areas identified as having an increased risk; and
- Testing transactions entered into outside of the normal course of the Company's business.

There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it. 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.

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.

Equity Release Funding (No.4) plc

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

<i>Key audit matter</i>	<i>How our audit addressed the key audit matter</i>
<p><i>Valuation of equity release mortgages</i></p> <p>The valuation of equity release mortgages continues to be an area of inherent risk as it involves complex calculations and estimation of assumptions and inputs for which market observable data is not available.</p>	<p>We assessed the Directors' approach to valuation for these hard to value investments by performing the following procedures:</p> <p>We agreed data inputs to underlying documentation on a sample basis.</p> <p>We evaluated the methodology and assumptions used by management, including yield curves, discounted cash flows, property growth rates, longevity and liquidity premiums as relevant to each asset class.</p> <p>We tested the operation of data integrity and change management controls for the models, which we baseline every three years.</p> <p>We reconciled the model output to the financial statements and assessed the disclosures in the financial statements.</p> <p><i>Based on the work performed and the evidence obtained, we consider the assumptions used by management to be appropriate.</i></p>
<p><i>Risk of error in the priority of payments</i></p> <p>The priority of payments (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 principal priority of payments are outlined in the transaction documents. The transaction documents also include triggers and trigger events, the breach or occurrence of which may affect the waterfall and therefore the financial statements.</p> <p>We focused our audit testing on the revenue and principal waterfall, agreeing the order of payment back to the order in the transaction documents. Our audit approach also included testing of the repayments of debt securities in issue in line with the transaction documents and the recalculation of interest expense and accrued interest expense.</p>	<p>The following work was undertaken by us as part of the audit:</p> <p>We understood the design of the structure through a combination of inquiry with management and reviewing the transaction documents. This enabled us to understand the revenue and principal priority of payments of the Company as well as the relevant triggers and trigger events.</p> <p>We reviewed the investor reports and minutes of the meetings of the board of directors in the year and up to the signing of the financial statements to identify and investigate any unusual trends or incidents that would indicate a misstatement in the preparation and calculation of the waterfalls.</p> <p>We tested that the priority of payments applied was in line with the transaction documents and the occurrence of any trigger breaches or trigger events per the transaction documents and any impact on the waterfall and financial statements.</p> <p>We tested the payments in the waterfall including expenses, interest and principal payments on notes and notes outstanding at the year-end.</p> <p>We tested the interest expense using interest rates set out in the transaction documents and, where applicable, independently sourced reference interest rates.</p> <p><i>We found no material exceptions in performing these tests.</i></p>

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.

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:

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

Overall materiality	£7,603,930 (2017: £7,367,010).
How we determined it	1% of total assets.
Rationale for benchmark applied	The entity is a not-for-profit whose main priority is to remit the cash received in respect of its assets so as to repay its liabilities. As such total assets is considered an appropriate benchmark. Where total assets is used, if the Company is a public interest entity, a rule of thumb of up to 1% can be applied. We have deemed this to be a public interest entity and have therefore applied 1% due to the fact the entity has listed debt.

We agreed with those charged with governance that we would report to them misstatements identified during our audit above £380,197 (2017: £368,351) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the Company's trade, customers, suppliers and the wider economy.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require 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 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

Equity Release Funding (No.4) plc

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

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 set out on page 6, 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.

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 received 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 Aviva Group Audit Committee, 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

Equity Release Funding (No.4) plc

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

periods. The period of total uninterrupted engagement is 7 years, covering the years ended 31 December 2012 to 31 December 2018.



Martin Cross (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Leeds
24th May 2019

Equity Release Funding (No.4) plc

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 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), and those parts of the Companies Act 2006 applicable to those reporting under IFRS. The financial statements have been prepared under the historical cost convention, except for mortgage loans and those financial assets and financial liabilities (including derivative instruments) at fair value through profit and loss.

The financial statements are prepared on the going concern basis.

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, interpretations and amendments to published standards that have been adopted by the Company

(i) IFRS 9, Financial Instruments

In July 2014, the IASB published IFRS 9, Financial Instruments which will replace IAS 39 Financial Instruments: Recognition and Measurement. The standard incorporates new classification and measurements requirements for financial assets, the introduction of an expected credit loss impairment model which replaces the incurred loss model of IAS 39, and new hedge accounting requirements. Under IFRS 9, all financial assets are measured at either amortised cost or fair value. The basis of classification will depend on the business model and the contractual cash flow characteristics of the financial assets. The standard retains most of IAS 39's requirements for financial liabilities except for those designated at fair value through profit or loss whereby that part of the fair value changes attributable to own credit is to be recognised in other comprehensive income instead of the income statement. The hedge accounting requirements are more closely aligned with risk management practices and follow a more principle based approach.

The Company has adopted IFRS 9 from 1 January 2018. The standard does not have a significant impact on the Company's financial statements.

(i) IFRS 15, Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15 Revenue from Contracts with Customers. This standard applies to annual reporting periods beginning on or after 1 January 2018 and has been endorsed by the EU. This standard replaces IAS 18 Revenue.

The scope of IFRS 15 includes all contracts where the Company has agreed to provide goods or services to a customer, except for the following:

- Insurance contracts (IFRS 4 / IFRS 17)
- Financial instruments (IAS 39 / IFRS 9)
- Leases (IAS 17 / IFRS 16)

The standard does not have a significant impact on the Company's financial statements.

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Accounting policies (continued)

(iii) Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions

In June 2016, the IASB issued amendments to IFRS 2 Share-based Payment. The amendments are effective from 1 January 2018. The adoption of this amendment does not have an impact on the Company's financial statements.

(iv) Annual Improvements to IFRSs 2014-2016

These improvements consist of amendments to four IFRSs including IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 12 Disclosure of Interests in Other Entities and IAS 28 Investments in Associates. The amendments to IFRS 1 and IAS 28 are effective for annual reporting periods beginning on or after 1 January 2018.

The adoption of this amendment does not have an impact on the Company's financial statements as the clarifications are consistent with our existing interpretation.

(v) Amendments to IAS 40 – Transfers of Investment Property

In December 2016, the IASB published amendments to IAS 40 Investment Property. The amendments are effective from 1 January 2018 and have been endorsed by the EU.

The adoption of this amendment does not have an impact on the Company's financial statements.

(vi) IFRIC 22, Foreign Currency Transactions and Advance Consideration

In December 2016, the IASB published IFRIC 22 Foreign Currency Transactions and Advance Consideration. The standard is effective for annual reporting beginning on or after 1 January 2018 and has been endorsed by the EU.

The adoption of this amendment does not have an impact on the Company's financial statements.

Standards issued but not yet effective

The following new standards, amendments to existing standards have been issued, apart from IFRS 17, Insurance Contracts, they are not yet effective 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 that was issued in 2005. IFRS 17 applies to all types of insurance contracts as well as to certain guarantees and financial instruments with discretionary participation features. In contrast to the requirements in IFRS 4, which are largely based on grandfathering of previous local accounting policies, IFRS 17 provides a comprehensive and consistent approach to insurance contracts. The core of IFRS 17 is the general model, supplemented by a specific adaption for contracts with direct participation features (the variable fee approach) and a simplified approach (the premium allocation approach) mainly for short-duration contracts.

The main features of the new accounting model for insurance contracts are, as follows: the measurement of the present value of future cash flows incorporating an explicit risk adjustment and remeasured every reporting period (the fulfilment cash flows); a contractual service margin that is equal and opposite to any day one gain in the fulfilment cash flows of a group of contracts, representing the unearned profit of the insurance contracts to be recognised in profit or loss over the service period (coverage period); the presentation of insurance revenue and insurance service expenses in the statement of comprehensive income based on the concept of insurance services provided during the period; and extensive disclosures to provide information on the recognised amounts from insurance contracts and the nature and extent of risks arising from these contracts.

The impact of the adoption of IFRS 17 has yet to be fully assessed by the Company but it is expected there may be significant impacts relating to the measurement and presentation of the contracts in scope of the standard. This standard applies to annual reporting periods beginning on or after 1 January 2022 and has not yet been endorsed by the EU.

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Accounting policies (continued)

(ii) IFRS 16 Leases

In January 2016, the IASB published IFRS 16 Leases which will replace IAS 17 Leases. IFRS 16 introduces a definition of a lease with a single lessee accounting model eliminating the classification of either operating or finance leases. Lessees will be required to account for all leases in a similar manner to the current finance lease accounting recognising lease assets and liabilities on the statement of financial position. Lessor accounting remains similar to current practice.

(iii) IFRIC 23, Uncertainty over Income Tax Treatments

In June 2017, the IASB published IFRIC 23 Uncertainty over Income Tax Treatments. The standard is effective for annual reporting beginning on or after 1 January 2019 and has been endorsed by the EU.

(iv) Amendments to IAS 19 – Plan Amendment, Curtailment or Settlement

In February 2018, the IASB published Plan Amendment, Curtailment or Settlement (Amendments to IAS 19). The amendments are effective for annual reporting beginning on or after 1 January 2019 and have not yet been endorsed by the EU.

(v) Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures

In October 2017, the IASB published Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28). The amendments are effective for annual reporting beginning on or after 1 January 2019 and have not yet been endorsed by the EU.

(vi) Annual Improvements to IFRS Standards 2015-2017 Cycle

These improvements consist of amendments to four IFRSs including IFRS 3 Business Combinations, IFRS 11 Joint Arrangements, IAS 12 Income taxes and IAS 23 Borrowing Costs. The amendments are effective for annual reporting beginning on or after 1 January 2019 and have not yet been endorsed by the EU.

(vii) Amendments to References to the Conceptual Framework in IFRS Standards

Published by the IASB in March 2018. The amendments are effective for annual reporting beginning on or after 1 January 2020 and have not yet been endorsed by the EU.

(viii) Amendment to IFRS 3 Business Combinations

Published by the IASB in October 2018. The amendments are effective for annual reporting beginning on or after 1 January 2020 and have not yet been endorsed by the EU.

(B) Critical accounting estimates and judgements

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 (see policy note I). Major areas of estimation on policy application are summarised below:

- (i) Estimation of fair value of loan assets (set out in policy I and note 8)
- (ii) Estimation of fair value of borrowings (set out in policy N and note 14)

All estimates are based on management's knowledge of current facts and circumstances, assumptions based on that knowledge and their predictions of future events and actions. Actual results may differ from those estimates, possibly significantly. The list below sets out those items we consider particularly susceptible to changes in estimates and assumptions, and the relevant accounting policy:

- (i) Financial instruments (set out in policy G and note 7)
- (ii) Derivative financial instruments (set out in policy H and note 7)
- (iii) Deferred consideration (set out in policy L)
- (iv) Borrowings (set out in policy N and note 7)
- (v) Payables and other financial liabilities (set out in policy P and note 7)

Equity Release Funding (No.4) plc

Accounting policies (continued)

The sensitivity of fair value of these items to 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) 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.

(E) 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.

(F) 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.

(G) Financial instruments

The Company classifies the lifetime mortgages and the associated liabilities and derivative financial instruments 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.

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.

Under IAS 39, 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 investments are included in the income statement in the period in which they arise.

Equity Release Funding (No.4) plc

Accounting policies (continued)

(H) Derivative financial instruments

Derivative financial instruments include interest rate swaps, interest rate options and other financial instruments that derive their value mainly from underlying interest rates. All derivatives are initially recognised in the statement of financial position at their fair value, which usually represents their cost. They are subsequently re-measured at their fair value. 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 Group's exposure to credit risk.

The Company has collateral agreements in place between relevant counterparties. Accounting policy J below covers collateral, both received and pledged, in respect of these derivatives.

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. Most 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.

(I) Loans

Lifetime mortgages were securitised and are not recognised in the books of UKER. The company maintains control of the mortgages after the securitisation.

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, as described in note 7. They are revalued at each period end, with movements in their fair value being taken to the income statement.

(J) Collateral

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

Equity Release Funding (No.4) plc

Accounting policies (continued)

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 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 in 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 at 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 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. The Company is within the permanent regime for taxation of securitisation companies, under which they are taxed by reference to their contractually retained profits (to the extent that they are realised). Taxable profits under the permanent regime will normally equal the contractual profit as defined by the original transaction documentation. Consequently, neither current tax nor deferred tax will be affected by any fair value gains or losses arising on derivatives and other financial instruments.

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

Borrowings that provide liquidity only are valued at amortised cost. The effective interest rate method is used for loans held at amortised cost, which consist of amounts owed to credit institutions.

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:

Equity Release Funding (No.4) plc

Accounting policies (continued)

- (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) 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 section H.

Equity Release Funding (No.4) plc
Income statement
For the year ended 31 December 2018

	Note	2018 £'000	2017 £'000
Income			
Interest and similar income	E & 1	41,228	41,940
Unrealised losses on financial instruments	G & 1	(10,653)	(11,814)
Fee and commission income	D & 1	1,524	1,949
		<u>32,099</u>	<u>32,075</u>
Expenses			
Fee and commission expense	F & 2	(1,619)	(1,553)
Other operating income	2	1,134	912
Finance costs	2	(31,609)	(31,429)
		<u>(32,094)</u>	<u>(32,070)</u>
Profit before tax		<u>5</u>	<u>5</u>
Tax charge	M & 6	(1)	(1)
Profit for the year		<u>4</u>	<u>4</u>


The Company has no other comprehensive income.

The accounting policies (identified alphabetically) on pages 13 to 19 and notes (identified numerically) on pages 24 to 41 are an integral part of these financial statements.

Equity Release Funding (No.4) plc
Statement of financial position
As at 31 December 2018

	Note	2018 £'000	2017 £'000
Assets			
Loans	G, I & 8	620,638	606,848
Receivables	P & 9	9,270	8,400
Prepayments and accrued income		53	19
Cash at bank and in hand	K & 16(b)	130,432	121,434
Total assets		760,393	736,701
Equity			
Ordinary share capital	O & 10	13	13
Retained earnings	11	44	40
Total equity		57	53
Liabilities			
Tax liabilities	M & 12	1	1
Deferred consideration	L & 13	11,603	13,229
Borrowings	N & 14	442,400	396,458
Payables and other financial liabilities	G, H, P & 15	306,332	326,960
Total liabilities		760,336	736,648
Total equity and liabilities		760,393	736,701

The financial statements were authorised for issue by the Board of directors on 24th May 2019 and were signed on its behalf by


Daniel Wynne
Director

The accounting policies (identified alphabetically) on pages 13 to 19 and notes (identified numerically) on pages 24 to 41 are an integral part of these financial statements.

Equity Release Funding (No.4) plc
Statement of changes in equity
For the year ended 31 December 2018

	Note	Ordinary share capital £'000	Retained earnings £'000	Total equity £'000
Balance at 1 January 2017		13	36	49
Profit for the year	11	-	4	4
Balance at 31 December 2017		13	40	53
Profit for the year	11	-	4	4
Balance at 31 December 2018		13	44	57

The accounting policies (identified alphabetically) on pages 13 to 19 and notes (identified numerically) on pages 24 to 41 are an integral part of these financial statements.

Equity Release Funding (No.4) plc
Statement of cash flows
For the year ended 31 December 2018

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

	Note	2018 £'000	2017 £'000
Cash flows from operating activities			
Cash generated from operations	16(a)	20,501	10,400
Tax paid		(1)	(1)
Net cash generated from operating activities		20,500	10,399
Cash flows from financing activities			
Repayment of borrowings		(11,502)	(9,139)
Net cash used in financing activities		(11,502)	(9,139)
Net increase in cash and cash equivalents		8,998	1,260
Cash and cash equivalents at 1 January		89,423	88,163
Cash and cash equivalents at 31 December	16(b)	98,421	89,423

The accounting policies (identified alphabetically) on pages 13 to 19 and notes (identified numerically) on pages 24 to 41 are an integral part of these financial statements.

Equity Release Funding (No.4) plc
Notes to the financial statements
For the year ended 31 December 2018

1. Income

	2018	2017
	£'000	£'000
Interest and similar income	41,228	41,940
Financial instruments		
Unrealised gains on derivative contracts	21,038	12,879
Unrealised gains/ on mortgage loans	12,502	16,878
Unrealised losses on loan notes	(44,193)	(41,571)
	(10,653)	(11,814)
Fee and commission income	1,524	1,949
Total income	32,099	32,075

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 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. Expenses

	2018	2017
	£'000	£'000
Fee and commission expense	1,619	1,553
Other operating income		
Audit fees	56	63
Realised losses due to negative equity	436	72
Decrease in deferred consideration	(1,626)	(1,047)
	(1,134)	(912)
Finance costs		
Interest expense		
Securitised mortgage loan notes	5,239	4,195
Credit facility	11,328	11,769
Liquidity facility	348	205
Interest rate swap	13,681	13,654
Inflation rate swap	1,726	1,399
Other finance costs	287	207
	31,609	31,429
Total expenses	33,094	32,070

There were no employees during the year (2017: none).

Equity Release Funding (No.4) plc
Notes to the financial statements
For the year ended 31 December 2018 (continued)

3. Employee information

The Company has no employees (2017: 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' emoluments

Wilmington Trust SP Services (London) Limited received fees of £13,423 (2017: £13,376) including VAT during the year to 31 December 2018 in respect of structuring and management services.

5. Independent auditors' remuneration

	2018 £'000	2017 £'000
Fees for the statutory audit of the Company's financial statements for the year	52	60

In addition, a proportion of audit fees in respect of the audit of a fellow group undertaking are borne by the Company, bringing the total audit fees paid to £56,000 (2017: £63,000)

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 21), are required to disclose other (non-audit) services on a consolidated basis.

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 PwC LLP.

6. Tax charge

(a) Tax charged to the income statement

The total tax charged to the income statement is as follows:

	2018 £'000	2017 £'000
Current tax		
For the year	1	1
Total tax charged to the income statement (note 6(b))	1	1

(b) Tax reconciliation

The tax on the Company's profit before tax is the same as (2017: the same rate) the tax calculated at the standard UK corporation tax rate as follows:

	2018 £'000	2017 £'000
Profit before tax	5	5
Tax calculated at standard UK corporation tax rate of 19% (2017: 19.25%)	1	1
Total tax charge for the year (note 6(a))	1	1

Equity Release Funding (No.4) plc
Notes to the financial statements
For the year ended 31 December 2018 (continued)

Finance Act 2016, which received Royal Assent on 15 September 2016, will reduce the corporation tax rate to 17% from 1 April 2020. The changes in future tax rates are not expected to have any material impact on the Company's net assets.

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:

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

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

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

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

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

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

- where the broker 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 broker prices, or the observability of inputs used by brokers is unavailable, the investment is classified as Level 3

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

Inputs to Level 3 fair values are unobservable inputs for the asset or liability. Unobservable inputs may have been used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date from the perspective of a market participant that holds the asset or owes the liability. Therefore, unobservable inputs reflect the assumptions the business unit considers that market participants would use in pricing the asset or liability. Examples are lifetime mortgage loans and the associated borrowings backing these loans.

Changes to valuation techniques

There were no changes in the valuation techniques during the year compared to those described in the 2017 financial statements.

Equity Release Funding (No.4) plc
Notes to the financial statements
For the year ended 31 December 2018 (continued)

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
- Prepayments and accrued income
- Cash and cash equivalents
- Borrowings carried at amortised cost
- Payables and other financial liabilities (excluding derivative liabilities)
- Tax liabilities

(b) Fair value hierarchy analysis

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

	2018	
	Fair Value Hierarchy	
	Level 2	Level 3
	£'000	£'000
		Total
		Fair Value
		£'000
Financial assets		
Loans	-	620,638
Financial liabilities		
Borrowings	-	(190,559)
Derivative liabilities	(108,970)	(164,421)
		(273,391)
		2017
	Fair Value Hierarchy	
	Level 2	Level 3
	£'000	£'000
		Total
		Fair Value
		£'000
Financial assets		
Loans	-	606,848
Financial liabilities		
Borrowings	-	(144,436)
Derivative liabilities	(110,212)	(184,217)
		(294,429)

Transfers between levels of the fair value hierarchy

For recurring fair value measurements, the Company determines whether transfers have occurred between the 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. If transaction prices used in the valuation of loans and loan notes becomes stale, and in the absence of any additional market transactions, the instruments may be reclassified.

There were no transfers from fair value hierarchy Level 2 to Level 3 (2017: £184.2 million in respect of derivatives).

Equity Release Funding (No.4) plc
Notes to the financial statements
For the year ended 31 December 2018 (continued)

(c) Further information on Level 3 financial instruments

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

	2018			2017		
	Loans	Derivative liabilities	Borrowings	Loans	Derivative Liabilities	Borrowings
	£'000	£'000	£'000	£'000	£'000	£'000
Total funds						
Balance at 1 January	606,848	(184,217)	(144,436)	583,848	-	(101,171)
Accrued interest	40,647	-	(1,930)	41,717	-	(1,694)
Redemptions	(39,359)	-	-	(35,595)	-	-
Gains/(losses) recognised in the year	12,502	19,796	(44,193)	16,878	-	(41,571)
Transfers in to Level 3	-	-	-	-	(184,217)	-
Balance at 31 December	620,638	(164,421)	(190,559)	606,848	(184,217)	(144,436)

The net result recognised in the income statement during the year for Level 3 assets and liabilities is a loss of £11.9 million (2017: loss of £24.7 million).

Lifetime mortgage loans amounting to £620.6 million (2017: £606.8 million) and securitised mortgage loan notes amounting to £190.6 million (2017: £144.4 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 150bps to 205bps.
- Property growth rates which are based on real world assumptions of the house price growth rate and which average RPI + 0.75%. These equate to a long-term growth rate of 4.3% pa. 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.

The table below shows the sensitivity of the fair value of Level 3 investments at 31 December 2018 to changes in unobservable inputs to a reasonable alternative:

	2018		Change in fair value	
	Fair value	Most significant	Positive impact	Negative impact
	£m	unobservable inputs	£m	£m
Lifetime mortgage loans	620.6	Credit spreads – 50bps	32.2	(29.8)
		House price valuation -10%	22.7	(26.6)
Securitised mortgage loan notes	(190.6)	Credit spreads – 50bps	29.8	(32.1)

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

Equity Release Funding (No.4) plc
Notes to the financial statements
For the year ended 31 December 2018 (continued)

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

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 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. UKER administers the mortgage portfolio.

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

	2018 £'000	2017 £'000
Lifetime mortgage loans	620,638	606,848

Of the above total, £591.0 million (2017: £577.0 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 loss of £13.1 million (2017: gain of £25.0 million). The cumulative change attributable to changes in credit risk to 31 December 2018 was a loss of £101.4 million (2017: loss of £88.4 million). The amount has been determined as the amount that is not attributable to changes in market conditions that give rise to market risk. 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

	2018 £'000	2017 £'000
Amounts due from ERF Trustee (No.4) Limited	9,270	8,314
Amounts due from other related parties	-	86
	9,270	8,400

Of the above total £nil (2017: £nil) is expected to be recovered more than one year after the statement of financial position date.

Equity Release Funding (No.4) plc
Notes to the financial statements
For the year ended 31 December 2018 (continued)

10. Ordinary share capital

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

	2018 £	2017 £
The authorised share capital of the Company was: 100,000 ordinary shares of £1 each (2017: 100,000)	100,000	100,000
The allotted, called up and fully paid share capital of the Company was: 2 ordinary shares of £1 each (2017: 2)	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) (2017: 49,998)	12,500	12,500
	12,502	12,502

All shares are of the same class and rank *pari passu*.

11. Retained earnings

	2018 £'000	2017 £'000
Balance at 1 January	40	36
Profit for the year	4	4
At 31 December	44	40

12. Tax liabilities

General

The current tax liability is £1,000 (2017: £1,000) Tax liability payable in more than one year is £nil (2017: £nil).

13. Deferred consideration

	2018 £'000	2017 £'000
Balance at 1 January	13,229	14,276
Decrease in deferred consideration	(1,626)	(1,047)
Balance at 31 December	11,603	13,229

All of the above consideration (2017: *all*) is expected to be paid more than one year after the statement of financial position date.

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.

Equity Release Funding (No.4) plc
Notes to the financial statements
For the year ended 31 December 2018 (continued)

14. Borrowings

(a) Carrying amount

	2018 £'000	2017 £'000
Securitised mortgage loan notes	190,559	144,436
Amounts owed to credit institutions	251,841	252,022
	442,400	396,458

The carrying amount of the above borrowings that are stated at amortised cost is £251.8 million (2017: £252.0 million). Amortised cost is a reliable estimate of the fair value of these borrowings.

The change in fair value of mortgage loan notes during the year attributable to a change in credit risk was a loss of £1.4 million (2017: £2.5 million). The cumulative change attributable to changes in credit risk to 31 December 2018 was a gain of £67.2 million (2017: £68.6 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.

Of the above total £ 421.7 million (2017: £ 377.0 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 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 the other notes at 31 December 2018 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. All classes of loan notes 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:

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

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.

Equity Release Funding (No.4) plc
Notes to the financial statements
For the year ended 31 December 2018 (continued)

Unless previously redeemed in full, each class of notes should 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 2017, 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 2018 was £200.2 million (2017: £200.4 million), which has been netted down by £1.7 million (2017: £2.0 million) for an unamortised premium which was paid on inception of the loan. The Company has a committed facility of £200.1 million (2017: £200.6 million) which was fully drawn on in 2017, 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 available 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 2018, the undrawn balance was £nil (2017: £nil).

15. Payables and other financial liabilities

	2018 £'000	2017 £'000
Derivative financial liabilities (notes 6(b) and 18)	273,391	294,429
Collateral amounts payable	32,011	32,011
Amounts due to UKER	632	434
Amounts due to other related parties	-	-
Other financial liabilities	298	86
	306,332	326,960

Of the above total £289.9 million (2017: £310.0 million) is expected to be paid more than one year after the statement of financial position date.

Equity Release Funding (No.4) plc
Notes to the financial statements
For the year ended 31 December 2018 (continued)

16. Statement of cash flows

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

	2018 £'000	2017 £'000
Profit before tax	5	5
Adjustments for:		
Fair value gains on mortgage loans	(12,502)	(16,878)
Fair value losses on loan notes	44,193	41,571
Fair value gains on derivatives	(21,038)	(12,879)
Interest receivable on mortgage loans	(40,647)	(41,717)
Amortisation of credit facility premium	297	309
Changes in working capital:		
Increase in receivables	(870)	(1,074)
(Increase)/decrease in prepayments and accrued income	(34)	362
Decrease in deferred consideration	(1,626)	(1,047)
Decrease in payables and other financial liabilities	410	(6,714)
Increase in interest on borrowings	12,954	12,867
Proceeds from redemption of mortgages	39,359	35,595
Cash generated from operations	20,501	10,400

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:

	2018 £'000	2017 £'000
Cash at bank and in hand	130,432	121,434
Less: Cash held as collateral on derivative contracts	(32,011)	(32,011)
Cash and cash equivalents	98,421	89,423

17. 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 shareholders' equity of £57,000 (2017: £53,000) as capital.

18. Risk management

(a) Risk management framework

The Group operates a risk management framework that forms an integral part of the management and Board processes and decision-making framework across the Group, including the Company. The key elements of the risk management framework comprise risk appetite; risk governance, including risk policies and business standards,

Equity Release Funding (No.4) plc
Notes to the financial statements
For the year ended 31 December 2018 (continued)

risk oversight committees and roles and responsibilities; and the processes the Group 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 Group'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 Group 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 Group has a set of risk policies and business standards which set out the risk strategy, appetite, framework and minimum requirements for the Group's operations. The business chief executive officer makes an annual declaration that the system of governance and internal controls was effective and fit for purpose for their business throughout the year; this declaration is supported by an opinion from the Chief Risk Officer.

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 Group 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.

Risk models are an important tool in the measurement of risks and are used to support the monitoring and reporting of the risk profile and in the consideration of the risk management actions available. The Company carries out a range of stress (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.

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

Board oversight of risk and risk management across the 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 the business is willing to take. Risk appetites are set relative to capital and liquidity.

Further information on the types and management of specific risk types is given in sections (b) to (d) below.

(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, 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 reviews 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

Equity Release Funding (No.4) plc
Notes to the financial statements
For the year ended 31 December 2018 (continued)

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.

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%	22.7	41.6	40.0	16.4	7.0	0.8	0.3	128.8
Up to 50%	22.9	45.6	62.0	35.5	5.1	0.5	-	171.6
Up to 60%	9.7	34.7	52.7	35.6	10.9	2.2	-	145.8
Up to 70%	2.1	16.4	35.2	25.1	11.1	2.2	-	92.1
Up to 80%	1.0	3.3	15.6	19.2	5.8	0.7	-	45.6
Up to 90%	-	0.8	3.8	11.7	5.7	1.1	0.4	23.5
Up to 100%	-	0.1	1.0	1.4	1.8	0.4	-	4.7
Over 100%	-	-	1.0	2.8	2.4	2.3	-	8.5
Total	58.4	142.5	211.3	147.7	49.8	10.2	0.7	620.6

The LTVs in the table above are as at 31 December 2018. LTVs are published quarterly, (January, April, July and October), in the Investor Report. Investor Reports are available at www.erefunding.co.uk.

(ii) Interest rate risk

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

Equity Release Funding (No.4) plc
Notes to the financial statements
For the year ended 31 December 2018 (continued)

(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. This risk is mitigated by repayment charges applied to early redemptions.

(c) Credit risk

Credit risk is the risk of adverse financial impact resulting from fluctuations in credit quality of third parties including default, rating transition and credit spread movements. The credit ratings of financial institutions to which the Company is exposed are monitored and if these fall below a certain threshold collateralisation or other risk mitigation techniques are implemented.

The carrying amount of assets included in the statement of financial position represents the maximum credit exposure of the Company at the statement of financial position date. There are no financial assets which are either past due or impaired.

Concentrations of credit risk

Individual loans represent little credit risk as the debt is ultimately repayable from the proceeds of the sale of the property on death of the mortgagee or on their transfer to long-term care. The impact of collateral held on the net credit exposure is shown below.

	Carrying value in the statement of financial position £'000	Collateral held £'000	2018 Net credit exposure £'000
Loans	620,638	612,126	8,512
			2017
	Carrying value in the statement of financial position £'000	Collateral held £'000	Net credit exposure £'000
Loans	606,848	606,848	-

Additional information in respect to collateral is provided in note 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.

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

Equity Release Funding (No.4) plc
Notes to the financial statements
For the year ended 31 December 2018 (continued)

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 Group is exposed to counterparty credit risk through derivative trades. This risk is generally mitigated through holding collateral where appropriate. Residual exposures are captured within the Group's credit management framework.

(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 provided to the company through a committed liquidity facility of £51.6 million and a committed credit facility of £200.1 million, which have been sized to cover significant stresses on mortgage cash flows.

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	2018 No contractual maturity £m
Liabilities				
Borrowings	4.8	22.2	296.5	251.8
Deferred consideration	-	-	-	11.6
Derivative financial liabilities	13.9	55.7	254.1	-
Payables and other financial liabilities	0.9	-	-	32.0
				2017

Equity Release Funding (No.4) plc
Notes to the financial statements
For the year ended 31 December 2018 (continued)

	Within 1 year £m	1-5 years £m	Over 5 years £m	No contractual maturity £m
Liabilities				
Borrowings	3.4	20.2	314.8	252.0
Deferred consideration	-	-	-	13.2
Derivative financial liabilities	14.9	57.6	271.5	-
Payables and other financial liabilities	0.5	-	-	32.0

The carrying value of the loan notes is £102.9 million lower (2017: £149.1 million lower) than the anticipated payment at maturity.

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 notes. The notional amount outstanding as at 31 December 2018 was £293.5 million (2017: £293.5 million) and the swap had an expiry date of July 2048. Under the terms of the swap, the Company receives interest of three month LIBOR and pays interest of 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 2018 was £87.2 million (2017: £93.0 million) and the swap had an expiry date of July 2046. 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 July 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 2018 was £55.0 million (2017: £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. During 2018 the Company made payments of £nil (2017: £6.6 million) due to movements in the fair value of the derivative contracts. The balance of cash received as collateral held as at 31 December 2018 was £32.0 million (2017: £32.0 million).

Fair value liabilities are disclosed under "Derivative financial liabilities" in note 15.

	2018			2017		
	Contract/ notional amount £'000	Fair value asset £'000	Fair value liability £'000	Contract/ notional amount £'000	Fair value asset £'000	Fair value liability £'000
Interest rate contracts						
Interest rate swap	293,500	-	(164,421)	293,500	-	(184,217)
Options	55,000	-	(606)	55,000	-	(687)
Inflation rate swap	87,204	-	(108,364)	92,981	-	(109,525)
	435,704	-	(273,391)	441,481	-	(294,429)

Equity Release Funding (No.4) plc
Notes to the financial statements
For the year ended 31 December 2018 (continued)

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 ISDA master netting agreements to facilitate the Company's right to offset credit risk exposure. The credit support agreement will normally dictate the threshold over which collateral needs to be pledged by the Company or its counterparty.

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

						2018
						Related amounts not set off in the statement of financial position
	Gross amounts of recognised financial liabilities	Gross amounts of recognised financial assets set off in the statement of financial position	Net amounts of financial liabilities presented in the statement of financial position	Financial instruments	Collateral pledged	Net amount
	£'000	£'000	£'000	£'000	£'000	£'000
Financial liabilities						
Derivatives	273,391	-	273,391	-	-	273,391
Total	273,391	-	273,391	-	-	273,391

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

						2017
						Related amounts not set off in the statement of financial position
	Gross amounts of recognised financial liabilities	Gross amounts of recognised financial assets set off in the statement of financial position	Net amounts of financial liabilities presented in the statement of financial position	Financial instruments	Collateral pledged	Net amount
	£'000	£'000	£'000	£'000	£'000	£'000
Financial liabilities						
Derivatives	294,429	-	294,429	-	-	294,429
Total	294,429	-	294,429	-	-	294,429

Equity Release Funding (No.4) plc
Notes to the financial statements
For the year ended 31 December 2018 (continued)

21. Related party transactions

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

Included within the loan notes issued by the Company are £37.8 million (2017: £28.7 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 (2017: £0.5 million).

(b) Expenses payable to related parties

	2018 Expense incurred in year £'000	2017 Expense incurred in year £'000
UKER – portfolio administration and cash handling services	1,524	1,518
ERF Trustee (No.4) Limited	1,526	1,520
	3,050	3,038

(c) Income receivable from related parties

	2018 Income receivable in year £'000	2017 Income receivable in year £'000
ERF Trustee (No.4) Limited		
Portfolio administration and cash handling fees	1,524	1,518
Bank interest	8	-
Directors' emoluments	2	2
	1,534	1,520

(d) Receivable at year end

	2018 £'000	2017 £'000
ERF Trustee (No.4) Limited	9,270	8,314
Other related parties	-	86
	9,270	8,400

(e) Payable at year end

	2018 £'000	2017 £'000
UKER – Deferred consideration	11,603	13,229
UKER – Other financial liabilities	632	434
Other related parties	-	-
	12,235	13,663

(f) Key management compensation

Wilmington Trust SP Services (London) Limited received fees of £13,423 (2017: £13,376) including VAT during the year ended 31 December 2018 in respect of structuring and management services.

Equity Release Funding (No.4) plc
Notes to the financial statements
For the year ended 31 December 2018 (continued)

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 (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.

The ultimate controlling party is Aviva plc, a company incorporated in England and Wales. Aviva plc is the parent undertaking of the smallest and largest group of undertakings to consolidate these financial statements at 31 December 2018. 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.