

# Equity Release Funding (No.5) plc

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## Directors and Officers

### Directors

M Clarke  
M H Filer  
Wilmington Trust SP Services (London) Limited

### Company Secretary

Wilmington Trust SP Services (London) Limited

### Independent Auditors

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

### Registered Office

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

### Company Number

Registered in England No. 5495271



# Equity Release Funding (No.5) plc

## Contents

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	Page
Directors and officers.....	1
Strategic report.....	3
Directors' report.....	5
Independent auditors' report.....	7
Accounting policies .....	9
Income statement .....	13
Statement of financial position .....	14
Statement of changes in equity .....	15
Statement of cash flows .....	16
Notes to the financial statements .....	17

# Equity Release Funding (No.5) plc

Registered in England No. 5495271

## Strategic report

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The directors present their strategic report for Equity Release Funding (No.5) plc (the Company) for the year ended 31 December 2015.

### 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. Cash flows received from these mortgages upon redemption are utilised to pay expenses and to repay the borrowings of the Company.

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

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 £35.7 million (2014: £65.7 million) and profit before tax is £3,000 (2014: £3,000 profit).

Shareholders' equity has increased by £2,000 (2014: increase of £2,000), reflecting the profit for the year.

### Future outlook

The directors consider that the Company will continue to operate in a manner consistent with 2015 into the foreseeable future.

### Principal risks and uncertainties

The principal risks and uncertainties to which the company is exposed are outlined below:

#### *Market Risk*

Market risk is the risk of adverse financial impact due to changes in fair values or future cash flows of financial instruments from fluctuations in interest rates, equity prices and property prices (HPI). 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.

## **Equity Release Funding (No.5) plc**

### **Strategic report (continued)**

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#### *Liquidity Risk*

Liquidity risk is the risk that if mortgages differ from expected cashflows, arising from 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 £35.7 million (2014: £65.7 million).

Finance costs and fee and commission expenses for the year are £26.0 million (2014: £25.9 million).

Profit after tax for the year is £2,000 (2014: £2,000 profit).

The increase in deferred consideration for the year is £9.6 million (2014: £39.8 million).

By order of the Board



**Mignon Clarke for and on behalf of**  
**Wilmington Trust SP Services (London) Limited**  
*Company Secretary*

8 June 2016

## **Equity Release Funding (No.5) plc**

### **Directors' report**

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The directors present their annual report and audited financial statements for Equity Release Funding (No.5) plc (the Company) for the year ended 31 December 2015.

#### **Directors**

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

#### **Dividend**

The directors do not recommend the payment of a dividend for the year (2014: *£nil*).

#### **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, being information needed by the independent auditors in connection with preparing their report, 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.

#### **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](http://www.aviva.com).

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

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

## **Equity Release Funding (No.5) plc**

### **Directors' report (continued)**

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#### **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. In preparing these financial statements, the directors have also elected to comply with IFRSs issued by the International Accounting Standards Board (IASB). 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, and IFRSs as issued by the IASB, 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



**Mignon Clarke for and on behalf of**  
**Wilmington Trust SP Services (London) Limited**  
*Company Secretary*

*8 June 2016*

# **Equity Release Funding (No.5) plc**

## **Independent auditors' report to the members of Equity Release Funding (No.5) plc**

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### **Report on the financial statements**

#### **Our opinion**

In our opinion, Equity Release Funding (No. 5) plc's financial statements (the financial statements):

- give a true and fair view of the state of the Company's affairs as at 31 December 2015 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.

#### **What we have audited**

Equity Release Funding (No. 5) plc's financial statements comprise:

- the statement of financial position as at 31 December 2015;
- the income statement for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended;
- the accounting policies; and
- the notes to the financial statements, which include other explanatory information.

The financial reporting framework that has been applied in their preparation is IFRSs as adopted by the European Union, and applicable law.

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

#### **Separate opinion in relation to IFRSs as issued by the IASB**

As explained in the Accounting policies to the financial statements, the Company, in addition to applying IFRSs as adopted by the European Union, has also applied IFRSs as issued by the International Accounting Standards Board (IASB). In our opinion the financial statements comply with IFRSs as issued by the IASB.

#### **Opinion on other matter prescribed by the Companies Act 2006**

In our opinion, the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

#### **Other matters on which we are required to report by exception**

##### **Adequacy of accounting records and information and explanations received**

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, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

##### **Directors' remuneration**

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

## **Equity Release Funding (No.5) plc**

### **Independent auditors' report to the members of Equity Release Funding (No.5) plc (continued)**

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#### **Responsibilities for the financial statements and the audit**

##### **Our responsibilities and those of the directors**

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 and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK & Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

##### **What an audit of financial statements involves**


We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the financial statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.



*Gary Shaw (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
Leeds*

**8** June 2016



## **Equity Release Funding (No.5) plc**

### **Accounting policies**

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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. In addition to fulfilling their legal obligation to comply with IFRS as adopted by the EU, the Company has also complied with IFRS as issued by the IASB and applicable at 31 December 2015. The financial statements have been prepared under the historical cost convention, except for mortgage loans and those financial instruments and financial liabilities (including derivative instruments) at fair value through profit and loss.

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

The 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).

Amendments to IAS 19, Employee Benefits became effective for the reporting period beginning on 1 January 2015, along with minor clarifications to existing guidance on a number of other standards. The amendments do not have any impact on the Company's financial statements.

The IASB has issued the following new standards which are not yet effective and have not been adopted early 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 IASB is currently drafting an Exposure Draft to consult on a package of temporary measures that would address the application of IFRS 9 to insurers prior to the publication of the new accounting standard of insurance contracts. A final standard is expected to be issued in 2016. On adoption, the standard will require us to review the classification of certain financial instruments while allowing us to retain fair value measurement as we deem necessary. We have not yet completed our assessment of its impact which is, to a large extent, dependent on the finalisation of the IASB's insurance contracts accounting project.

##### *(ii) IFRS 15, Revenue from Contracts with Customers*

IFRS 15 will replace IAS 18, Revenue, and establishes a model to be applied to all contracts with customers, except for insurance contracts, financial instruments and lease contracts. The impact of the adoption of the new standard has yet to be fully assessed by the Company. The standard applies to accounting periods beginning on or after 1 January 2018 and has 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. These major areas of judgement on policy application are summarised below:

- (i) Estimation of loan assets (set out in policy G and note 7)

## **Equity Release Funding (No.5) plc**

### **Accounting policies (continued)**

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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 E)
- (ii) Derivative financial instruments (set out in policy F)
- (iii) Deferred consideration (set out in policy J)
- (iv) Borrowings (set out in policy L)
- (v) Payables and other financial liabilities (set out in policy N)

#### **(C) 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.

#### **(D) 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.

#### **(E) Financial instruments**

The Company classifies the lifetime mortgages, the associated liabilities and derivative financial instruments at fair value, since they are managed as a portfolio on a fair value basis. Presentation at fair value provides more relevant information and ensures that any accounting mismatch is minimised.

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.

#### **(F) 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 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.

## **Equity Release Funding (No.5) plc**

### **Accounting policies (continued)**

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#### *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.

#### **(G) Loans**

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

#### **(H) Collateral**

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

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

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

#### **(I) Statement of cash flows**

##### *Cash and cash equivalents*

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

##### *Operating cash flows*

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

#### **(J) Deferred consideration**

During the term of this securitisation transaction, any amounts realised from the mortgage portfolio in excess of that due to the providers of the funding, less any related administrative costs and the Company's entitlement to 0.01% of interest accruing on the mortgages, will be payable to the originator, 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.

## **Equity Release Funding (No.5) plc**

### **Accounting policies (continued)**

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#### **(K) Income taxes**

The current tax expense is based on the taxable profits for the year, after any adjustments in respect of prior years. Taxable profits are computed in accordance with the provisions of current UK tax legislation. Tax, including tax relief for losses if applicable, is allocated over profits before taxation and amounts charged or credited to reserves as appropriate.

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

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

#### **(L) 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. These include a risk adjusted discount rate to reflect the risks associated with these products.

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.

#### **(M) Share capital**

##### *Equity instruments*

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

- (i) there is no contractual obligation to deliver cash or other financial assets or to exchange financial assets or liabilities on terms that may be unfavourable; and
- (ii) the instrument will not be settled by delivery of a variable number of shares or is a derivative that can be settled other than for a fixed amount of cash, shares or other financial assets.

#### **(N) Payables and other financial liabilities**

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

**Equity Release Funding (No.5) plc**  
**Income statement**  
**For the year ended 31 December 2015**

	Note	2015 £'000	2014 £'000
<b>Income</b>			
Interest and similar income	C & 1	31,028	31,623
Gains on financial instruments	E & 1	4,646	34,060
		<u>35,674</u>	<u>65,683</u>
<b>Expenses</b>			
Fee and commission expense	D & 2	(1,505)	(1,390)
Other operating expenses	2	(9,686)	(39,817)
Finance costs	2	(24,480)	(24,473)
		<u>(35,671)</u>	<u>(65,680)</u>
<b>Profit before tax</b>		<u>3</u>	<u>3</u>
Tax charge	K & 5	(1)	(1)
<b>Profit for the year</b>		<u>2</u>	<u>2</u>

The Company has no other comprehensive income.

The accounting policies (identified alphabetically) on pages 9 to 12 and notes (identified numerically) on pages 17 to 34 are an integral part of these financial statements.

**Equity Release Funding (No.5) plc**  
**Statement of financial position**  
**As at 31 December 2015**

	Note	2015 £'000	2014 £'000
<b>Assets</b>			
Loans	E, G & 7	539,317	473,140
Derivative assets	E, F & 8	65,018	118,593
Receivables	9	7,198	7,390
Prepayments and accrued income		19	18
Cash and cash equivalents	I & 16	35,528	34,792
<b>Total assets</b>		<b>647,080</b>	<b>633,933</b>
<b>Equity</b>			
Ordinary share capital	M & 10	13	13
Retained earnings	11	21	19
<b>Total equity</b>		<b>34</b>	<b>32</b>
<b>Liabilities</b>			
Tax liabilities	K & 12	1	1
Deferred consideration	J & 13	52,792	43,153
Borrowings	L & 14	383,056	360,598
Payables and other financial liabilities	E, F, N & 15	211,197	230,149
<b>Total liabilities</b>		<b>647,046</b>	<b>633,901</b>
<b>Total equity and liabilities</b>		<b>647,080</b>	<b>633,933</b>

The financial statements were authorised for issue by the Board of directors on 8 June 2016 and were signed on its behalf by



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

The accounting policies (identified alphabetically) on pages 9 to 12 and notes (identified numerically) on pages 17 to 34 are an integral part of these financial statements.

**Equity Release Funding (No.5) plc**  
**Statement of changes in equity**  
**For the year ended 31 December 2015**

	Note	Ordinary share capital £'000	Retained earnings £'000	Total equity £'000
Balance at 1 January 2014		13	17	30
Profit for the year	11	-	2	2
<b>Balance at 31 December 2014</b>		<b>13</b>	<b>19</b>	<b>32</b>
Profit for the year	11	-	2	2
<b>Balance at 31 December 2015</b>		<b>13</b>	<b>21</b>	<b>34</b>

The accounting policies (identified alphabetically) on pages 9 to 12 and notes (identified numerically) on pages 17 to 34 are an integral part of these financial statements.

**Equity Release Funding (No.5) plc**  
**Statement of cash flows**  
**For the year ended 31 December 2015**

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

	Note	2015 £'000	2014 £'000
<b>Cash flows from operating activities</b>			
Cash generated from operations	16(a)	3,837	2,566
Tax paid		(1)	(1)
<b>Net cash generated from operating activities</b>		<b>3,836</b>	<b>2,565</b>
<b>Cash flows from financing activities</b>			
Repayment of borrowings		(3,100)	(2,750)
<b>Net cash used in financing activities</b>		<b>(3,100)</b>	<b>(2,750)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>736</b>	<b>(185)</b>
Cash and cash equivalents at 1 January		34,792	34,977
<b>Cash and cash equivalents at 31 December</b>	16(b)	<b>35,528</b>	<b>34,792</b>

The accounting policies (identified alphabetically) on pages 9 to 12 and notes (identified numerically) on pages 17 to 34 are an integral part of these financial statements.



**Equity Release Funding (No.5) plc**  
**Notes to the financial statements**  
**For the year ended 31 December 2015**

**1. Income**

	2015 £'000	2014 £'000
<b>Interest and similar income</b>	<b>31,028</b>	<b>31,623</b>
<b>Financial instruments</b>		
Unrealised losses on derivative contracts	(34,868)	(13,112)
Unrealised gains on mortgages	62,571	34,856
Unrealised (losses)/gains on loan notes	(23,057)	12,316
	<b>4,646</b>	<b>34,060</b>
<b>Total income</b>	<b>35,674</b>	<b>65,683</b>

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

**2. Expenses**

	2015 £'000	2014 £'000
<b>Fee and commission expense</b>	<b>1,505</b>	<b>1,390</b>
<b>Other operating expenses</b>		
Audit fees	47	47
Increase in deferred consideration	9,639	39,770
	<b>9,686</b>	<b>39,817</b>
<b>Finance costs</b>		
Interest expense		
Securitised mortgage loan notes	4,426	4,261
Subordinated debt	695	670
Credit facility	275	282
Interest rate swap	18,415	18,561
Inflation rate swap	264	299
Other finance costs	405	400
	<b>24,480</b>	<b>24,473</b>
<b>Total expenses</b>	<b>35,671</b>	<b>65,680</b>

There were no employees during the year.

**3. Directors' emoluments**

Wilmington Trust SP Services (London) Limited received fees of £13,629 (2014: £13,391) including VAT during the year to 31 December 2015, in respect of structuring and management services.

**Equity Release Funding (No.5) plc**  
**Notes to the financial statements**  
**For the year ended 31 December 2015 (continued)**

**4. Independent auditors' remuneration**

	2015 £'000	2014 £'000
Fees for the statutory audit of the Company's financial statements for the year	42	42

In addition, a proportion of audit fees in respect of the audit of a fellow group undertaking are borne by the Company, bringing total audit fees paid to £47,000.

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.

**5. Tax**

**(a) Tax charged to the income statement**

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

	2015 £'000	2014 £'000
<b>Current tax</b>		
For the year	1	1
Total tax charged to the income statement (note 5(b))	1	1

**(b) Tax reconciliation**

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

	2015 £'000	2014 £'000
Net profit before tax	3	3
Tax calculated at standard UK corporation tax rate of 20% (2014: 20%)	1	1
Tax charge for the year (note 5(a))	1	1

UK legislation was substantively enacted on 26 October 2015 to reduce the UK corporate tax rate to 19% from 1 April 2017 and to 18% from 1 April 2020. Additionally, further changes to the UK corporation tax rate were announced in the Chancellor's Budget on 16 March 2016, including a reduction in the rate to 17% from 1 April 2020. The changes in future tax rates are not expected to have a material impact on the Company's net assets.

**6. 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:

**Equity Release Funding (No.5) plc**  
**Notes to the financial statements**  
**For the year ended 31 December 2015 (continued)**

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

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

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

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

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

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

Inputs to Level 3 fair values are unobservable inputs for the asset or liability. Unobservable inputs may have been used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date. However, the fair value measurement objective remains the same, i.e. an exit price at the measurement date from the perspective of a market participant that holds the asset or owes the liability. 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 2014 financial statements.

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

Set out below is a comparison of the carrying amounts and fair values of financial instruments carried at amortised cost:

	Fair value	2015 Carrying amount	Fair value	2014 Carrying amount
	£'000	£'000	£'000	£'000
<b>Financial assets</b>				
Borrowings carried at amortised cost	41,698	58,632	44,281	61,042

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

- Receivables
- Prepayments and accrued income
- Cash and cash equivalents
- Payables and other financial liabilities (excluding derivative liabilities)

**Equity Release Funding (No.5) plc**  
**Notes to the financial statements**  
**For the year ended 31 December 2015 (continued)**

**(b) Fair value hierarchy analysis**

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

	2015		
	Fair Value Hierarchy		
	Level 2	Level 3	Total
	£'000	£'000	Fair Value £'000
Loans	-	539,317	539,317
Derivative assets	-	65,018	65,018
Financial liabilities			
Borrowings	-	(324,424)	(324,424)
Derivative liabilities	(175,798)	-	(175,798)
Total	(175,798)	279,911	104,113

	2014		
	Fair Value Hierarchy		
	Level 2	Level 3	Total
	£'000	£'000	Fair Value £'000
Loans	-	473,140	473,140
Derivative assets	-	118,593	118,593
Financial liabilities			
Borrowings	-	(299,556)	(299,556)
Derivative liabilities	(194,505)	-	(194,505)
Total	(194,505)	292,177	97,672

***Assets and liabilities for which fair value is disclosed***

The table below shows the fair values and the level in which they are categorized in the fair value hierarchy of assets and liabilities that are not carried at fair value but for which fair value is disclosed in the notes.

	Level 3	
	2015	2014
	£'000	£'000
Borrowings measured at amortised cost	58,632	61,042

***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 categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of the reporting year. There have been no transfers between levels in either the current or prior year.

**Equity Release Funding (No.5) plc**  
**Notes to the financial statements**  
**For the year ended 31 December 2015 (continued)**

**(c) Further information on Level 3 financial instruments**

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

	2015			2014		
	Loans	Derivative	Borrowings	Loans	Derivative	Borrowings
	£'000	assets	£'000	£'000	assets	£'000
	£'000	£'000	£'000	£'000	£'000	£'000
<b>Total funds</b>						
Balance at 1 January	473,140	118,593	(299,556)	433,817	67,438	(309,998)
Additions	30,902	-	(1,811)	32,731	-	(1,874)
Redemptions	(27,296)	-	-	(28,264)	-	-
Gains/(losses) recognised in the year	62,571	(53,575)	(23,057)	34,856	51,155	12,316
<b>Balance at 31 December</b>	<b>539,317</b>	<b>65,018</b>	<b>(324,424)</b>	<b>473,140</b>	<b>118,593</b>	<b>(299,556)</b>

The net result recognised in the income statement during the year for Level 3 assets and liabilities was a loss of £14.1 million (2014: gain of £98.3 million).

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

- Lifetime mortgages loans amounting to £539.3 million valued using a discounted cash flow model. Cash flows are adjusted for credit risk and discounted using a yield curve and market assumptions for the liquidity premium. The liquidity premium ranges from 130bps to 190bps.
- Derivative assets amounting to £65.0 million, obtained from a third party provider.
- Securitised mortgage loan notes amounting to £324.4 million, valued using a discounted cash flow model. Cash flows are adjusted for credit risk and discounted using a yield curve and market assumptions for the liquidity premium. The liquidity premium ranges from 130bps to 190bps.

(iii) The table below shows the sensitivity of the fair value of Level 3 investments at 31 December 2015 to changes in unobservable inputs to a reasonable alternative:

	2015		Change in fair value	
	Fair value	Most significant	Positive impact	Negative impact
	£m	unobservable inputs	£m	£m
<b>Loans</b>				
Lifetime mortgage loans	539.3	Credit spreads – 50bps	37.2	(36.3)
Securitised mortgage loan notes	(324.4)	Credit spreads – 50bps	18.1	(18.0)

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

**Equity Release Funding (No.5) plc**  
**Notes to the financial statements**  
**For the year ended 31 December 2015 (continued)**

**7. Loans**

**(a) Carrying amounts**

On 11 August 2005, the Company purchased £359.0 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 loan 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: Equity Release Funding Trustee (No.5) 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 in the form of deferred consideration. UKER administers the mortgage portfolio.

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

	2015 £'000	2014 £'000
Lifetime mortgage loans	<b>539,317</b>	473,140

Of the above total, £510.8 million (2014: £451.4 million) is expected to be recovered more than one year after the statement of financial position date. This is because the majority of the loans are lifetime mortgages which by their nature do not have any contractual maturity and significant levels of early redemption are not anticipated.

The change in fair value of mortgage loans during the year attributable to a change in credit risk was a gain of £9.9 million (2014: loss of £6.8 million). The cumulative change attributable to changes in credit risk to 31 December 2015 was a loss of £114.3 million (2014: loss of £124.2 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 6.

**(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.

**8. Derivative financial instruments**

**Financial instruments comprise:**

	2015 £'000	2014 £'000
At fair value through profit and loss: trading		
Derivative financial instruments (note 19)	<b>65,018</b>	118,593

Of the above total, £65.0 million (2014: £118.6 million) is expected to be recovered more than one year after the statement of financial position date.

**Equity Release Funding (No.5) plc**  
**Notes to the financial statements**  
**For the year ended 31 December 2015 (continued)**

**9. Receivables**

	2015 £'000	2014 £'000
Amounts due from Equity Release Holdings (No.5) Limited	15	15
Amounts due from ERF Trustee (No.5) Limited	7,082	7,375
Amounts due from UKER	101	-
	<b>7,198</b>	<b>7,390</b>

Of the above £15,000 (2014: £15,000) is expected to be recovered more than one year after the statement of financial position date.

**10. Ordinary share capital**

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

	2015 £	2014 £
The authorised share capital of the Company was: 100,000 ordinary shares of £1 each (2014: 100,000)	<b>100,000</b>	<b>100,000</b>
The allotted, called up and fully paid share capital of the Company was: 2 ordinary shares of £1 each (2014: 2)	<b>2</b>	<b>2</b>
The allotted, called up and partly paid share capital of the Company was: 49,998 ordinary shares of £1 each (25p paid per share) (2014: 49,998)	<b>12,500</b>	<b>12,500</b>
	<b>12,502</b>	<b>12,502</b>

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

**11. Retained earnings**

	2015 £'000	2014 £'000
Balance at 1 January	19	17
Profit for the year	2	2
<b>Balance at 31 December</b>	<b>21</b>	<b>19</b>

**12. Tax liabilities**

**(a) General**

Tax liabilities payable in more than one year are £nil (2014: £nil).

**(b) Deferred tax**

The Company had no recognised or unrecognised deferred tax balances at the year end (2014: £nil).

**Equity Release Funding (No.5) plc**  
**Notes to the financial statements**  
**For the year ended 31 December 2015 (continued)**

**13. Deferred consideration**

	<b>2015</b>	<b>2014</b>
	<b>£'000</b>	<b>£'000</b>
Balance at 1 January	<b>43,153</b>	3,383
Increase in deferred consideration	<b>9,639</b>	39,770
<b>Balance at 31 December</b>	<b>52,792</b>	43,153

All of the above consideration (2014: *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 J).

**14. Borrowings**

**(a) Carrying amount**

	<b>2015</b>	<b>2014</b>
	<b>£'000</b>	<b>£'000</b>
Securitised mortgage loan notes	<b>324,424</b>	299,556
Subordinated debt	<b>30,376</b>	29,681
Amounts owed to credit institutions	<b>28,256</b>	31,361
	<b>383,056</b>	360,598

The carrying amount of the above borrowings that are stated at amortised cost is £58.6 million (2014: £61.0 million). The corresponding fair value of these borrowings is £41.7 million (2014: £44.3 million).

The change in fair value of mortgage loan notes during the year attributable to a change in credit risk was a loss of £25.3 million (2014: *gain of £13.2 million*). The cumulative change attributable to changes in credit risk to 31 December 2015 was a gain of £87.1 million (2014: *gain of £112.4 million*). The amount has been determined as the amount that is not attributable to changes in market conditions that give rise to market risk. The above liabilities stated at fair value have been calculated in a consistent manner with the assets stated at fair value. Further details of the fair value methodology are included in note 6.

Of the above total £379.7 million (2014: £358.7 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 11 August 2005, the Company issued £381.0 million of mortgage backed loan notes (class A, B and C) in order to fund the purchase of a mortgage portfolio. The balance of these notes at 31 December 2015 is shown at fair value.

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

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



**Equity Release Funding (No.5) plc**  
**Notes to the financial statements**  
**For the year ended 31 December 2015 (continued)**

<b>£381 million mortgage backed loan notes</b>	<b>Capital balance outstanding at end of year Total £381.0m</b>	<b>Credit rating (S&amp;P, Moody's, Fitch)</b>	<b>Interest rate to July 2012</b>	<b>Interest rate from July 2012</b>
Class A (£315 m)	315,000,000	BBB+, Aa2, AAA	LIBOR + 0.23%	LIBOR + 0.46%
Class B (£43 m)	43,000,000	BBB+, Aa3, A	LIBOR + 0.35%	LIBOR + 0.70%
Class C (£23 m)	23,000,000	BBB, A3, BBB	LIBOR + 0.90%	LIBOR + 1.80%

The A 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. The loan notes are to be redeemed as funds become available from mortgage redemptions.

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

A notes	July 2045
B notes	July 2050
C notes	July 2050

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**

On 11 August 2005, the Company also entered into a subordinated loan agreement with UKER for £20.0 million at an interest rate of LIBOR + 1.75%. The capital balance outstanding on the subordinated loan includes £10.4 million (2014: £9.7 million) of accumulated interest.

During 2005, the Company entered into a credit facility agreement, the purpose of which is to provide the Company with a committed cash facility for the years when mortgage redemptions are not expected to be sufficient to pay the expenses of the Company and interest on the mortgage loan notes. The gross amount outstanding as at 31 December 2015 was £28.3 million (2014: £31.4 million) and the committed credit facility was £168.4 million (2014: £174.4 million).

**15. Payables and other financial liabilities**

	<b>2015 £'000</b>	<b>2014 £'000</b>
Derivative financial liabilities (notes 6(b) and 19)	<b>175,798</b>	194,505
Amounts due to UKER	-	406
Amounts due to other related parties	<b>215</b>	215
Collateral amounts payable	<b>34,600</b>	34,600
Other financial liabilities	<b>584</b>	423
	<b>211,197</b>	230,149

Of the above total, £192.2 million (2014: £210.7 million) is expected to be paid more than one year after the statement of financial position date.

**Equity Release Funding (No.5) plc**  
**Notes to the financial statements**  
**For the year ended 31 December 2015 (continued)**

**16. Statement of cash flows**

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

	2015 £'000	2014 £'000
<b>Profit before tax</b>	<b>3</b>	<b>3</b>
Adjustments for:		
Fair value gains on mortgages	(62,571)	(34,856)
Fair value losses/(gains) on loan notes	23,057	(12,316)
Fair value losses on derivatives	34,868	13,112
Interest receivable on mortgage loans	(30,902)	(31,512)
Changes in working capital:		
Decrease/(increase) in receivables	192	(1,901)
Increase in prepayments and accrued income	(1)	(2)
Increase in deferred consideration	9,639	39,770
(Decrease)/increase in payables and other financial liabilities	(245)	692
Increase in interest on borrowings	2,501	2,531
Proceeds from redemption of mortgages	27,296	27,045
<b>Cash generated from operations</b>	<b>3,837</b>	<b>2,566</b>

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:

	2015 £'000	2014 £'000
Cash at bank and in hand	35,528	34,792

**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 £34,000 (2014: £32,000) as capital.

**18. Risk management**

(a) Risk management framework

The ultimate controlling party, Aviva plc, and its subsidiaries, joint ventures and associates (collectively known as "the Group") operate a risk management framework ("RMF"), which forms an integral part of the management and board processes and decision-making framework across the Group. The key elements of the Group's risk management framework comprise risk strategy and risk appetite, risk policy categorisation, enterprise-wide approach to managing risk, including how to identify, measure, manage, monitor and report risks, and risk governance and oversight (including boards and board committees, risk policies and business standards, delegated authorities and management committees, and roles and responsibilities).

## **Equity Release Funding (No.5) plc**

### **Notes to the financial statements**

#### **For the year ended 31 December 2015 (continued)**

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The Group's approach to risk management ensures that significant existing or emerging risks are actively identified, measured, managed, monitored and reported on a continuous basis. The RMF has been adopted within the businesses collectively referred to as "UK Life" (including this Company).

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

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

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

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

- defined terms of reference for the legal entity boards and the associated board committees across the UK Life business, including the Risk Committee, Conduct Committee, Audit Committee, Investment Committee and With Profit Committee.
- a clear organisational structure with documented delegated authorities and responsibilities from the legal entity boards to CEOs and senior management and management committees (including the Life Executive Committee, Executive Risk Committee, Customer Committee and Asset Liability Committee);
- adoption of the Group policy framework that defines risk appetite measures and sets out risk management and control standards for the Group's worldwide operations. The risk policies and associated business standards also set out the roles and responsibilities of Group, Businesses, Policy and Standard Owners, and Board and Management Committees.

UK Life operates within a three lines of defence risk management model that encourages close working relationships between line management and the risk function whilst facilitating independent assurance by internal audit, and the roles of the three lines of defence each contribute to embedded risk management:

- First line of defence (Management): Primary responsibility for risk identification, measurement, management, monitoring and reporting lies with management. The first-line management is responsible for the implementation and practice of risk management. Consistent with this, CEOs are responsible for the Own Risk and Solvency Assessment (ORSA) process.
- Second line of defence (Risk function): Responsibility for reviewing and challenging the completeness and accuracy of risk identification, measurement, management, monitoring and reporting, and the adequacy of, and progress against, mitigation plans lies with the Risk function. This necessitates the early involvement by management of the risk function in key business decisions or projects, both in relation to customer and shareholder risks. The Risk function is responsible for overseeing the effective operation of the Enterprise Risk framework, particularly in relation to setting Risk Appetite and compliance with Solvency II requirements.

**Equity Release Funding (No.5) plc**  
**Notes to the financial statements**  
**For the year ended 31 December 2015 (continued)**

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- Third line of defence (Internal Audit function): Responsibility for assessing and reporting (to group and business unit audit, risk and governance committees, as appropriate) on the effectiveness of the design and operation of the framework of controls which enable risk to be assessed and managed lies with Internal Audit.

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

**(b) Market risk**

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

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

Profit for the Company for the year is calculated as 0.01% of interest accruing on the mortgages with any excess or shortfall of income over expenditure reported in the statement of financial position as described in accounting policy J. Accordingly, the impact on the Company of changes in economic factors and assumptions would be reflected in a change in the value of deferred consideration rather than profit. Consequently, the Company has not provided any detailed sensitivity analysis as required by IFRS 7 and the impact of the risks referred to below is restricted to the statement of financial position of the Company. Exposure to these risks is borne by the noteholders and other creditors of the company.

**(i) Property price risk**

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

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

**Equity Release Funding (No.5) plc**  
**Notes to the financial statements**  
**For the year ended 31 December 2015 (continued)**

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%	67.6	122.9	60.7	18.8	5.6	0.8	0.3	276.7
Up to 50%	8.4	37.4	91.2	19.6	4.4	0.3	-	161.3
Up to 60%	0.5	10.5	20.8	37.1	4.5	0.2	-	73.6
Up to 70%	-	0.4	5.2	7.1	7.1	1.1	-	20.9
Up to 80%	-	-	0.2	2.0	2.1	1.2	-	5.5
Up to 90%	-	0.1	0.1	-	0.4	0.1	-	0.7
Up to 100%	-	-	-	-	-	0.6	-	0.6
<b>Total</b>	<b>76.5</b>	<b>171.3</b>	<b>178.2</b>	<b>84.6</b>	<b>24.1</b>	<b>4.3</b>	<b>0.3</b>	<b>539.3</b>

The LTVs in the table above are as at 31 December 2015. LTVs are published quarterly, (January, April, July and October) in the Investor Report. Investor Reports are available at [www.erfunding.co.uk](http://www.erfunding.co.uk).

**(ii) Interest rate risk**

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

**(iii) Derivatives risk**

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

**(iv) Prepayment risk**

Prepayment risk is the risk that the Equity Release mortgages will be repaid in a materially different profile to the expected profile at securitisation. This could lead to changes in the expected repayment rate of loan note interest and principal. This risk is mitigated by the structure of the related derivatives at the inception of the securitisation, which passes prepayment risk on to a related party.

**(c) Credit risk**

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

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

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

*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.

**Equity Release Funding (No.5) plc**  
**Notes to the financial statements**  
**For the year ended 31 December 2015 (continued)**

	2015		
	Carrying value in the statement of financial position £'000	Collateral held £'000	Net credit exposure £'000
Derivative assets	65,018	-	65,018
Loans	539,317	539,317	-
	2014		
	Carrying value in the statement of financial position £'000	Collateral held £'000	Net credit exposure £'000
Derivative assets	118,593	-	118,593
Loans	473,140	473,140	-

Additional information in respect to collateral is provided in note 7(b).

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

**(d) Liquidity risk**

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet commitments associated with financial instruments, if the cash flows from the mortgages differ from those expected. Such differences would arise from mortality, morbidity and voluntary prepayment risks. The Company has a committed credit facility of £168.4 million (2014: £174.4 million) which has been sized to cover significant stresses on mortgage cash flows.

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

	Within 1 year £m	1-5 years £m	Over 5 years £m	2015 No contractual maturity £m
<b>Liabilities</b>				
Borrowings	6.5	40.1	512.3	64.2
Deferred consideration	-	-	-	52.8
Derivative financial liabilities	18.2	64.4	115.9	-
Payables and other financial liabilities	0.8	-	-	-
	2014			
	Within 1 year £m	1-5 years £m	Over 5 years £m	No contractual maturity £m
<b>Liabilities</b>				
Borrowings	1.9	30.6	532.3	64.8
Deferred consideration	-	-	-	43.2
Derivative financial liabilities	18.5	65.0	132.6	-
Payables and other financial liabilities	1.0	-	-	-

The carrying value of the loan notes is £56.6 million lower (2014: £81.4 million lower) than the anticipated payment at maturity.

**Equity Release Funding (No.5) plc**  
**Notes to the financial statements**  
**For the year ended 31 December 2015 (continued)**

**19. Derivative financial instruments**

During 2005, the Company entered into an interest rate swap agreement, the purpose of which is to protect the Company from interest rate risk in respect of the floating rate loan notes and credit facility. The notional amount outstanding as at 31 December 2015 was £459.0 million (2014: £457.0 million) and the swap had an expiry date of October 2032. Under the terms of the swap, the Company receives interest at three month LIBOR and pays interest at 5% of the notional amount, payable quarterly.

During 2005, the Company entered into a separate transaction that supplements its interest rate swap agreement and provides the Company with an option to adjust the notional value (within specified bands) of the swap to match its exposure on its floating rate notes at no cost or gain. The notional value of the option contract fluctuates based on the underlying exposure and therefore is not a meaningful amount to present in the financial statements.

During 2005, 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 2015 was £30.5 million (2014: £40.6 million) and the swap had an expiry date of July 2045. Under the terms of the swap, the Company receives interest at 7.28% compounding and pays interest at 4.89% + Limited Price Index compounding, on the reduction of the notional amount annually, payable quarterly.

The Company holds £34.6 million (2014: £34.6 million) in the form of cash by receiving collateral held as security on derivative contracts.

The fair value asset has been disclosed under "Derivative financial instruments" in note 8. The fair value liability has been disclosed under "Derivative financial liabilities" in note 15.

	2015			2014		
	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	459,000	-	(152,250)	457,000	-	(169,174)
Option	-	65,018	-	-	118,593	-
Inflation rate swap	30,500	-	(23,548)	40,600	-	(25,331)
	<b>489,500</b>	<b>65,018</b>	<b>(175,798)</b>	<b>497,600</b>	<b>118,593</b>	<b>(194,505)</b>

**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.

**Equity Release Funding (No.5) plc**  
**Notes to the financial statements**  
**For the year ended 31 December 2015 (continued)**

						2015
			Related amounts not set off in the statement of financial position			
	Gross amounts of recognised financial assets	Gross amounts of recognised financial liabilities set off in the statement of financial position	Net amounts of financial assets presented in the statement of financial position	Financial instruments	Collateral received	Net amount
	£'000	£'000	£'000	£'000	£'000	£'000
<b>Financial assets</b>						
Derivatives	65,018	-	65,018	-	-	65,018
<b>Total</b>	<b>65,018</b>	<b>-</b>	<b>65,018</b>	<b>-</b>	<b>-</b>	<b>65,018</b>

						2015
			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
<b>Financial liabilities</b>						
Derivatives	175,798	-	175,798	-	-	175,798
<b>Total</b>	<b>175,798</b>	<b>-</b>	<b>175,798</b>	<b>-</b>	<b>-</b>	<b>175,798</b>

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.

						2014
			Related amounts not set off in the statement of financial position			
	Gross amounts of recognised financial assets	Gross amounts of recognised financial liabilities set off in the statement of financial position	Net amounts of financial assets presented in the statement of financial position	Financial instruments	Collateral received	Net amount
	£'000	£'000	£'000	£'000	£'000	£'000
<b>Financial assets</b>						
Derivatives	118,593	-	118,593	-	-	118,593
<b>Total</b>	<b>118,593</b>	<b>-</b>	<b>118,593</b>	<b>-</b>	<b>-</b>	<b>118,593</b>



**Equity Release Funding (No.5) plc**  
**Notes to the financial statements**  
**For the year ended 31 December 2015 (continued)**

						2014
						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
<b>Financial liabilities</b>						
Derivatives	194,505	-	194,505	-	-	194,505
<b>Total</b>	<b>194,505</b>	<b>-</b>	<b>194,505</b>	<b>-</b>	<b>-</b>	<b>194,505</b>

**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 £60.9 million (2014: £56.2 million) of loan notes which are held by related parties. Interest settled during the year in respect of these loan notes amounted to £0.5 million (2014: £0.5 million).

**(b) Expenses payable to related parties**

	2015 Expense incurred in year £'000	2014 Expense incurred in year £'000
ERF Trustee (No. 5) Limited	3	3
UKER – portfolio administration and cash handling fees	1,317	1,310
UKER – interest	695	671
UKER – Deferred consideration	9,639	39,770
	<b>11,654</b>	<b>41,754</b>

**(c) Income receivable from related parties**

	2015 Income received in year £'000	2014 Income received in year £'000
ERF Trustee (No.5) Limited – bank interest	3	2

**Equity Release Funding (No.5) plc**  
**Notes to the financial statements**  
**For the year ended 31 December 2015 (continued)**

**(d) Payable at year end**

	2015	2014
	£'000	£'000
UKER – Subordinated debt	30,376	29,681
UKER – Deferred consideration	52,792	43,153
UKER – Other	-	406
Other related parties	215	215
	<b>83,383</b>	<b>73,455</b>

**(e) Receivable at year end**

	2015	2014
	£'000	£'000
Equity Release Holdings (No.5) Limited	15	15
ERF Trustee (No. 5) Limited	7,082	7,375
UKER – Other	101	-
	<b>7,198</b>	<b>7,390</b>

**(f) Key management compensation**

Wilmington Trust SP Services (London) Limited received fees of £13,629 (2014: £13,391) including VAT during the year to 31 December 2015, in respect of structuring and management services.

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

**(g) Ultimate parent undertaking and controlling party**

The immediate parent undertaking is Equity Release Holdings (No. 5) Limited, a company incorporated in England and Wales. The shares in Equity Release Holdings (No. 5) Limited are held by Bedell Cristin Trustees Limited, a company incorporated in Jersey, under a declaration of trust for charitable purposes. Bedell Cristin Trustees Limited has no beneficial interest in the shares and therefore considers Equity Release Holdings (No. 5) Limited to be the ultimate parent undertaking.

The ultimate controlling party is Aviva plc, a company incorporated in England. Aviva plc is the parent undertaking of the smallest and largest group of undertakings to consolidate these financial statements at 31 December 2015. The consolidated financial statements of Aviva plc are available on [www.aviva.com](http://www.aviva.com) or by application to the Group Company Secretary, Aviva plc, St. Helen's, 1 Undershaft, London EC3P 3DQ.