

Equity Release Funding (No.5) plc

Directors and Officers

Directors

M Clarke-Whelan
D Wynne
Wilmington Trust SP Services (London) Limited

Company Secretary

Wilmington Trust SP Services (London) Limited

Independent Auditors

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Central Square
29 Wellington Street
Leeds
LS1 4DL

Registered Office

c/o Wilmington Trust SP Services (London) Limited
Third Floor
1 King's Arms Yard
London
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Company Number

Registered in England No. 5495271



Equity Release Funding (No.5) plc

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Equity Release Funding (No.5) plc

Registered in England No. 5495271

Strategic report

The directors present their strategic report for Equity Release Funding (No.5) plc (the Company) for the year ended 31 December 2017.

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

Interest and similar income for the year is £32.9 million (2016: £31.9 million). This has however been partially offset by fair value losses on financial instruments for the year of £7.8 million (2016: fair value losses of £58.9 million), resulting in total income for 2017 of £25.1 million (2016: negative position of £27.0 million). Profit before tax is £3,000 (2016: £3,000 profit).

Shareholders' equity has increased by £2,000 (2016: 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 2017 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)

Liquidity Risk

Liquidity risk is the risk that if mortgages differ from expected cash flows, 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 17 to the financial statements.

Key performance indicators (KPIs)

Interest and similar income for the year is £32.9 million (2016: £31.9 million). This has however been partially offset by fair value losses on financial instruments for the year of £7.8 million (2016: fair value losses of £58.9 million), resulting in total income for 2017 of £25.1 million (2016: negative position of £27.0 million).

Finance costs and fee and commission expenses for the year are £25.0 million (2016: £25.7 million).

Profit after tax for the year is £2,000 (2016: £2,000 profit).

There is no movement in deferred consideration for the year (2016: £52.8 million decrease).

By order of the Board



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

18 June 2018

Equity Release Funding (No.5) plc

Directors' report

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 2017.

Directors

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

D Wynne was appointed as a director of the Company on 22 March 2017.

M H Filer resigned as a director of the Company on 10 April 2017.

Dividend

The directors do not recommend the payment of a dividend for the year (2016: £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 17 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. 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.

Equity Release Funding (No.5) plc

Directors' report (continued)

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

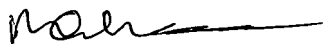
The directors are responsible for preparing the strategic report, directors' report and the financial statements in accordance with applicable law and regulations.

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



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

18 June 2018

Equity Release Funding (No.5) plc

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

Report on the audit of the financial statements

Opinion

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

- give a true and fair view of the state of the company's affairs as at 31 December 2017 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

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 2017; 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 2017 to 31 December 2017.

Our audit approach

Overview

Materiality	Overall materiality: £5,546,080, based on 1% of total assets.
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Audit Scope

- 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.
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Equity Release Funding (No.5) plc

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

Key Audit Matters	Our key audit matters which involved the greatest allocation of our resources' effort comprise: <ul style="list-style-type: none">• Valuation of equity release mortgages.• Risk of error in the priority of payments.
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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.

We gained an understanding of the legal and regulatory framework applicable to the company and the industry in which it operates, and considered the risk of acts by the company which were contrary to applicable laws and regulations, including fraud. We designed audit procedures to respond to the risk, recognising that 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. We focused on laws and regulations that could give rise to a material misstatement in the company's financial statements, including, but not limited to, the Companies Act 2006 and the underlying legal documents and agreements governing this securitisation transaction. Our tests included, but were not limited to, review of the financial statement disclosures to underlying supporting documentation, review of correspondence with the regulators, review of correspondence with legal advisors, enquiries of management, testing where applicable of the transaction documents and review of internal audit reports in so far as they related to the financial statements. 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.

We did not identify any key audit matters relating to irregularities, including fraud. As in all of our audits we also addressed the risk of management override of internal controls, including testing journals and evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

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.

Key audit matter	How our audit addressed the key audit matter
Valuation of equity release mortgages The valuation of equity release mortgages involves judgement and continues to be an area of inherent risk as quoted prices are not readily available.	We assessed the Directors' approach to valuation for these hard to value investments by performing the following procedures: We agreed data inputs to underlying documentation on a sample basis. 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. We tested the operation of data integrity and change management controls for the models, which we baseline every three years. We reconciled the model output to the financial statements and assessed the disclosures in the financial statements.

Equity Release Funding (No.5) plc

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

Key audit matter

How our audit addressed the key audit matter

Based on the work performed and the evidence obtained, we consider the assumptions used by management to be appropriate.

Risk of error in the priority of payments

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.

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.

The following work was undertaken by us as part of the audit:

- We understood the design of the structure through a combination of inquiry with management and reviewing the transaction documents to understand the revenue and principal priority of payments for the Company and understand the relevant triggers and trigger events.
- We read 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.
- 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.
- Tested the payments in the waterfall including expenses, interest and principal payments on notes and notes outstanding at the year-end.
- Tested the interest expense using interest rates set out in the transaction documents and, where applicable, independently sourced reference interest rates.

We found no material exceptions in performing these tests.

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:

Overall materiality	£5,546,080
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 £277,304 as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Equity Release Funding (No.5) plc

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

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which 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.

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.

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 2017 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors' responsibilities 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.

Equity Release Funding (No.5) plc

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

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

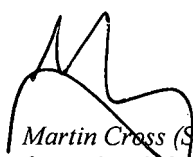
Under the Companies Act 2006 we are required to report to you if, in our opinion:

- 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 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 periods. The period of total uninterrupted engagement is 6 years, covering the years ended 31 December 2012 to 31 December 2017.



*Martin Cross (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Leeds
18 June 2018*

Equity Release Funding (No.5) 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 instruments 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).

Minor clarifications to existing guidance on a number of standards became effective for the reporting period beginning on 1 January 2017. The principle clarifications are to IAS 12, Recognition of Deferred Tax Assets for Unrealised Losses relating to recognition of deferred tax when an asset's fair value is below its tax base, IAS 7, Statement of Cash Flows, relating to additional disclosure of the movements in liabilities arising from financing activities, and IFRS 12, Disclosure of Interest In Other Entities, clarifying existing guidance. The amendments do not have any impact on the Company's financial statements. The additional disclosure required by the changes to IAS 7 have previously already been disclosed in the Company's financial statements.

The IASB has issued four 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 standard incorporates new classification and measurements requirements for financial assets, the introduction of an expected credit loss impairment model which will replace the incurred loss model of IAS 39, and new hedge accounting requirements. Under IFRS 9, all financial assets will be 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 fair value changes attributable to own credit is to be recognised in other comprehensive income instead of the income statement.

The Company has adopted IFRS 9 from 1 January 2018. On adoption of IFRS 9, subordinated debt liabilities held by the Company were reclassified from amortised cost to fair value through profit or loss. The impact on these financial statements had these changes been applicable at 31 December 2017 would have been a reduction in borrowings of £20.5 million and a corresponding increase in deferred consideration of £20.5 million. There would have been no impact on retained earnings.

(ii) 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. The standard is not expected to have a significant impact on the Company's financial statements.

Equity Release Funding (No.5) plc

Accounting policies (continued)

(iii) IFRS 16, Leases

In January 2016, the IASB published IFRS 16, Leases, which will replace IAS 17, Leases. The standard removes the distinction between finance leases and operating leases for lessees, and proposes a new model whereby lessees include all lease contracts on the balance sheet. Lessor accounting remains similar to current practice. The impact of the adoption of IFRS 16 has yet to be fully assessed by the Company. This standard applies to accounting periods beginning on or after 1 January 2019 and has been endorsed by the EU.

(iv) IFRS 17, Insurance Contracts

In May 2017 the IASB published IFRS 17 Insurance Contracts, a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 which was issued in 2005 and applies to all types of insurance contracts as well as to certain guarantees and financial instruments with discretionary participation features. IFRS 17 provides a comprehensive and consistent approach to insurance contracts. The core of IFRS 17 is the general model, supplemented by a specific adaption for contracts with direct participation features (the variable fee approach) and a simplified approach (the premium allocation approach) mainly for short duration contracts.

The impact of the adoption of IFRS 17 has yet to be fully assessed by the Company. This standard applies to annual reporting periods beginning on or after 1 January 2021 and has not yet been endorsed by the EU.

The IASB has issued a number of amendments to standards which are not yet effective and have not been adopted early by the Company.

- IAS 28 Investments in Associates
- IAS 40, Investment Property
- IFRS 2, Classification and Measurement of Share-Based Payment Transactions
- IFRS 12, Disclosure of Interest in Other Entities

The amendments to IAS 28 and IFRS 12 have been endorsed by the EU. The amendments to IAS 40 and IFRS 2 have not been endorsed by the EU. The amendments are not expected to have a material impact on the financial statements.

(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 fair value of loan assets (set out in policy H and note 7)
- (ii) Estimation of fair value of borrowings (set out in policy M and note 13)
- (iii) Estimation of fair value of derivative financial instruments (set out in policy G and note 18)

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 F and note 6)
- (ii) Derivative financial instruments (set out in policy G and note 6)
- (iii) Deferred consideration (set out in policy K)
- (iv) Borrowings (set out in policy M and note 6)
- (v) Payables and other financial liabilities (set out in policy O and note 6)

Equity Release Funding (No.5) plc

Accounting policies (continued)

(C) Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. This presumes that the transaction takes place in the principal (or most advantageous) market under current market conditions. Fair value is a market-based measure and in the absence of observable market prices in an active market, it is measured using the assumptions that market participants would use when pricing the asset or liability.

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

(D) Interest and similar income

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

(E) Fee and commission expense

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

(F) Financial instruments

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

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.

(G) 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.

Equity Release Funding (No.5) plc

Accounting policies (continued)

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 I 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 18.

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.

(H) 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, as described in note 6. They are revalued at each period end, with movements in their fair values being taken to the income statement.

(I) 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.

(J) 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.

Equity Release Funding (No.5) plc

Accounting policies (continued)

(K) 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.

(L) 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.

(M) 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 6.

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.

(N) 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.

(O) Receivables, payables and other financial liabilities

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

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

Equity Release Funding (No.5) plc
Income statement
For the year ended 31 December 2017

	Note	2017 £'000	2016 £'000
Income			
Interest and similar income	D & 1	32,881	31,898
Unrealised losses on financial instruments	F & 1	(7,769)	(58,904)
		25,112	(27,006)
Expenses			
Fee and commission expense	E & 2	(1,192)	(1,223)
Other operating expenses	2	(121)	52,525
Finance costs	2	(23,796)	(24,293)
		(25,109)	27,009
Profit before tax		3	3
Tax charge	L & 5	(1)	(1)
Profit for the year		2	2

The Company has no other comprehensive income.

The accounting policies (identified alphabetically) on pages 12 to 16 and notes (identified numerically) on pages 21 to 37 are an integral part of these financial statements.

Equity Release Funding (No.5) plc
Statement of financial position
As at 31 December 2017

	Note	2017 £'000	2016 £'000
Assets			
Loans	F, H & 7	511,151	492,879
Receivables	O & 8	8,644	7,564
Prepayments and accrued income		-	139
Cash and cash equivalents	J & 15(b)	34,813	34,966
Total assets		554,608	535,548
Equity			
Ordinary share capital	N & 9	13	13
Retained earnings	10	25	23
Total equity		38	36
Liabilities			
Tax liabilities	L & 11	1	1
Deferred consideration	K & 12	-	-
Borrowings	M & 13	314,108	267,050
Payables and other financial liabilities	F, G, O & 14	240,461	268,461
Total liabilities		554,570	535,512
Total equity and liabilities		554,608	535,548

The financial statements were authorised for issue by the Board of directors on 18 June 2018 and were signed on its behalf by



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

The accounting policies (identified alphabetically) on pages 12 to 16 and notes (identified numerically) on pages 21 to 37 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 2017

	Note	Ordinary share capital £'000	Retained earnings £'000	Total equity £'000
Balance at 1 January 2016		13	21	34
Profit for the year	10	-	2	2
Balance at 31 December 2016		13	23	36
Profit for the year	10	-	2	2
Balance at 31 December 2017		13	25	38

The accounting policies (identified alphabetically) on pages 12 to 16 and notes (identified numerically) on pages 21 to 37 are an integral part of these financial statements.

Equity Release Funding (No.5) plc
Statement of cash flows
For the year ended 31 December 2017

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

	Note	2017 £'000	2016 £'000
Cash flows from operating activities			
Cash generated from operations	15(a)	12,748	7,939
Tax paid		(1)	(1)
Net cash generated from operating activities		12,747	7,938
Cash flows from financing activities			
Repayment of borrowings		(12,900)	(8,500)
Net cash used in financing activities		(12,900)	(8,500)
Net decrease in cash and cash equivalents		(153)	(562)
Cash and cash equivalents at 1 January		34,966	35,528
Cash and cash equivalents at 31 December	15(b)	34,813	34,966

The accounting policies (identified alphabetically) on pages 12 to 16 and notes (identified numerically) on pages 21 to 37 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 2017

1. Income

	2017 £'000	2016 £'000
Interest and similar income	32,881	31,898
Financial instruments		
Unrealised gains/(losses) on derivative contracts	28,273	(122,688)
Unrealised gains/(losses) on mortgage loans	21,844	(45,769)
Unrealised (losses)/gains on loan notes	(57,886)	109,553
	(7,769)	(58,904)
Total income	25,112	(27,006)

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

	2017 £'000	2016 £'000
Fee and commission expense	1,192	1,223
Other operating expenses		
Audit fees	57	57
Losses due to negative equity	64	210
Decrease in deferred consideration	-	(52,792)
	121	(52,525)
Finance costs		
Interest expense		
Securitised mortgage loan notes	3,575	4,274
Subordinated debt	658	699
Credit facility	90	207
Interest rate swap	18,737	18,454
Inflation rate swap	398	287
Other finance costs	338	372
	23,796	24,293
Total expenses	25,109	(27,009)

There were no employees during the year.

Equity Release Funding (No.5) plc
Notes to the financial statements
For the year ended 31 December 2017 (continued)

3. Directors' emoluments

Wilmington Trust SP Services (London) Limited received fees of £13,405 (2016: £13,416) including VAT during the year to 31 December 2017, in respect of structuring and management services.

4. Independent auditors' remuneration

	2017 £'000	2016 £'000
Fees for the statutory audit of the Company's financial statements for the year	53	52

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 £57,000.

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

5. Tax charge

(a) Tax charged to the income statement

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

	2017 £'000	2016 £'000
Current tax		
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:

	2017 £'000	2016 £'000
Net profit before tax	3	3
Tax calculated at standard UK corporation tax rate of 19.25% (2016: 20%)	1	1
Tax charge for the year (note 5(a))	1	1

The rate of corporation tax changed to 19% with effect from 1 April 2017. The Finance Act 2016, which received Royal Assent on 15 September 2016, will reduce the corporation tax rate further 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.

Equity Release Funding (No.5) plc
Notes to the financial statements
For the year ended 31 December 2017 (continued)

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:

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 2016 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:

	2017		2016	
	Fair value	Carrying amount	Fair value	Carrying amount
	£'000	£'000	£'000	£'000
Financial liabilities				
Borrowings carried at amortised cost	7,661	38,528	27,493	50,802

Equity Release Funding (No.5) plc
Notes to the financial statements
For the year ended 31 December 2017 (continued)

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)
- Tax liabilities

(b) Fair value hierarchy analysis

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

	2017	
	Fair Value Hierarchy	
	Level 2	Level 3
	£'000	£'000
Financial assets		
Loans	-	511,151
Financial liabilities		
Borrowings	-	(275,580)
Derivative liabilities	(164,285)	(40,910)
Total financial liabilities	(164,285)	(316,490)
	2016	
	Fair Value Hierarchy	
	Level 2	Level 3
	£'000	£'000
Financial assets		
Loans	-	492,879
Financial liabilities		
Borrowings	-	(216,248)
Derivative liabilities	(213,012)	(20,456)
Total financial liabilities	(213,012)	(236,704)

Assets and liabilities for which fair value is disclosed

The table below shows the carrying amount 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	
	2017	2016
	£'000	£'000
Borrowings measured at amortised cost	38,528	50,802

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. 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.

Equity Release Funding (No.5) plc
Notes to the financial statements
For the year ended 31 December 2017 (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.

	2017			2016		
	Loans	Derivative liabilities	Borrowings	Loans	Derivative assets/liabilities	Borrowings
	£'000	£'000	£'000	£'000	£'000	£'000
Total funds						
Balance at 1 January	492,879	(20,456)	(216,248)	539,317	65,018	(324,424)
Accrued interest	32,834	-	(1,446)	31,773	-	(1,377)
Redemptions	(36,406)	-	-	(32,442)	-	-
Gains/(losses) recognised in the year	21,844	9,372	(57,886)	(45,769)	(85,474)	109,553
Transfers in to Level 3	-	(29,826)	-	-	-	-
Balance at 31 December	511,151	(40,910)	(275,580)	492,879	(20,456)	(216,248)

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

The net result recognised in the income statement during the year for Level 3 assets and liabilities was a loss of £26.7 million (2016: loss of £21.7 million).

Lifetime mortgage loans amounting to £511.2 million (2016: £492.9 million), derivative liabilities of £40.9 million (2016: derivative liabilities of £20.5 million) and securitised mortgage loan notes amounting to £275.6 million (2016: £216.2 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 liquidity premium has ranged between 195bps to 225bps.

During 2017, transfers from fair value hierarchy Level 2 to Level 3 in respect of derivatives amounted to £29.8 million (2016: £nil). The transfer arose to reflect the limited liquidity levels in the inflation volatility market.

During 2016 there was a change to the model and assumptions used to value the lifetime mortgage loans, Level 3 derivatives and securitised mortgage loan notes. Derivative liabilities amounting to £20.5 million were previously valued by a third party provider. The loans and loan notes were previously valued using an internal Discounted Cash Flow (DCF) model. The revised DCF model incorporates a greater number of inputs relevant to calculating a fair value of lifetime mortgage loans and the related liabilities, and provides a more robust fair value. The impact of applying the revised model to these assets and liabilities was to recognise net fair value losses of £53.0 million in profit before tax for 2016.

The table below shows the sensitivity of the fair value of Level 3 investments at 31 December 2017 to changes in unobservable inputs to a reasonable alternative:

Equity Release Funding (No.5) plc
Notes to the financial statements
For the year ended 31 December 2017 (continued)

	2017		Change in fair value	
	Fair value £m	Most significant unobservable inputs	Positive impact £m	Negative impact £m
Lifetime mortgage loans	511.2	Credit spreads – 50 bps	28.2	(23.6)
Derivative liabilities	(40.9)	Difference between value and counterparty value	92.8	-
Securitised mortgage loan notes	(275.6)	Credit spreads – 50 bps	22.3	(24.0)

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

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

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: ERF 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:

	2017 £'000	2016 £'000
Lifetime mortgage loans	511,151	492,879

Of the above total, £486.6 million (2016: £466.1 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 £11.4 million (2016: gain of £42.9 million). The cumulative change attributable to changes in credit risk to 31 December 2017 was a loss of £60.0 million (2016: loss of £71.4 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 6.

Equity Release Funding (No.5) plc
Notes to the financial statements
For the year ended 31 December 2017 (continued)

(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. Receivables

	2017 £'000	2016 £'000
Amounts due from Equity Release Holdings (No.5) Limited	15	15
Amounts due from ERF Trustee (No.5) Limited	8,629	7,497
Amounts due from related parties	-	52
	8,644	7,564

Of the above £15,000 (2016: £15,000) is expected to be recovered more than one year after the statement of financial position date.

9. Ordinary share capital

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

	2017 £	2016 £
The authorised share capital of the Company was: 100,000 ordinary shares of £1 each (2016: 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 (2016: 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) (2016: 49,998)	12,500	12,500
	12,502	12,502

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

10. Retained earnings

	2017 £'000	2016 £'000
Balance at 1 January	23	21
Profit for the year	2	2
Balance at 31 December	25	23

11. Tax liabilities

General

The current tax liability is £1,000 (2016: £1,000). Tax liabilities payable in more than one year are £nil (2016: £nil).

Equity Release Funding (No.5) plc
Notes to the financial statements
For the year ended 31 December 2017 (continued)

12. Deferred consideration

	2017 £'000	2016 £'000
Balance at 1 January	-	52,792
Decrease in deferred consideration	-	(52,792)
Balance at 31 December	-	-

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 K).

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.

13. Borrowings

(a) Carrying amount

	2017 £'000	2016 £'000
Securitised mortgage loan notes	275,580	216,248
Subordinated debt	31,728	31,070
Amounts owed to credit institutions	6,800	19,732
	314,108	267,050

The carrying amount of the above borrowings that are stated at amortised cost is £38.5 million (2016: £50.8 million). The corresponding fair value of these borrowings is £7.7 million (2016: £27.5 million).

The change in fair value of mortgage loan notes during the year attributable to a change in credit risk was a loss of £14.9 million (2016: loss of £18.8 million). The cumulative change attributable to changes in credit risk to 31 December 2017 was a gain of £53.4 million (2016: gain of £68.3 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 £292.9 million (2016: £251.7 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 2017 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 2017 (continued)

£381 million mortgage backed loan notes	Capital balance outstanding at end of year Total £381.0m	Credit rating (S&P, Moody's, Fitch)	Interest rate to July 2012	Interest rate from July 2012
Class A (£315 m)	315,000,000	BBB+, Aa2, AA	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, BB+	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 £11.7 million (2016: £11.1 million) of accumulated interest.

During 2005, the Company entered into a credit facility agreement with Prudential Capital plc at an interest rate of LIBOR + 35 BP, 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 2017 was £6.8 million (2016: £19.7 million) and the committed credit facility was £152.9 million (2016: £161.1 million).

14. Payables and other financial liabilities

	2017 £'000	2016 £'000
Derivative financial liabilities (notes 6(b) and 18)	205,195	233,468
Amounts due to UKER	364	2
Amounts due to other related parties	-	215
Collateral amounts payable	34,600	34,600
Other financial liabilities	302	176
	240,461	268,461

Of the above total, £219.6 million (2016: £247.1 million) is expected to be paid more than one year after the statement of financial position date.

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15. Statement of cash flows

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

	2017 £'000	2016 £'000
Profit before tax	3	3
Adjustments for:		
Fair value (gains)/losses on mortgage loans	(21,844)	45,769
Fair value losses/(gains) on loan notes	57,886	(109,553)
Fair value (gains)/losses on derivatives	(28,273)	122,688
Interest receivable on mortgage loans	(32,834)	(31,773)
Changes in working capital:		
Increase in receivables	(1,080)	(366)
Decrease/(increase) in prepayments and accrued income	139	(120)
Decrease in deferred consideration	-	(52,792)
Increase/(decrease) in payables and other financial liabilities	273	(406)
Increase in interest on borrowings	2,072	2,047
Proceeds from redemption of mortgages	36,406	32,442
Cash generated from operations	12,748	7,939

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:

	2017 £'000	2016 £'000
Cash at bank and in hand	34,813	34,966

16. 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 £38,000 (2016: £36,000) as capital.

17. 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).

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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 and operational risk. 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 our brand and reputation or as conduct risk.

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 tolerance (the desired or upper bound on the 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.

UK Life 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 within the UK Life business, including the Risk Committee, Conduct Committee, Audit Committee, Investment Committee, With Profits Committee and Independent Governance Committee.
- A clear organisational structure with documented delegated authorities and responsibilities from the legal entity boards to CEOs and senior management. Often the senior management are assisted in discharging their delegated authority through the discussions at management committees (for example the Executive Committee, Operational Risk and conduct 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.
- 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 effective operation of the Risk Management framework, particularly in relation to setting Risk Appetite, and compliance with Solvency II requirements.

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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 require 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 K. 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:

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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%	45.0	72.8	49.1	21.7	6.9	1.4	0.1	197.0
Up to 50%	11.8	57.6	60.5	21.9	5.9	0.9	-	158.6
Up to 60%	3.0	12.4	49.0	23.9	6.5	0.5	-	95.3
Up to 70%	0.4	3.1	9.4	19.2	5.8	0.7	-	38.6
Up to 80%	-	0.6	3.0	5.5	5.8	1.4	0.6	16.9
Up to 90%	-	-	-	1.9	1.5	0.4	-	3.8
Up to 100%	-	-	-	-	0.2	0.3	-	0.5
Over 100%	-	-	0.1	-	0.4	-	-	0.5
Total	60.2	146.5	171.1	94.1	33.0	5.6	0.7	511.2

The LTVs in the table above are as at 31 December 2017. LTVs are published quarterly, (January, April, July and October) in the Investor Report. Investor Reports are available at 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.

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	Carrying value in the statement of financial position £'000	Collateral held £'000	2017 Net credit exposure £'000
Loans	511,151	510,663	488
			2016
	Carrying value in the statement of financial position £'000	Collateral held £'000	Net credit exposure £'000
Loans	492,879	492,357	522

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 £152.9 million (2016: £161.1 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	2017 No contractual maturity £m
Liabilities				
Borrowings	21.5	46.2	412.7	53.0
Payables and other financial liabilities	20.9	71.0	119.3	-
				2016
	Within 1 year £m	1-5 years £m	Over 5 years £m	No contractual maturity £m
Liabilities				
Borrowings	15.4	40.5	440.1	51.7
Payables and other financial liabilities	21.6	76.2	132.4	-

The carrying value of the loan notes is £105.4 million lower (2016: £164.8 million lower) than the anticipated payment at maturity.

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18. 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 2017 was £456.1 million (2016: £458.5 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 2017 was £27.3 million (2016: £28.8 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 (2016: £34.6 million) in the form of cash by receiving collateral held as security on derivative contracts.

The fair value liability is disclosed under "Derivative financial liabilities" in note 14.

	2017		2016	
	Contract/ notional amount	Fair value liability	Contract/ notional amount	Fair value liability
	£'000	£'000	£'000	£'000
Interest rate contracts				
Interest rate swap	456,137	(164,285)	458,451	(182,293)
Option	-	(11,084)	-	(20,456)
Inflation rate swap	27,341	(29,826)	28,807	(30,719)
	483,478	(205,195)	487,258	(233,468)

19. 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.

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				Related amounts not set off in the statement of financial position	2017
	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	Net amount
	£'000	£'000	£'000	£'000	£'000
Financial liabilities					
Derivatives	205,195	-	205,195	-	205,195
Total	205,195	-	205,195	-	205,195

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.

				Related amounts not set off in the statement of financial position	2016
	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	Net amount
	£'000	£'000	£'000	£'000	£'000
Financial liabilities					
Derivatives	233,468	-	233,468	-	233,468
Total	233,468	-	233,468	-	233,468

20. 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 £54.1 million (2016: £44.6 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 £0.4 million (2016: £0.5 million).

(b) Expenses payable to related parties

	2017 Expense incurred in year £'000	2016 Expense incurred in year £'000
ERF Trustee (No. 5) Limited	2	2
UKER – portfolio administration and cash handling fees	1,302	1,308
UKER – interest	658	699
UKER – Deferred consideration	-	(52,792)
	1,962	(50,783)

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(c) Income receivable from related parties

	2017 Income received in year £'000	2016 Income received in year £'000
ERF Trustee (No.5) Limited – bank interest	-	3

(d) Payable at year end

	2017 £'000	2016 £'000
UKER – Subordinated debt	31,728	31,070
UKER – Other	364	2
Other related parties	-	215
	32,092	31,287

(e) Receivable at year end

	2017 £'000	2016 £'000
Equity Release Holdings (No.5) Limited	15	15
ERF Trustee (No. 5) Limited	8,629	7,497
Other related parties	-	52
	8,644	7,564

(f) Key management compensation

Wilmington Trust SP Services (London) Limited received fees of £13,405 (2016: £13,416) including VAT during the year to 31 December 2017, 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 and Wales. Aviva plc is the parent undertaking of the smallest and largest group of undertakings to consolidate these financial statements at 31 December 2017. 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.