Equity Release Funding (No.5) Plc

Registered in England and Wales No. 5495271

Annual Report and Financial Statements 2022

Contents

Directors and officer

Directors

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

Officer - Company Secretary

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

Independent Auditors

PricewaterhouseCoopers LLP
7 More London Riverside
London
SE1 2RT

Registered office

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

Company number

Registered in England and Wales no. 5495271

Other information

Equity Release Funding (No.5) Plc ("the Company") is a member of the Aviva plc group of companies ("the Group")

Strategic report

The directors present their strategic report for the Company for the year ended 31 December 2022.

Review of the Company's business

Principal activities

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

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

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

Significant events

There were no significant events in the year.

Financial position and performance

The financial position of the Company at 31 December 2022 is shown in the statement of financial position on page 18, with the trading results shown in the income statement on page 17 and the statement of cash flows on page 20.

Income for the year is £40.2 million *(2021: £42.7 million)* and profit before tax is £3,000 *(2021: £3,000).*

Shareholders' equity has increased by £2,000 *(2021: increase of £2,000)*, reflecting the profit for the year.

Section 172 (1) statement

Section 172 of the Companies Act 2006 requires directors to take into consideration the interests of stakeholders in their decision making. The directors continue to have regard to the interests of the Company's stakeholders, including the impact of its activities on the community, the environment and the Company's reputation, when making decisions.

As a securitisation vehicle, the governance structure of the Company is such that the key policies have been predetermined at the time of issuance. The directors consider what is most likely to promote the success of the Company in the long term. The directors have had regards to the matters set out in section 172(1) of the Companies Act 2006 as follows:

- With reference to subsection (a) concerning the likely consequences of any decision in the long term: Transaction Documentation has been set up to achieve the Company's purpose and business objectives, safeguard the assets and promote the success of the Company with a long term view and as disclosed under the basis of preparation in Note A and in accordance with the relevant securitisation legislation the Company is only permitted to retain minimal profit.
- Due to the nature of the entity it has no employees therefore subsection (b) is not relevant.
- The Company operates within the parameters laid out by the transaction documents which governs how all the parties involved in the transaction interact, therefore subsection (c) and (e) is not relevant.
- Subsection (d) is not relevant as the Company's operations have no impact on the community or environment.
- The Company ownership structure is arranged such that subsection (f) has no impact.

Future outlook

The strategic direction of the Company is set by the directors of the Company. The directors consider that the Company's principal activities will continue unchanged for the foreseeable future.

On 24 February 2022, on-going tensions between Russia and Ukraine developed into full-scale armed conflict between the two countries. The Company is monitoring and responding to this dynamic situation - note 18 gives more detail on this.

The impacts of climate change have been considered in the assumption setting process, this is referred to in note 7.

Principal risks and uncertainties

A description of the principal risks and uncertainties facing the Company and the Company's risk management policies are set out in note 18 to the financial statements.

Risk factors beyond the Company's control that could cause actual results to differ materially from those estimated include, but are not limited to:

- Market risk, the risk of loss or adverse change in the financial situation (including the value of assets, liabilities and income) resulting, directly or indirectly, from fluctuations in the level or the volatility of market variables, such as interest rates, equity prices and property prices. Market risk arises within the Company due to fluctuations in the value of lifetime mortgage assets relative to the value of the property on which they are secured.

Strategic report (continued)

- Credit risk, the risk of adverse financial impact resulting from fluctuations in credit quality of third parties including default, rating transition and credit spread movements.
- Liquidity risk, the risk that cash flows from mortgages differ from expected cash flows, due to changes in mortality and prepayment rates, liabilities cannot be met in a timely and cost-effective manner as they fall due.
- Operational risk is the risk of loss arising from inadequate or failed internal processes, people or systems, or from external events.

The company uses a number of metrics to identify, measure, manage, monitor and report risks and a fuller explanation of these risks other than operational risk may be found in note 18 to the financial statements.

The Company continues to maintain healthy liquidity including the availability of liquidity facilities and expects to meet its cash requirements in the foreseeable future.

Key performance indicators

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

Measure	2022 £'000	2021 £'000
Income for the year	**40,161**	42,703
Expense in the year	**(40,158)**	(42,700)
Profit after tax for the year	**2**	2
Increase in movement in deferred consideration for the year	**15,581**	19,787

By order of the Board on 19 June 2023

Ioannis Kyriakopoulos
For and on behalf of Wilmington Trust SP Services (London) Limited
Company Secretary

Directors' report

The directors submit their annual report and the audited financial statements for the Company for the year ended 31 December 2022.

Company registration

The Company is registered in England and Wales, number 5495271.

Directors

The names of the current directors of the Company are shown on page 3.

Company Secretary

The name of the company secretary of the Company is shown on page 3.

Dividends

The directors do not recommend the payment of a dividend for the year *(2021: £nil).*

Going concern

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the strategic report, which includes a section describing the principal risks and uncertainties. In addition, the financial statements include notes on: the Company's borrowings (note 14); its capital structure (note 17); management of its risks including market, credit and liquidity risk (note 18) and derivative financial instruments (note 19).

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

Based on forecasts and projections, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for a period of at least twelve months from the date of approval of the financial statements. For this reason, they continue to adopt, and to consider appropriate, the going concern basis in preparing the financial statements.

Future outlook

Likely future developments in the business of the Company are discussed in the strategic report on page 4.

Financial instruments

The Company uses financial instruments to manage certain types of risks, including to those relating to credit, cash flow, liquidity, interest rates and property prices. Details of the objectives and management of these instruments are contained in note 18 on risk management.

Employees

The Company has no employees. The majority of employees engaged in the activities of the Company are employed by a subsidiary undertaking of Aviva plc, Aviva Employment Services Limited. Disclosures relating to employees may be found in the annual report and financial statements of Aviva Employment Services Limited. The Company is recharged with the costs of the staff provided by this company.

Disclosure of information to the auditors

In accordance with section 418 of the Companies Act 2006, the directors in office at the date of approval of this report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's External Auditors, PricewaterhouseCoopers LLP, is unaware and each director has taken all steps that ought to have been taken as a director in order to make themselves aware of any relevant audit information and to establish that PricewaterhouseCoopers LLP is aware of that information.

Independent auditors

Under the Competition and Markets Authority Regulations, the Company's ultimate controlling entity, Aviva plc (the Group), is required to tender for the provision of the external audit every 10 years. PricewaterhouseCoopers LLP was appointed for the first time for the 31 December 2012 financial year end and therefore a mandatory re-tender was required for the year ending 31 December 2022. The audit tender process was initiated during 2020 but COVID-19 restrictions caused delays and Aviva sought a two-year extension from the FRC which was granted. Following a full and rigorous competitive tender process, which was overseen by the Group's Audit Committee, the selection of Ernst & Young LLP for the year ending 31 December 2024 was approved by the Group Board. It is the intention of the Directors to reappoint PricewaterhouseCoopers LLP, under the deemed appointment rules of section 487 of the Companies Act 2006, for the year ending 31 December 2023.

Directors' indemnity provisions

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

Corporate governance

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

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.

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

Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the Annual Report and Financial Statements 2022 and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with UK-adopted international accounting standards.

Under company law, 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 the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable UK-adopted international accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are also responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006.

Directors' confirmations

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

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

In the case of each director in office at the date the directors' report is approved:

- so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

The financial statements on pages 13 to 36 were approved on behalf of the Board on 19 June 2023

Ioannis Kyriakopoulos
Director

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 2022 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with UK-adopted international accounting standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the statement of financial position as at 31 December 2022; the income statement, the statement of changes in equity and the statement of cash flows for the year then ended; the accounting policies; and the notes to the financial statements.

Our opinion is consistent with our reporting to the directors.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

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

Our audit approach

Overview

Audit scope

- 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 originator, administrator and servicer of the underlying mortgage loans and cash manager (the "Servicer").
- The activities of the Company are conducted primarily by reference to a series of transaction documents. We tailored the scope of our audit to ensure that we performed sufficient work to enable us to opine on the financial statements, ensuring audit procedures were performed in respect of every material financial statement line item.
- In establishing the overall approach to the audit, we determined the type of work that needed to be performed by us taking into account the accounting processes and controls in place at UKER as administrator, servicer and cash manager.

Key audit matters

- Valuation of lifetime mortgage loans
- Valuation of securitised mortgage loan notes
- Incentive for UKER who both service and originate the lifetime mortgage loans to misrepresent performance of the underlying asset pool of the Company in order to hide the breach of triggers

Materiality

- Overall materiality: 4,289,300 (2021: 5,313,000) based on 1% of total assets.
- Performance materiality: 3,216,975 (2021: 3,985,000).

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.

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.

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

The key audit matters below are consistent with last year.

Key audit matter	How our audit addressed the key audit matter
Valuation of lifetime mortgage loans The valuation of lifetime mortgage loans (£390.8m) continues to be an area of significant risk. The valuation methodology is set out in accounting policies C and H and notes 7 and 8. The assets are categorised at level 3 and the valuation is considered to be significant risk due to the level of judgement required in the selection and application of significant assumptions In consideration of the impact of climate change on the entity, management have applied an explicit adjustment to the input assumptions to the valuation of the asset to reflect the uncertainty in the long-term property market due to impacts such as direct physical damage.	We assessed management's approach to valuing these lifetime mortgage loans by performing the following procedures: · Tested the design and operating effectiveness of management's controls over the valuation of lifetime mortgage loans; · Assessed the appropriateness of the methodology and assumptions used in the valuation models; · Validated significant assumptions used by management by ensuring consistency with the assumptions used for the valuation of the loans against market observable data (to the extent available and relevant) and our experience of market practices; · Agreed data inputs in models to underlying documentation on a sample basis; · Tested the operation of data integrity and change management controls for the models; and · Reconciled the model output to the financial statements and assessed the adequacy of disclosure. The results and conclusions of the testing were sufficient to confirm the appropriateness of the valuation of the lifetime mortgage loans and associated disclosures. We compared the explicit adjustment to the Bank of England's Climate Biennial Exploratory Scenario (CBES) research, noting that the adjustment fell within the range implied by the results of the analysis performed. Based on this, alongside consideration of industry peers and other external factors, such as ESG related government policy, we consider the adjustment to appropriately account for the potential impact climate change could have on future property prices and as such the equity release mortgage valuation.
Valuation of securitised mortgage loan notes The valuation of securitised mortgage loan note liabilities (£313.4m) is also an area of significant risk. The valuation methodology is set out in accounting policies C and N and notes 7 and 14. As with the equity release mortgage asset, there are high levels of judgement involved in selection and application of assumptions into the borrowings model. Whilst the loan notes are listed on the London Stock Exchange, they are not actively traded, and therefore the market price is not observable.	We assessed management's approach to valuing these borrowings by performing the following procedures:· Agreed waterfall payments to bank statements and the priority of payments to the prospectus to confirm that payments have been made in line with the waterfall; · Independently recalculated a range of appropriate fair values by discounting redemption cash flows at a rate determined using market comparables with similar duration and credit ratings; ·Reconciled the cash repayments and fair value movements to the overall movement in the borrowings balance; and ·Reviewed appropriateness of valuation methodology when considering the relevant IFRS. Whilst management use an alternative valuation approach to ours, there is estimation uncertainty and judgements involved in both valuation methodologies, and we have ultimately concluded that the results and conclusions of our testing are sufficient to confirm the appropriateness of the valuation of the securitised mortgage loan notes.
Incentive for UKER who both service and originate the lifetime mortgage loans to misrepresent performance of the underlying asset pool of the Company in order to hide the breach of triggers As set out in note 14, the waterfall is key to ensuring that expenses, interest and principal repayments on the notes in issue are paid in the appropriate order on each payment date. The revenue and waterfall are outlined in the transaction documents. If the waterfall is incorrectly processed, then there is a significant risk that interest expense and borrowings are not appropriately calculated and settled.	The work to address the risk included the following procedures: · Inspected the transaction documents to identify key triggers for breaches; · Performed substantive testing of quarterly waterfall payments to ensure that they were made in accordance with the prospectus, including agreeing cash balances and transactions to cash accounting records; · Reviewed investor reports to identify any breaches or issues; and · Reviewed minutes of the Board meetings of the Company. Based on the work performed and the evidence obtained, we did not identify any triggers of breaches being met.

How we tailored the audit scope

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

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

Materiality

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

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

Overall company materiality	4,289,300 (2021: 5,313,000).
How we determined it	1% of total assets
Rationale for benchmark applied	Total assets is considered an appropriate benchmark as the Company is a not for profit, special purpose securitisation vehicle and the performance of the Company is dependent on the performance of the lifetime mortgage loans held by the Company. Cashflows received from these mortgages are utilised to pay expenses and to repay borrowings of the Company.

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

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% (2021: 75%) of overall materiality, amounting to 3,216,975 (2021: 3,985,000) for the company financial statements.

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

We agreed with the directors that we would report to them misstatements identified during our audit above 214,465 (2021: 265,654) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

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

- Obtaining management's Going Concern assessment and challenged the rationale for material assumptions made using our knowledge of the Company's performance up to signing and obtaining further corroborating evidence, such as external confirmation of credit and liquidity facilities in place;
- Obtaining details of cash outflows for the next 12 months and comparing these to the cash available within the entity to confirm that the entity has sufficient cash to repay its liabilities as they fall due, even when considering severe but plausible downside scenarios; and
- Considered information obtained during the course of the audit and publicly available market information to identify any evidence that would contradict management's assessment of going concern (including the impacts of COVID-19).

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the company's ability to continue as a going concern.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Reporting on other information

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

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

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

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic report and Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' report for the year ended 31 December 2022 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 in respect of the financial statements, 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.

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.

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

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to The Companies Act 2006 and UK tax legislation, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to manipulate reported results and management bias in accounting estimates. Audit procedures performed by the engagement team included:

- Enquiring of management and those charged with governance around actual and potential litigation claims;
- Enquiring of management and those charged with governance to identify any instances of fraud or non-compliance with laws and regulations;
- Reviewing meeting minutes of those charged with governance;
- Reviewing key correspondence in relation to compliance with laws and regulations;
- Reviewing financial statement disclosures and testing to support documentation to assess compliance with applicable laws and regulations;
- performed testing over the risk of management override of controls, including through testing journals entries posted by management, unusual account combinations and backdated journals;
- Performing testing over accounting estimates, including equity release mortgages and associated borrowings, which involve judgemental assumptions that are susceptible to manipulation;
- Assessing matters reported on the Aviva Group's whistleblowing helpline and fraud register and the results of management's investigation of such matters; and
- Designing audit procedures to incorporate unpredictability around the nature, timing or extent of of testing.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report. In our engagement letter, we also agreed to describe our audit approach, including communicating key audit matters.

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

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

Appointment

Following the recommendation of the directors, we were appointed by the members 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 11 years, covering the years ended 31 December 2012 to 31 December 2022.

Other matter

As required by the Financial Conduct Authority Disclosure Guidance and Transparency Rule 4.1.14R, these financial statements form part of the ESEF-prepared annual financial report filed on the National Storage Mechanism of the Financial Conduct Authority in accordance with the ESEF Regulatory Technical Standard ('ESEF RTS'). This auditors' report provides no assurance over whether the annual financial report has been prepared using the single electronic format specified in the ESEF RTS.

Sean Forster (Senior Statutory Auditor)
for and on behalf ofPricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
19 June 2023

Accounting policies

The Company, a public limited company incorporated and domiciled in the United Kingdom (UK), invests in lifetime mortgage loans.

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

(A) Basis of preparation

The financial statements of the Company have been prepared and approved by the directors in accordance with UK-adopted international accounting standards and the legal requirements of the Companies Act 2006.

On 31 December 2020, IFRS as adopted by the EU at that date was brought into UK law and became UK-adopted International Accounting Standards, with future changes being subject to endorsement by the UK Endorsement Board. The Company transitioned to UK-adopted International Accounting Standards on 1 January 2021.

The financial statements have been prepared under the historical cost convention, except for mortgage loans and those financial instruments and financial liabilities (including derivative investments) at fair value through profit and loss.

The financial statements have been prepared on the going concern basis as explained in the Directors' report on page 6.

The financial statements are stated in sterling, which is the Company's functional and presentational currency.

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

The Company has adopted the following amendments to standards which became effective for the annual reporting period beginning on 1 January 2022. The amendments have been issued and endorsed by the UK and do not have a significant impact on the Company's financial statements.

(i) *Annual improvements to IFRS 2018-2020 Cycle: Amendments to IFRS 1 Presentation of Financial Statements, IFRS 9 Financial Instruments, IFRS 16 Leases and IAS 41 Agriculture (published by the IASB in May 2020).*

(ii) *Amendments to IAS 16 Property, Plant and Equipment: Proceeds before intended use (published by the IASB in May 2020).*

(iii) *Amendments to IFRS 3 Business Combinations: Reference to the Conceptual Framework (published by the IASB in May 2020).*

(iv) *Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets: Onerous Contracts – Costs of Fulfilling a Contract (published by the IASB in May 2020).*

(v) *Amendments to IFRS 16 Leases: COVID-19 Related Rent Concessions beyond 30 June 2021 (published by the IASB in March 2021).*

Standards, interpretations and amendments to published standards that are not yet effective and have not been adopted early by the Company

The following new standards and amendments to existing standards have been issued, are not yet effective for the Company and have not been adopted early by the Company:

(i) Amendments to IAS 1 Presentation of Financial Statements: Disclosures of Accounting Policies

Published by the IASB in January 2020. The amendments are effective for annual reporting beginning on or after 1 January 2023 and have been endorsed by the UK.

(ii) Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates

Published by the IASB in February 2021. The amendments are effective for annual reporting beginning on or after 1 January 2023 and have been endorsed by the UK.

(iii) Amendments to IAS 12 Income Taxes: Deferred Tax related to Assets and Liabilities arising form a Single Transaction

Published by the IASB in May 2021. The amendments are effective for annual reporting beginning on or after 1 January 2023 and have been endorsed by the UK.

(iv) Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current

Published by the IASB in January 2020. The amendments are effective for annual reporting beginning on or after 1 January 2024 and have yet to be endorsed by the UK.

(v) Amendments to IAS 1 Presentation of Financial Statements: Non-current Liabilities with Covenants

Published by the IASB in October 2022. The amendments are effective for annual reporting beginning on or after 1 January 2024 and have yet to be endorsed by the UK.

(vi) Amendments to IFRS 16: Lease Liability in a Sale and Leaseback

Published by the IASB in September 2022. The amendments are effective for annual reporting beginning on or after 1 January 2024 and have yet to be endorsed by the UK.

Accounting policies (continued)

(B) Critical accounting policies and use of estimates

The preparation of the Company's financial statements in accordance with IFRS requires management to make judgements, estimates and assumptions in applying the accounting policies that affect the reported amounts of assets, liabilities, income and expenses. The only area of key judgement is recognition of the lifetime mortgages in the books of the Company (see note H). Major areas of estimation on policy application are summarised below:

(i) Fair value of loans (set out in policy H and note 7 and 8).

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

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

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

(i) Loans (set out in policy H and note 7 and 8).

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

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

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

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

(C) Fair value measurement

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

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

(D) Interest and similar income

Interest and similar income consists of interest receivable for the year. Interest income is recognised as it accrues, taking into account the effective yield on the investment. Interest on lifetime mortgages is accrued and payment of interest is not received until the mortgage is redeemed.

(E) Fee and commission expense

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

(F) Financial instruments

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

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

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

(G) Derivative financial instruments

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

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

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

Accounting policies (continued)

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 19.

Swaps

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

Options

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

(H) Loans

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

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

(I) Collateral

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

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

Non-cash collateral received is not recognised in the statement of financial position unless the transfer of the collateral meets the derecognition criteria from the perspective of the transferor.

(J) Receivables, payables and other financial liabilities

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

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

(K) Statement of cash flows

Cash and cash equivalents

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

(L) Deferred consideration

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

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

Any excess of liabilities over assets (excluding deferred consideration) in the statement of financial position is offset against the borrowings held by the noteholders, reflecting their non-recourse nature.

(M) Income taxes

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

Accounting policies (continued)

(N) Borrowings

Borrowings backed by mortgages are designated at fair value through profit and loss as presentation at fair value provides more relevant information and ensures that any accounting mismatch is minimised. The fair values are estimated using discounted cash flow models, as described in note 7.

All borrowing costs are expensed as they are incurred.

Any excess of liabilities over assets (excluding deferred consideration) in the statement of financial position is offset against the borrowings held by the noteholders, reflecting their non-recourse nature.

(O) Share capital

Equity instruments

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

(i) there is no contractual obligation to deliver cash or other financial assets or to exchange financial assets or liabilities on terms that may be unfavourable; and

(ii) the instrument will not be settled by delivery of a variable number of shares or is a derivative that can be settled other than for a fixed amount of cash, shares or other financial asset.

Income statement

For the year ended 31 December 2022

	Notes	2022 £'000	2021 £'000
Income			
Interest and similar income	D & 1	**31,347**	31,163
Unrealised gains on financial instruments	F & 1	**8,812**	11,540
Other operating income		**2**	—
		40,161	42,703
Expenses			
Fee and commission expense	E & 2	**(3,187)**	(1,728)
Other operating expenses	2	**(16,304)**	(20,163)
Finance costs	2	**(20,667)**	(20,809)
		(40,158)	(42,700)
Profit before tax		**3**	3
Tax charge	M & 6	**(1)**	(1)
Profit for the year		**2**	2

There is no other comprehensive income for the year *(2021: £nil)*.

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

Statement of financial position

As at 31 December 2022

	Notes	2022	2021
		£'000	£'000
Assets			
Loans	F, H & 8	**390,762**	493,897
Derivative assets	G & 19	**196**	6,166
Receivables	J & 9	**9,378**	10,253
Prepayments and accrued income		**16**	—
Cash and cash equivalents	K & 16	**28,578**	27,286
Total assets		**428,930**	537,602
Equity			
Ordinary share capital	O & 10	**13**	13
Retained earnings	11	**35**	33
Total equity		**48**	46
Liabilities			
Deferred consideration	L & 13	**41,155**	25,574
Borrowings	N & 14	**324,226**	351,470
Payables and other financial liabilities	F, G, J & 15	**63,500**	160,511
Current tax liabilities	M & 12	**1**	1
Total liabilities		**428,882**	537,556
Total equity and liabilities		**428,930**	537,602

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

The financial statements were approved by the Board of Directors on 19 June 2023 and signed on its behalf by

Ioannis Kyriakopoulos

Director

Statement of changes in equity
For the year ended 31 December 2022

	Notes	Ordinary share capital	Retained earnings	Total equity
		£'000	£'000	£'000
Balance at 1 January 2022		**13**	**33**	**46**
Profit for the year	11	**—**	**2**	**2**
Balance at 31 December 2022		**13**	**35**	**48**

	Notes	Ordinary share capital	Retained earnings	Total equity
		£'000	£'000	£'000
Balance at 1 January 2021		13	31	44
Profit for the year	11	—	2	2
Balance at 31 December 2021		13	33	46

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

Statement of cash flows

For the year ended 31 December 2022

	Note	2022 £'000	2021 £'000
Cash flows from operating activities			
Cash generated from / (used in) operating activities	16	**9,116**	(180)
Tax paid		**(1)**	(1)
Total net cash generated from / (used in) operating activities		**9,115**	(181)
Total net increase / (decrease) in cash and cash equivalents		**9,115**	(181)
Cash and cash equivalents at 1 January		**71**	252
Cash and cash equivalents at 31 December	16	**9,186**	71

Interest paid is disclosed in note 16.

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

Notes to the financial statements

1. Details of income

	2022 £'000	2021 £'000
Interest and similar income	**31,347**	31,163
Financial instruments		
Unrealised gains on derivative contracts	**84,090**	62,003
Unrealised losses on mortgage loans	**(96,358)**	(5,161)
Unrealised gains / (losses) on borrowings	**21,080**	(45,302)
	8,812	11,540
Other operating income		
Reinsurance rebates	**2**	—
	2	—
Total income	**40,161**	42,703

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

2. Details of expenses

	2022 £'000	2021 £'000
Fee and commission expense	**3,187**	1,728
Net other operating expenses		
Increase in deferred consideration	**15,581**	19,787
Losses due to negative equity	**635**	318
Audit fees	**79**	51
Other Expenses	**9**	7
	16,304	20,163
Finance Costs		
Interest expense		
Securitised mortgage loan notes	**6,832**	2,358
Sub debt	**1,132**	629
Financial liabilities held at amortised cost	**467**	242
Swap interest	**11,569**	17,089
Inflation rate swap	**667**	491
	20,667	20,809
Total expenses	**40,158**	42,700

Notes to the financial statements (continued)

3. Employee information

The Company has no employees *(2021: nil)*. All employees are employed by a fellow subsidiary undertaking of Aviva plc, Aviva Employment Services Limited. Disclosures relating to employee remuneration and the average number of persons employed are made in the financial statements of Aviva Employment Services Limited.

4. Directors' remuneration

Wilmington Trust SP Services (London) Limited received fees of £13,316 *(2021: £13,382)* including VAT during the year to 31 December 2022, in respect of structuring and management services. The other named Directors are employed by Wilmington Trust SP Services (London) Limited; no fees were paid to them directly.

5. Auditors' remuneration

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

	2022 £'000	2021 £'000
Fees payable to PwC LLP for the statutory audit of the Company's financial statements	**79**	51

Audit fees are payable by Aviva Central Services UK Limited, a fellow Group company, and recharged as appropriate to the Company and fellow Group companies. No non-audit services were provided during the year by PricewaterhouseCoopers LLP.

6. Tax charge

(a) Tax charged to the income statement

The total tax charge comprises:

	2022 £'000	2021 £'000
Current tax		
For this year	**1**	1
Total tax charged to the income statement	**1**	1

(b) Tax reconciliation

The tax on the Company's profit before tax is the same as (*2021: the same as*) the theoretical amount that would arise using the tax rate of the United Kingdom as follows:

	2022 £'000	2021 £'000
Profit before tax	**3**	3
Tax calculated at standard UK corporation tax rate of 19% (2021: 19%)	**1**	1
Total tax charged to the income statement	**1**	1

The UK Government has enacted an increase in the UK corporation tax rate to 25% to take effect from 1 April 2023. As the Company has no deferred tax assets or liabilities, there is no impact of the Company's net assets as a consequence of the amendments to the tax rates.

Notes to the financial statements (continued)

7. Fair value methodology

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

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the 'fair value hierarchy' described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

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

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

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

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

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

Level 3
Inputs to Level 3 fair values are unobservable inputs for the asset or liability. Unobservable inputs may have been used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date. However, the fair value measurement objective remains the same, i.e. an exit price at the measurement date from the perspective of a market participant that holds the asset or owes the liability. Unobservable inputs reflect the assumptions the Company considers that market participants would use in pricing the asset or liability. Where the modelled value of borrowings results in an excess of liabilities over assets (excluding deferred consideration) the statement of financial position is offset against the borrowings held by the noteholders, reflecting their non-recourse nature (see accounting policy L and N). Examples are lifetime mortgage loans and the associated borrowings backing these loans.

(b) Comparison of the carrying amount and fair values of financial instruments

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

- Receivables
- Cash and cash equivalents
- Payables and other financial liabilities (excluding derivative liabilities)
- Current tax liabilities

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

Notes to the financial statements (continued)

(c) Fair value hierarchy

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

			2022
	Level 2	Level 3	Total fair value
	£'000	£'000	£'000
Financial assets			
Loans	—	**390,762**	**390,762**
Derivative assets	—	**196**	**196**
	—	**390,958**	**390,958**
Financial liabilities			
Borrowings	—	**(324,226)**	**(324,226)**
Derivative liabilities	—	**(42,826)**	**(42,826)**
Total	—	**(367,052)**	**(367,052)**

			2021
	Level 2	Level 3	Total fair value
	£'000	£'000	£'000
Financial assets			
Loans	—	493,897	493,897
Derivative assets	—	6,166	6,166
	—	500,063	500,063
Financial liabilities			
Borrowings	—	(351,470)	(351,470)
Derivative liabilities	—	(132,886)	(132,886)
Total	—	(484,356)	(484,356)

(d) Transfers between levels of the fair value hierarchy

There were no transfers during 2022 (2021: £104.7m). For financial instruments that are recognised at fair value on a recurring basis, the Company determines whether transfers have occurred between levels of the fair value hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of the reporting year.

(e) Further information on Level 3 financial instruments

Lifetime mortgage loans amounting to £390.8 million *(2021: £493.9 million)*, derivative liabilities of £42.6 million *(2021: derivative liabilities of £126.7 million)* and securitised mortgage loan notes amounting to £324.2 million *(2021: £351.5 million)* are classified as Level 3 and valued using a discounted cash flow model.

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

			2022			2021
	Loans	Derivatives	Borrowings	Loans	Derivative	Borrowings
	£'000	£'000	£'000	£'000	£'000	£'000
Opening balance at 1 January	**493,897**	**(126,720)**	**(351,470)**	515,411	(33,976)	(332,405)
Accrued interest	**31,073**	—	**(7,964)**	31,163	—	(2,987)
(Redemptions) / repayments	**(37,850)**	—	**14,128**	(47,516)	—	29,224
Total net (losses) / gains recognised in the income statement	**(96,358)**	**84,090**	**21,080**	(5,161)	11,977	(45,302)
Transfers into level 3	—	—	—	—	(104,721)	—
Balance at 31 December	**390,762**	**(42,630)**	**(324,226)**	493,897	(126,720)	(351,470)

Notes to the financial statements (continued)

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. Prior year transfer in derivatives of £104.7m was due to a change in the valuation from using counterparty supplied prices to an internally derived valuation model to ensure consistency of approach with the Company's other assets and liabilities held at fair value.

The net result recognised in the income statement during the year for Level 3 assets and liabilities was a profit of £8.8 million *(2021: loss of £38.5 million).*

Cash flows are adjusted for credit risk and discounted using a yield curve and portfolio-wide assumptions for the liquidity premium. The model derives a best estimate view on property growth and explicitly calculates the additional return that would be demanded by investors due to uncertainties in the asset cash flows. The assets and liabilities have been classified as Level 3 as assumptions used to derive the property growth rates, mortality and morbidity assumptions, cost of capital, liquidity premium and credit risk are not deemed to be market observable. The primary inputs to the model are:

- A liquidity premium added to the risk-free discount rate to reflect the illiquidity of the equity release mortgage portfolio. The premium used in the discount rate was 155bps at 31 December 2022 *(2021: 180bps).* The liquidity premium is the excess margin over risk-free rates after allowing for the no negative equity guarantee, the cost of capital and future loan administration expenses that is obtainable in the market on new equity release mortgages.

- The base property growth rate assumption is RPI + 0.75% *(2021: RPI + 0.75%)*, which includes an allowance of 0.5% per annum for the potential impact of climate change action. The modelled growth rates include an adjustment for the 5-year period 2023-2027 to reflect the market view of short-term growth being lower than long-term growth. The combination of the adjusted rate over the first five years and the base property growth rate equates to a long-term average growth rate of 3.1% pa at 31 December 2022 *(2021: 3.9%)* over a twenty five year projection. After applying the cost of capital, dilapidations and the stochastic distribution, the net long-term growth rate equates to 0.4% pa *(2021: 0.6% pa).*

- The net long-term rate which represents an average of a range of possible future scenarios. Best estimate calculations of the value of the no negative equity guarantee in respect of these loans are derived from a stochastic model and are predominantly driven by scenarios where the growth rate is lower than the average position quoted above. The no negative equity guarantee ensures that the customer or their estate are never required to pay back more than the realised value of the property, as long as it is sold for the best price reasonably obtainable. Property valuations at the reporting date are obtained by taking the most recent valuation for the property and indexing using a historic house price model based on ONS data.

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

	2022		Change in fair value	
	Fair value	Most significant unobservable inputs	Positive impact	Negative impact
	£m		£m	£m
Lifetime mortgage loans	**390.8**	Illiquidity premium - 50bps	**13.2**	**(12.5)**
		Current property market values - 10%	**12.2**	**(15.1)**
		Base property growth rate - 50bps	**6.1**	**(6.3)**
Securitised mortgage loan notes	**313.4**	Illiquidity premium - 50bps	**11.1**	**(11.6)**
Subordinated debt	**10.8**	Illiquidity premium - 50bps	**1.1**	**(1.3)**
Derivatives	**42.6**	Inflation - 50bps	**2.6**	**(2.5)**

	2021		Change in fair value	
	Fair value	Most significant unobservable inputs	Positive impact	Negative impact
	£m		£m	£m
	Restated			
Lifetime mortgage loans	493.9	Illiquidity premium - 50bps	20.2	(19.0)
		Current property market values - 10%	14.8	(18.3)
		Base property growth rate - 50 bps	7.8	(7.9)
Securitised mortgage loan notes	329.1	Illiquidity premium - 50bps	15.5	(16.3)
Subordinated debt	22.4	Illiquidity premium - 50bps	1.8	(2.0)
Derivatives	126.7	Inflation - 50bps	4.4	(4.1)

An increase in credit spreads used in the discounted cash flow model for lifetime mortgage loans will decrease the fair value of the assets. An increase in credit spreads used in the discounted cash flow model for securitised mortgage loan notes will decrease the fair value of the liabilities. The illiquidity premium movement is effectively a movement in the credit spread on the assets.

The nature of the derivative financial instruments means that they are exposed to movements in RPI. The above table shows the impact of a 50 bps movement in RPI on the derivative valuation.

Notes to the financial statements (continued)

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

8. Loans

(a) Carrying amounts

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

	At fair value through profit or loss other than trading	
	2022	2021
	£'000	£'000
Lifetime mortgage loans	**390,762**	493,897
Expected to be recovered in less than one year	**33,754**	25,294
Expected to be recovered in more than one year	**357,008**	468,603
	390,762	493,897

The majority of the loans are lifetime mortgages which by their nature do not have any contractual maturity, are long-term and are not expected to redeem in the next year .

Loans at fair value

On 11 August 2005, the Company purchased £359.0 million of mortgage assets at market value from 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 administrative purposes and the benefit of the Company.

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

The change in fair value of mortgage loans during the year attributable to a change in credit risk was a profit of £27.1 million *(2021: profit of £32.6 million)*. The cumulative change attributable to changes in credit risk to 31 December 2022 was a loss of £3.4 million *(2021: loss of £30.5 million)*. The amount has been determined as the amount that is not attributable to changes in market conditions that give rise to market risk. Further details of the fair value methodology are given in note 7.

(b) Collateral

The Company holds collateral in respect of all loans, in order to reduce the risk of non-recovery. This collateral generally takes the form of liens or charges over properties. As security for the lifetime mortgage and any other money owing from the customer, the property is charged to the Company by way of a legal mortgage with full title guarantee.

9. Receivables

	2022	2021
	£'000	£'000
Amounts due from Equity Release Holdings (No.5) Limited	**15**	15
Amounts due from ERF Trustee (No.5) Limited	**9,050**	10,111
Amounts due from UKER	**313**	127
Amounts due from related parties	**—**	—
Total as at 31 December	**9,378**	10,253
Expected to be recovered in less than one year	**9,363**	10,238
Expected to be recovered in more than one year	**15**	15
	9,378	10,253

Notes to the financial statements (continued)

10. Ordinary share capital

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

	2022	2021
	£	£
Allotted, called up and fully paid		
2 (2021: 2) ordinary shares of £1 each	**2**	2
Allotted, called up and partly paid		
49,998 (2021: 49,998) ordinary shares of £1 (2021: £1) each (25p (2021: 25p) paid per share)	**12,500**	12,500
	12,502	12,502

11. Retained earnings

	2022	2021
	£'000	£'000
Balance at 1 January	**33**	31
Profit for the year	**2**	2
Balance at 31 December	**35**	33

12. Current tax liabilities

The current tax liability is £1,000 *(2021: £1,000)*.

Tax liabilities payable in more than one year are £nil *(2021: £nil)*.

13. Deferred consideration

	2022	2021
	£'000	£'000
		Restated
Balance at 1 January	**25,574**	5,787
Movement in the year	**15,581**	19,787
Balance at 31 December	**41,155**	25,574

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

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

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

Notes to the financial statements (continued)

14. Borrowings

(a) Carrying amount

	2022 £'000	2021 £'000 Restated
Securitised mortgage loan notes	**313,419**	329,115
Subordinated debt	**10,807**	22,355
Total at 31 December	**324,226**	351,470
Expected to be settled in less than one year	**25,214**	15,170
Expected to be settled in more than one year	**299,012**	336,300
	324,226	351,470

The fair value of the borrowings is modelled using an internally developed model which values all the instruments within the SPV. A management overlay is applied to the modelled value of the loan notes to ensure that any excess of liabilities over assets in the financial statements are attributed in line with the terms of the offer circular governing the structure. Where there is no remaining deferred consideration any shortfall of assets over liabilities are attributable to loan note holders.

The change in fair value of mortgage loan notes during the year attributable to a change in credit risk was a loss of £19.3 million *(2021: loss of £25.7 million).* The cumulative change attributable to changes in credit risk to 31 December 2022 was a gain of £1.8 million *(2021: gain of £21.1 million).* The amount has been determined as the amount that is not attributable to changes in market conditions that give rise to market risk. The above liabilities stated at fair value have been calculated in a consistent manner with the assets stated at fair value. Further details of the fair value methodology are included in note 7.

The Company is required to make principal and interest payments to loan note holders in accordance with the waterfall prescribed in the transaction documents. Further, the transaction documents include triggers and trigger events, the breach or occurrence of which may affect the waterfall and therefore the financial statements. There were no triggers or breaches of triggers during the year.

(b) Loan notes and other borrowings

(i) Loan notes

On 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 2022 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:

£381 million mortgage backed loan notes	Capital balance outstanding at end of year (£'000) Total £310.8m	Credit rating (S&P, Moody's, Fitch)	Interest rate to July 2012	Interest rate to January 2022	Interest rate from January 2022
Class A (£315m)	244,800	A, Aa2, AA	LIBOR + 0.23%	LIBOR + 0.46%	SONIA + 0.5793%
Class B (£43m)	43,000	A, Aa3, A	LIBOR + 0.35%	LIBOR + 0.70%	SONIA + 0.8193%
Class C (£23m)	23,000	BBB, A3, BB+	LIBOR + 0.90%	LIBOR + 1.80%	SONIA + 1.9193%

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% up to January 2022. From January 2022, the interest rate payable is SONIA + 1.8693%.

The capital balance outstanding on the subordinated loan includes £15.7 million *(2021: £14.7 million)* of accumulated interest.

Notes to the financial statements (continued)

During 2005, the Company entered into a credit facility agreement with Prudential Capital plc at an interest rate of LIBOR + 0.35%. From January 2022, the interest rate payable is SONIA + 0.4693%. The purpose of the agreement 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 2022 was £nil *(2021: £nil)* and the committed credit facility was £3.4 million *(2021: £126.2 million).*

15. Payables and other financial liabilities

	Note	2022 £'000	2021 £'000
Derivative financial liabilities	7(c) and 19	**42,826**	132,886
Amounts due to UKER		**—**	—
Amounts due to other related parties		**309**	29
Obligations for repayment of cash collateral received		**19,392**	27,215
Other financial liabilities		**973**	381
Total as at 31 December		**63,500**	160,511
Expected to be settled within one year		**3,649**	16,511
Expected to be settled in more than one year		**59,851**	144,000
		63,500	160,511

16. Statement of cash flows disclosures

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

	2022 £'000	2021 £'000
Profit before tax	**3**	3
Adjustments for:		
Fair value losses on:		
Mortgage loans	**96,358**	5,161
Borrowings	**(21,080)**	45,302
Derivatives	**(84,090)**	(62,003)
Interest receivable on mortgage loans	**(31,073)**	(31,163)
Interest expense	**20,667**	20,809
	(19,218)	(21,894)
Changes in working capital:		
Decrease / (increase) in receivables	**875**	(4,516)
(Increase) in prepayments and accrued income	**(16)**	—
Increase in deferred consideration	**15,581**	19,787
(Decrease) / increase in payable and other financial liabilities	**(6,951)**	4,321
	9,489	19,592
Repayment of loan notes capital balance	**(10,400)**	(28,200)
Proceeds from redemption of mortgages	**37,850**	47,516
Movement in cash held as collateral	**7,823**	1,649
Interest paid	**(16,431)**	(18,846)
Total cash generated from / (used in) operating activities	**9,116**	(180)

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

Both interest and principal payments are included in proceeds from redemptions of mortgages.

Notes to the financial statements (continued)

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

	2022 £'000	2021 £'000
Cash at bank and in hand	**28,578**	27,286
Less: Cash held as collateral on derivative contracts	**(19,392)**	(27,215)
Cash and cash equivalent	**9,186**	71

17. Capital structure

In managing its capital, the Company seeks to:

i. match the profile of its assets and liabilities, taking account of the risks inherent in the business;

ii. retain financial flexibility by maintaining strong liquidity; and

The Company is not subject to any externally imposed capital requirements. The Company manages shareholders' equity of £48,000 *(2021: £46,000)* as capital.

18. *Risk management*

(a) Risk management framework

The Company operates a risk management framework (RMF) that forms an integral part of the management and Board processes and decision-making framework, aligned to the Aviva Group risk management framework. The key elements of the risk management framework comprise risk appetite; risk governance, including risk policies and business standards, risk oversight committees and roles and responsibilities; and the processes the Company uses to identify, measure, manage, monitor and report ("IMMMR") risks.

The RMF has been adopted by the boards of the legal entities within the business collectively referred to as "UK Life" (including this Company).

For the purposes of risk identification and measurement, and aligned to the Company's risk policies, risks are usually grouped by risk type: credit, market, liquidity, life insurance (including long-term health), and operational risk. Risks falling within these types may affect a number of metrics including those relating to statement of financial position strength, liquidity and profit.

To promote a consistent and rigorous approach to risk management across the business, the Company has a set of risk policies and business standards which set out the risk strategy, appetite, framework and minimum requirements for the Company's operations.

The Risk Appetite Framework was refreshed during the year, with revised and new risk appetites, preferences and tolerances considered and approved by the UK Life Risk Committee and Board. Since 2021, Climate Risk has been integrated and defined within the risk appetite framework as part of the use in risk-based decision-making.

A regular top-down key risk identification and assessment process is carried out by the risk function. This includes the consideration of emerging risks and is supported by deeper thematic reviews. UK Life also operates a risk and control self-assessment process. The risk assessment processes are used to generate risk reports which are shared with the relevant risk committees.

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

(b) Market risk

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

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

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

(i) Property price risk

Property price risk arises from sustained underperformance in house price inflation with the resultant increase in the likelihood that the mortgage debt will exceed the proceeds of the property sale at the date of redemption. The level of house price inflation is monitored and the impact of exposure to adverse movements is regularly reviewed. To mitigate this risk the loan to value ratios on origination are at low levels and the performance of the mortgage portfolio is monitored through dilapidation reviews. For the Company to make significant losses on negative equity there would need to be a decrease in property *values leading to house price deflation, alongside an unexpected rise in short term mortality and morbidity rates.*

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

Notes to the financial statements (continued)

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

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

The LTVs by age banding in the table below are as at 31 December 2022.

LTV	Under 75	75-79	80-84	85-89	90-94	95-99	100+	Total
	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m
Up to 40%	0.8	38.2	80.0	45.0	16.1	2.9	0.1	**183.1**
Up to 50%	0.6	11.5	47.2	52.4	11.6	2.5	0.1	**125.9**
Up to 60%	—	2.3	6.0	32.0	14.7	1.7	—	**56.7**
Up to 70%	—	—	3.7	5.6	6.9	2.3	—	**18.5**
Up to 80%	—	—	0.1	1.5	1.8	1.4	—	**4.8**
Up to 90%	—	—	—	—	1.1	—	—	**1.1**
Up to 100%	—	—	—	—	0.4	—	0.1	**0.5**
Over 100%	—	—	—	0.2	—	—	—	**0.2**
Total	**1.4**	**52.0**	**137.0**	**136.7**	**52.6**	**10.8**	**0.3**	**390.8**

The LTVs by age banding in the table below are as at 31 December 2021.

LTV	Under 75	75-79	80-84	85-89	90-94	95-99	100+	Total
	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m
Up to 40%	1.5	28.6	25.0	16.9	8.0	1.9	0.1	82.0
Up to 50%	4.0	34.3	65.0	28.1	7.0	1.8	0.2	140.4
Up to 60%	0.8	16.1	60.0	50.4	12.2	2.6	0.2	142.3
Up to 70%	0.1	2.8	16.2	39.8	13.3	2.1	—	74.3
Up to 80%	—	0.2	4.7	10.4	18.7	2.0	—	36.0
Up to 90%	—	—	1.0	5.3	3.6	2.9	0.4	13.2
Up to 100%	—	—	—	0.1	2.9	0.6	—	3.6
Over 100%	—	—	—	0.1	1.0	1.0	—	2.1
Total	6.4	82.0	171.9	151.1	66.7	14.9	0.9	493.9

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

(ii) Interest rate risk

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

The Group launched a formal programme of change activity in 2019 to manage the transition to alternative risk-free rates from LIBOR settings.

As part of this, the Company reviewed all financial instruments, engaged with counterparties to either transition to alternative risk-free rates or exited positions where required. The Company adhered to the ISDA Fallback Protocol. All exposures transitioned in 2022 before they were impacted by LIBOR cessation.

The Group worked closely with UK regulators, impacted clients, industry experts and industry associations to ensure a smooth and transparent transition of the exposures.

No change to the Company's risk management strategy was required in response to the transition.

(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.

Notes to the financial statements (continued)

(iv) Prepayment Risk

Prepayment risk is the risk that the equity release mortgages will be repaid in a materially different profile to the expected profile at securitisation. This could lead to changes in the expected repayment rate of loan note interest and principal. This risk is mitigated by the structure of the related derivatives at the inception of the securitisation, which passes prepayment risk on to UKER, 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. The impact of change in fair value of financial instruments attributable to a change in credit risk is disclosed in note 8(a) and 14(a).

Concentrations of credit risk

Individual loans represent little credit risk as the debt is ultimately repayable from the proceeds of the sale of the property on death of the mortgagee or on their transfer to long-term care.

The impact of collateral held on the net credit exposure is shown below.

			2022
	Carry value in the Statement of Financial Position	Collateral held	Net credit exposure
	£'000	£'000	£'000
Loans	**390,762**	**390,588**	**174**

			2021
	Carry value in the Statement of Financial Position	Collateral held	Net credit exposure
	£'000	£'000	£'000
Loans	493,897	491,890	2,007

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

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

Calculation of expected credit losses

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

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

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

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

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

Modification of contractual cash flows that have not resulted in derecognition

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

Derivative credit exposures

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

Notes to the financial statements (continued)

(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 £3.4 million *(2021: £126.2 million)* which has been sized to cover significant stresses on mortgage cash flows.

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

				2022
	Within 1 year	1-5 years	Over 5 years	No contractual maturity
	£'m	£'m	£'m	£'m
Liabilities				
Borrowings	**25.2**	**150.0**	**337.2**	**78.4**
Deferred consideration	**—**	**—**	**—**	**41.2**
Payables and other financial liabilities	**3.7**	**16.4**	**37.5**	**—**

				2021
	Within 1 year	1-5 years	Over 5 years	No contractual maturity
	£'m	£'m	£'m	£'m
Liabilities				
Borrowings	15.3	104.1	262.5	54.4
Deferred consideration	—	—	—	25.6
Payables and other financial liabilities	16.5	59.4	64.7	—

The carrying value of the borrowings is £266.6 million lower *(2021: £84.8 million lower)* than the anticipated payment at maturity. The borrowings payment profit mirrors the repayment of the equity release mortgages and based on current modelling assumptions.

(e) Operational risk

Operational risk is the risk of direct or indirect loss, arising from inadequate or failed internal processes, people and systems, or external events including changes in the regulatory environment. The Company has limited appetite for operational risk and aims to reduce these risks as far as is commercially sensible.

(f) Conflict in Ukraine

Market & Credit risk
The Company does not conduct operations in the affected region, and does not have material direct investment holdings there.

Operational risk

The Russia-Ukraine conflict and increasing geo-political tensions more generally have heightened the risk of cyber security attacks on the Aviva Group or its suppliers, with the potential to cause business service interruption and/or data or intellectual property theft. In response the Aviva Group continues to actively monitor the threat environment and enhance its IT infrastructure and Cyber controls to identify, detect and prevent attacks. Aviva's Cyber defences are regularly tested using our own 'ethical hacking' team and the Aviva Group has engaged with suppliers to put in place all reasonable measures so that services to Aviva and its customers are protected.

19. Derivative financial instruments

During 2005, the Company entered into an interest rate swap agreement, the purpose of which is to protect the Company from interest rate risk in respect of the floating rate loan notes and credit facility. The notional amount outstanding as at 31 December 2022 was £403.0 million *(2021: £416.6 million)* and the swap had an expiry date of October 2032. Under the terms of the swap, up to January 2022, the Company received interest of three month LIBOR and paid interest of 5% of the notional amount quarterly. From January 2022, the Company has received interest of SONIA + 0.1193% and paid interest of 5% of the notional amount 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 2022 was £18.8 million *(2021: £20.3 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 £19.4 million *(2021: £27.2 million)* in the form of cash by receiving collateral held as security on derivative contracts. There are certain restrictions in place on received collateral limiting its use pending default to repaying any excess amounts over required collateral to the derivative counterparty.

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

Notes to the financial statements (continued)

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

The Company has not adopted hedge accounting for its derivative instruments at 31 December 2022 and 2021.

(i) The Company's derivatives at 31 December 2022 and 2021 were as follows

			2022			2021
	Contract notional amount	Fair value asset	Fair value liability	Contract notional amount	Fair value asset	Fair value liability
	£'000	£'000	£'000	£'000	£'000	£'000
Interest rate contracts						
Interest rate swap	**403,008**	**—**	**(22,265)**	416,580	—	(104,720)
Option	**—**	**196**	**—**	—	6,166	—
Inflation rate swap	**18,751**	**—**	**(20,561)**	20,269	—	(28,166)
Total	**421,759**	**196**	**(42,826)**	436,849	6,166	(132,886)

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

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

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

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

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

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

					2022
	Gross amounts	Gross amounts offset in the balance sheet	Net amounts presented in the balance sheet	Cash collateral	Net amounts
Financial Assets	£'000	£'000	£'000	£'000	£'000
Derivatives	**196**	**—**	**196**	**—**	**196**

					2022
	Gross amounts	Gross amounts offset in the balance sheet	Net amounts presented in the balance sheet	Cash collateral	Net amounts
Financial Liabilities	£'000	£'000	£'000	£'000	£'000
Derivatives	**(42,826)**	**—**	**(42,826)**	**19,392**	**(23,434)**

Notes to the financial statements (continued)

Financial Assets	Gross amounts £'000	Gross amounts offset in the balance sheet £'000	Net amounts presented in the balance sheet £'000	Cash collateral £'000	2021 Net amounts £'000
Derivatives	6,166	—	6,166	—	6,166

Financial Liabilities	Gross amounts £'000	Gross amounts offset in the balance sheet £'000	Net amounts presented in the balance sheet £'000	Cash collateral £'000	2021 Net amounts £'000
Derivatives	(132,886)	—	(132,886)	27,215	(105,671)

21. Related party transactions

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

(a) Loan notes due to related parties

Included within the loan notes issued by the Company are £60.7 million *(2021: £59.5 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 £0.7 million *(2021: £0.2 million)*.

(b) Expenses payable to related parties

	2022 Expenses incurred in year £'000	2021 Expenses incurred in year £'000
ERF Trustee (No. 5) Limited	**2**	2
UKER – portfolio administration and cash handling fees	**1,122**	1,182
UKER – interest payable	**1,132**	629
UKER – deferred consideration	**15,581**	19,787
	17,837	21,600

(c) Income receivable from related parties

	2022 Income received in year £'000	2021 Income received in year £'000
ERF Trustee (No.5) Limited – interest income	**44**	—
	44	—

(d) Payable at year end

	2022 £'000	2021 £'000 Restated
UKER – subordinated debt	**10,807**	22,355
UKER – deferred consideration	**41,155**	25,574
Other related parties	**309**	29
	52,271	47,958

Notes to the financial statements (continued)

(e) Receivable at year end

	2022 £'000	2021 £'000
Equity Release Holdings (No.5) Limited	**15**	15
ERF Trustee (No. 5) Limited	**9,050**	10,111
UKER	**313**	127
Other related parties	**—**	—
	9,378	10,253

(f) Key management compensation

Wilmington Trust SP Services (London) Limited received fees of £13,316 *(2021: £13,382)* including VAT during the year to 31 December 2022, in respect of directors' remuneration.

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

Details of directors' emoluments are given in note 4.

(g) Parent entity

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

(h) Ultimate controlling entity

The ultimate controlling entity, and parent of the largest and smallest groups which consolidate the results of the Company, is Aviva plc. Its Group Financial Statements are available on application to the Group Company Secretary, Aviva plc, St Helen's, 1 Undershaft, London EC3P 3DQ, and on the Aviva plc website at www.aviva.com.